

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2021 and 2020

Together with Independent Auditor's Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Directors of
USS Missouri Memorial Association, Inc.:

Opinion

We have audited the financial statements of USS Missouri Memorial Association, Inc. (the Association), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021 and 2020, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

KMH LLP

KMH LLP

Honolulu, Hawaii
May 12, 2022

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2021 and 2020

	<u>Assets</u>	
	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 1,165,618	\$ 133,359
Cash, with donor restrictions	45,549	36,884
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2021 and 2020	2,738,960	632,740
Cash and Investments, board designated for line of credit	-	7,000,000
Prepaid Expenses and Other Assets	269,299	295,707
Custodial Fund	<u>32,625</u>	<u>83,761</u>
Total Current Assets	<u>4,252,051</u>	<u>8,182,451</u>
Cash and Investments, board designated for ship preservation	<u>10,415,689</u>	<u>9,850,200</u>
Equipment and Shipboard Improvements, net	<u>26,379,293</u>	<u>28,624,938</u>
Total Assets	<u>\$ 41,047,033</u>	<u>\$ 46,657,589</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts Payable	\$ 550,146	\$ 519,180
Deferred Rent Payable	-	412,009
Line of Credit	-	7,000,000
Accrued Expenses	476,853	555,732
Liability for Custodial Fund	<u>32,625</u>	<u>83,761</u>
Total Current Liabilities	<u>1,059,624</u>	<u>8,570,682</u>
Commitments and Contingencies		
Net Assets:		
Without Donor Restrictions:		
Undesignated	3,146,878	(7,425,115)
Cash and Investments, board designated for ship preservation	10,415,689	9,850,200
Cash and Investments, board designated for line of credit	-	7,000,000
Invested in Equipment and Shipboard Improvements	<u>26,379,293</u>	<u>28,624,938</u>
Total Without Donor Restrictions	39,941,860	38,050,023
With Donor Restrictions	<u>45,549</u>	<u>36,884</u>
Total Net Assets	<u>39,987,409</u>	<u>38,086,907</u>
Total Liabilities and Net Assets	<u>\$ 41,047,033</u>	<u>\$ 46,657,589</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in Net Assets Without Donor Restrictions:		
Revenue and support:		
Ticket sales	\$ 6,870,529	\$ 2,831,116
Commissions	798,296	339,228
Special events and other	230,886	165,084
Contributions	130,639	974,449
Education	68,565	63,665
Other income	<u>153,542</u>	<u>306,843</u>
Total revenues without donor restrictions	8,252,457	4,680,385
Net assets released from restrictions	<u>114,683</u>	<u>663,054</u>
Total revenues without donor restrictions and other support	<u>8,367,140</u>	<u>5,343,439</u>
Expenses:		
Program services	9,982,803	10,032,009
Management and general	1,032,212	1,614,925
Fundraising	<u>24,104</u>	<u>39,398</u>
Total expenses	<u>11,039,119</u>	<u>11,686,332</u>
Revenue and support less expenses	(2,671,979)	(6,342,893)
CARES and Consolidated Appropriations Act federal assistance	2,748,165	1,434,200
Net investment return	<u>1,815,651</u>	<u>1,939,611</u>
Increase (decrease) in net assets without donor restrictions	<u>1,891,837</u>	<u>(2,969,082)</u>
Changes in Net Assets with Donor Restrictions:		
Contributions	123,348	478,910
Net assets released from restrictions	<u>(114,683)</u>	<u>(663,054)</u>
Increase (decrease) in net assets with donor restrictions	<u>8,665</u>	<u>(184,144)</u>
Increase (decrease) in net assets	1,900,502	(3,153,226)
Net Assets, beginning of year	<u>38,086,907</u>	<u>41,240,133</u>
Net Assets, end of year	<u>\$ 39,987,409</u>	<u>\$ 38,086,907</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2021 and 2020

	Program Services	Management and General	Fundraising	Total
2021:				
Payroll and related costs	\$ 4,595,488	\$ 817,680	\$ -	\$ 5,413,168
Depreciation	2,620,640	-	-	2,620,640
Ticketing and reservations	610,948	-	-	610,948
Ground transportation	551,221	-	-	551,221
Ship operations	469,215	-	-	469,215
Rent	411,489	7,863	-	419,352
Insurance	222,419	32,095	-	254,514
Marketing	180,703	-	-	180,703
Professional fees	97,244	64,936	-	162,180
Utilities	75,127	20,152	-	95,279
Special events	22,182	-	-	22,182
Safety, health and environmental	11,346	-	-	11,346
Donation expenses	-	-	24,104	24,104
Other	114,781	89,486	-	204,267
	<u>\$ 9,982,803</u>	<u>\$ 1,032,212</u>	<u>\$ 24,104</u>	<u>\$ 11,039,119</u>
2020:				
Payroll and related costs	\$ 5,296,557	\$ 1,381,719	\$ -	\$ 6,678,276
Depreciation	2,555,990	-	-	2,555,990
Ship operations	396,464	-	-	396,464
Ticketing and reservations	358,961	-	-	358,961
Insurance	281,551	18,734	-	300,285
Ground transportation	228,610	-	-	228,610
Rent	208,017	28,218	-	236,235
Marketing	192,638	-	-	192,638
Professional fees	149,716	75,980	-	225,696
Utilities	132,672	17,456	-	150,128
Safety, health and environmental	81,819	-	-	81,819
Special events	13,039	-	-	13,039
Donation expenses	-	-	39,398	39,398
Other	135,975	92,818	-	228,793
	<u>\$ 10,032,009</u>	<u>\$ 1,614,925</u>	<u>\$ 39,398</u>	<u>\$ 11,686,332</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 1,900,502	\$ (3,153,226)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,620,640	2,555,990
Net realized and unrealized gains on investments	(1,588,084)	(1,684,610)
Changes in certain assets and liabilities:		
Accounts receivable, net	(2,106,220)	1,502,634
Prepaid expenses and other assets	26,408	83,771
Accounts payable	30,966	(675,190)
Deferred rent payable	(412,009)	64,858
Accrued expenses	(78,879)	(325,430)
Net cash provided by (used in) operating activities	<u>393,324</u>	<u>(1,631,203)</u>
Cash Flows from Investing Activities:		
Capital expenditures	(374,995)	(5,695,956)
Purchases of investments board designated for ship preservation and line of credit	(9,168,384)	(4,825,184)
Sales of investments board designated for ship preservation and line of credit	<u>17,190,979</u>	<u>4,570,247</u>
Net cash provided by (used in) investing activities	<u>7,647,600</u>	<u>(5,950,893)</u>
Cash Flows from Financing Activities:		
Payments on line of credit	(8,250,000)	-
Proceeds from line of credit	<u>1,250,000</u>	<u>7,000,000</u>
Net cash (used in) provided by financing activities	<u>(7,000,000)</u>	<u>7,000,000</u>
Net increase (decrease) in cash and cash equivalents	1,040,924	(582,096)
Cash and Cash Equivalents, beginning of year	<u>170,243</u>	<u>752,339</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,211,167</u>	<u>\$ 170,243</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 1,165,618	\$ 133,359
Cash, with donor restrictions	<u>45,549</u>	<u>36,884</u>
Total cash and cash equivalents	<u>\$ 1,211,167</u>	<u>\$ 170,243</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies

a. Organization

The USS Missouri Memorial Association, Inc. (the Association) is a not-for-profit organization incorporated in 1994 to establish, operate and maintain a national memorial commemorating the end of hostilities in World War II consisting of the USS Missouri (the Battleship). The Association began significant operating activities and opened the Battleship to visitors on January 29, 1999.

b. Basis of Presentation

The Association maintains its accounting records and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP). In accordance with US GAAP, the Association reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time.

Donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

c. Management Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies (continued)

d. Cash and Cash Equivalents

The Association maintains its cash and cash equivalents in commercial banks. At December 31, 2021, the Association had approximately \$874,000 in excess of federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents. Cash and cash equivalents included in investments have been designated by the Board of Directors (the Board), and are not considered cash equivalents for purposes of the statements of financial position and cash flows.

e. Investments

The Association's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 5 for discussion of fair value measurements).

f. Accounts Receivable

Accounts receivable are primarily generated by wholesale tour and travel companies operating in Hawaii and are stated at the amounts billed, net of an allowance for doubtful accounts. The Association establishes an allowance for doubtful accounts based on historical experience and any specific customer collection issues identified by management. The Association performs ongoing credit evaluations of these wholesalers' financial condition and may require collateral from the wholesalers, if deemed necessary.

g. Equipment and Shipboard Improvements

Equipment and shipboard improvements are presented at cost if purchased, or estimated fair value if contributed, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the Association's assets as follows:

Shipboard improvements	7 – 25 years
Equipment and fixtures	5 – 7 years

The carrying values of equipment and shipboard improvements are reviewed when circumstances indicate that the carrying amounts may not be recoverable. If the expected future cash flows generated from equipment and shipboard improvements are less than the related carrying value, the carrying value of these assets would be reduced to estimated fair value.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies (continued)

h. Revenue Recognition

The Association recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Association recognizes revenues from ticket sales at the time of admission, which is when the performance obligation is satisfied. Commissions from concessionaires, special events and other revenues are recognized when they are realized or realizable and earned.

i. Contributions and Promises to Give

Contributions are recognized when received or when the donor makes an unconditional promise to give to the Association. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a restriction is fulfilled or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

The Association has unpaid volunteers who assist in performing administrative and maintenance duties and conducting tours. The value of this contributed time does not meet the criteria for financial statement recognition provided by US GAAP and, accordingly, is not reflected in the accompanying financial statements.

j. In-Kind Contributions

In-kind contributions, including depreciable assets, are reflected as contributions without donor restrictions at their estimated fair values when received by the Association. The Battleship and certain other exhibits were donated by the U.S. Navy and others. The fair values of these contributed exhibits have not been recognized in the accompanying financial statements as their values are not readily determinable. Costs related to placing these exhibits into service are recognized when incurred as a decrease in net assets without donor restrictions.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies (continued)

k. Board Designated Net Assets

Board designated net assets consist of amounts expended on ship equipment and improvements and amounts that have been designated by the Board for ship preservation purposes and other strategic initiatives. The Board can re-designate these net assets at its discretion.

l. Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), whereby only unrelated business income, as defined by Section 512(a)(1) is subject to federal income tax. The Association is also exempt under Hawaii Revised Statutes on income related to its exempt purpose. No unrelated business income taxes were incurred during 2021 or 2020.

Management has evaluated the Association's tax positions and concluded that the Association has maintained its tax exempt status and has no uncertain tax positions that require recognition or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Interest and penalties, if any, are recognized in management and general expense.

m. Custodial Fund

The Association is the custodian of funds which were received from unrelated organizations and individuals to be used for costs associated with the planned 75th Anniversary World War II Commemoration Celebration, which is more fully described in Note 10.

n. Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FAS) issued Accounting Standards Update (ASU) 2016-02, *Leases (Subtopic 842)*. ASU 2016-02 replaced the existing lease guidance with new guidance applicable to both lessees and lessors and requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases at the commencement date of the lease. A right-of-use asset is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. A lease liability is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. The standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies (continued)

n. Recently Issued Accounting Pronouncements (continued)

In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides for an optional transitional method that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the financial statements. The Association may adopt the guidance either: (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative effect adjustment. In June 2020, ASU No. 2020-05 was issued which deferred the effective date for these ASUs to fiscal years beginning after December 15, 2021. Management is currently assessing the effect of implementation of the new guidance.

In September 2020, the FASB issued ASU 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires that a not-for-profit present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a not-for-profit to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets and qualitative disclosures for each disaggregated category. The amendments in this ASU should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. The Association is currently evaluating the effect of adopting the new standard on its financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which is intended to increase transparency in financial reporting by requiring business entities to disclose information about certain types of government assistance they receive. ASU 2021-10 requires business entities to make certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance. This guidance is effective for fiscal years beginning after December 15, 2021. The adoption of ASU 2021-10 is not expected to have a significant impact on the Association's financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

1. Organization and Significant Accounting Policies (continued)

o. Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Association operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic (see Note 11).

The Association closed the Battleship in March 2020 through June 2020, had additional closures from August 2020 through mid-December 2020 and operated with limited hours through May 2021. As a result, the Association experienced significant declines in revenues and experienced significant staff furloughs. It is unknown how long these conditions will last and what the complete financial effect will be to the Association. Additionally, it is reasonably possible that estimates made in the financial statements may be materially and adversely impacted in the near term as a result of these conditions.

p. Subsequent Events

The Association has evaluated subsequent events through May 12, 2022, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

2. Board Designated Cash and Investments

Board designated cash and investments are carried at fair value at December 31, 2021 and 2020, and consist primarily of investments in mutual funds as follows:

	<u>2021</u>	<u>2020</u>
Mutual Funds:		
Cost	\$ 8,370,507	\$ 13,634,373
Gross unrealized gains	1,808,908	2,824,204
Gross unrealized losses	<u>(23,991)</u>	<u>(3,763)</u>
Mutual Funds, at fair value	10,155,424	16,454,814
Money Market Funds, at fair value	253,532	386,878
Accrued Interest	<u>6,733</u>	<u>8,508</u>
Total board designated cash and investments	<u>\$ 10,415,689</u>	<u>\$ 16,850,200</u>

Total board designated cash and investments at December 31, 2021 consists of \$10,415,689 designated for ship preservation. Total board designated cash and investments at December 31, 2020 consists of \$7,000,000 designated for the line of credit and \$9,850,200 designated for ship preservation.

Net investment returns for 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Net realized/unrealized gains	\$ 1,588,084	\$ 1,684,610
Dividend and interest income	302,339	321,541
Investment fees	<u>(74,772)</u>	<u>(66,540)</u>
Net investment return	<u>\$ 1,815,651</u>	<u>\$ 1,939,611</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

3. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Shipboard improvements	\$ 31,725,395	\$ 31,378,442
Equipment and fixtures	<u>14,388,018</u>	<u>14,838,724</u>
	46,113,413	46,217,166
Accumulated depreciation	<u>(20,624,682)</u>	<u>(18,683,456)</u>
	25,488,731	27,533,710
Construction in progress	<u>890,562</u>	<u>1,091,228</u>
Equipment and Shipboard Improvements, net	<u>\$ 26,379,293</u>	<u>\$ 28,624,938</u>

As of December 31, 2021, the Association did not have any contract commitments related to the construction in progress balance.

4. Line of Credit

In August 2018, the Association entered into a credit agreement with a bank amounting to \$5 million. In August 2020, the Association increased its credit agreement to \$7 million and in December 2020, the Association increased its credit agreement to \$9 million. In November 2021, the credit agreement was decreased to \$5 million. Draws on the credit agreement are secured by certain cash, cash equivalents and investments held by the Association, require monthly interest-only payments, and bear interest at the Association's choice of the prevailing market rate, as defined, or selected Secured Overnight Financing Rate plus applicable margins, as defined, with an expiration date of August 5, 2024. The Association borrowed nil and \$7 million at December 31, 2021 and 2020, respectively. The outstanding borrowings at December 31, 2020 bore interest at rates ranging from 1.25 percent to 1.34 percent. Balances outstanding were nil and \$7 million as of December 31, 2021 and 2020, respectively.

The credit agreement contains customary conditions and events of default, the failure to comply with, or occurrence of, would give the lender the right to demand repayment of any outstanding borrowings or terminate the credit agreement.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

5. Fair Value Measurements

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access. The Association maintains all its investments in mutual funds, which are valued at Level 1 and are stated at fair value using quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Association at the reporting date on a recurring basis.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

The following table sets forth the Association's investments by type of fund based on Level 1 inputs as of December 31:

	<u>2021</u>	<u>2020</u>
Mutual Funds	\$ 10,155,424	\$ 16,454,814
Money Market Funds	253,532	386,878
Accrued Interest	<u>6,733</u>	<u>8,508</u>
Total board designated cash and investments	<u>\$ 10,415,689</u>	<u>\$ 16,850,200</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

6. Net Assets

a. Without Donor Restriction

Net assets without donor restrictions include undesignated net assets as well as those designated for specific purposes by the Association's Board of Directors. The Board of Directors has designated approximately \$10.4 million and \$16.9 million as of December 31, 2021 and 2020, respectively, in the Ship Preservation Fund, for the purpose of funding future preservation and major restoration projects for the Battleship. In September 2020, the Association's Board of Directors re-designated cash and investments in the Ship Preservation Fund equal to the amount outstanding on the line of credit for debt service of \$7 million at December 31, 2020.

The Association has accumulated funds for the purpose of conducting a dry docking of the ship in or near the year 2030. The last time the ship was dry docked was in 2010 for a cost of \$12.5 million. It was previously estimated that the next dry docking will cost between \$25 and \$30 million. However, the Association is exploring various alternatives which will address the engineering needs to repair and repaint the underwater portion of the hull and, if necessary, repair cofferdams which will not require dry docking and could cost substantially less.

b. With Donor Restrictions

Net assets with donor restrictions at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash restricted for the following:		
Educational purposes	\$ 24,775	\$ 16,110
Shipboard improvements and displays	<u>20,774</u>	<u>20,774</u>
Net assets with donor restrictions	<u>\$ 45,549</u>	<u>\$ 36,884</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

6. Net Assets (continued)

b. With Donor Restriction (continued)

Net assets with donor restrictions released from restrictions during the years ended December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Restrictions satisfied by expenditures for:		
Shipboard improvements and displays	\$ 105,143	\$ 652,612
Educational purposes	<u>9,540</u>	<u>10,442</u>
Net assets with donor restrictions released from restrictions	<u>\$ 114,683</u>	<u>\$ 663,054</u>

7. Employee Benefit Plan

Substantially all full-time employees of the Association are eligible to participate in the Association's 401(k) retirement savings plan upon completion of one year of service. The plan provides for discretionary employee and employer contributions up to defined limits. For the years ended December 31, 2021 and 2020, the Association made employer contributions of approximately nil and \$93,000, respectively. Effective January 1, 2018, full time employees are allowed to participate in the Association's 401(k) retirement saving plan upon completion of six months of service. The Plan was amended to allow employees to contribute up to \$19,500 (or \$26,000, if the employee is over the age of 50), and allow discretionary employer matching up to 4 percent.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

8. Commitments and Contingencies

a. Operating Agreements

The Association has an agreement with a company to provide ground transportation for visitors to the Battleship through 2021. In December 2021, the Association executed an agreement with a company to provide ground transportation for visitors to the Battleship through 2022. Ground transportation fees, based upon fixed hourly rates, were approximately \$551,000 in 2021 and \$229,000 in 2020 and are included in Program Services in the accompanying Statements of Activities.

The Association entered into an agreement with a company effective January 2019 to provide ticketing services for a term of 5 years. Ticketing and reservation expense include reimbursements for operating costs and a management fee that consists of: (a) three percent of gross receipts derived from onsite and online ticketing services, and (b) one percent of gross receipts derived from tour groups and online travel agency sales. The Association implemented a five percent ticketing service fee charge for onsite and online ticket purchases to help offset the additional ticketing and reservation fees. Ticketing and reservation expense was approximately \$611,000 in 2021 and \$359,000 in 2020 and are included in Program Services in the accompanying Statements of Activities.

b. Litigation

In the normal course of conducting its activities, the Association may be subject to various claims and litigation. Management believes that the resolution of these matters will not have a material adverse effect on the Association's financial position, results of operations or cash flows.

c. Operating Leases

The Association acts as lessor in leasing space to merchandise, food and beverage and photo concessionaires under the terms of certain operating leases. The leases provide for minimum or percentage rents based on visitor counts or gross revenues, as defined in the agreements, ending at various dates through December 31, 2024. Percentage rents from these leases are reported as commission income on the accompanying Statements of Activities for the years ended December 31, 2021 and 2020 and amounted to approximately \$798,000 and \$339,000, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

8. Commitments and Contingencies (continued)

c. Operating Leases (continued)

In March 2017, the Association signed a 25-year lease with the U.S. Navy which is effective January 1, 2017 through December 31, 2041. The lease requires the Association to pay percentage rent equal to six percent of the Association's ticket sales revenue, as defined in the lease agreement. In accordance with the lease agreement, the Association is required to pay estimated rent of \$35,000 per month. Estimated rents paid are trued up on an annual basis to equal an annual rent of six percent of the Association's ticket sales revenue. The Association made estimated rent payments of \$35,000 thru March 2020. As a result of closures of the Battleship during 2020 and 2021, estimated monthly payments were reduced to \$1, effective April 2020. Management estimated total rent expense for the years ended December 31, 2021 and 2020 to be approximately \$406,000 and \$170,000, respectively. As of December 31, 2021 and 2020, the Association deferred rent payable approximated nil and \$412,000, respectively.

The Association also receives credit towards the rent payments due for in-kind services provided by the Association to the U.S. Government. These credits totaled approximately \$129,000 and \$86,000 and are reported as special events revenue for the years ended December 31, 2021 and 2020, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

9. Liquidity and Availability

The following reflects the Association's financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general use within one year because of board designations or donor-imposed restrictions.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 1,165,618	\$ 133,359
Cash, with donor restrictions	45,549	36,884
Accounts receivable, net	2,738,960	632,740
Cash and investments	<u>10,415,689</u>	<u>16,850,200</u>
Financial assets, at year end	14,365,816	17,653,183
Less those unavailable for general expenditure within one year, due to:		
Board designated for ship preservation and line of credit	(10,415,689)	(16,850,200)
Donor restricted	<u>(45,549)</u>	<u>(36,884)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,904,578</u>	<u>\$ 766,099</u>

The Association structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Association's board designated assets are designated for the purchase of equipment and shipboard improvements, for ship preservation and the line of credit. These assets are limited in use, which are more fully described in Note 2 and are not available for general expenditure within the next year. However, the board designated amounts of \$10,415,689 and \$16,850,200 as of December 31, 2021 and 2020, respectively, could be made available, if necessary.

As part of the Association's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

Additionally, the Association maintains a line of credit, as discussed in more detail in Note 4. As of December 31, 2021 and 2020, \$5 million and \$2 million remained available on the Association's line of credit, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

10. Custodial Funds - 75th WWII Commemoration

Effective September 1, 2019, the Association and the 75th WWII Commemoration Committee Hawaii (the Committee), solicited donors and contributions for the Commemoration of the 75th Anniversary of the end of World War II (the WWII Commemoration). The activities, programs and events associated with the WWII Commemoration were the responsibility of the Committee. The Association was responsible to collect all donations and contributions related to the WWII Commemoration and to disburse approved expenditures. The Association recorded these funds as a custodial fund with a corresponding credit to a liability in the accompanying financial statements.

The remaining funds of \$32,625 are being held for any remaining expenses related to the 75th WWII Commemoration.

11. CARES Act and Other Federal Assistance

The CARES Act, which was enacted on March 27, 2020, provided for fiscal relief in 2020 and 2021 for entities impacted by the coronavirus pandemic. In April 2020, the Association applied for and received a \$1,434,200 Paycheck Protection Program (PPP) loan from a bank. The U.S. Small Business Administration (SBA) established the PPP loan program under the CARES Act to fund an entity's payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if the Association meets the compliance requirements established by the SBA and other federal agencies.

Management concluded that, as of December 31, 2020, the Association had met the compliance requirements established by the SBA and other federal agencies and, accordingly, recognized the SBA PPP loan as CARES and Consolidated Appropriations Act federal assistance revenue in the accompanying financial statements. That conclusion was confirmed with the forgiveness of the PPP loan by the SBA on March 1, 2021.

The CARES Act also provided for an Employee Retention Credit, a refundable tax credit against certain employment taxes based on qualified wages an eligible employer pays to employees after March 12, 2020 and before January 1, 2021. In February 2021, the Association applied for \$1,193,650 in employee retention credits based on such qualified wages for 2020. This amount was received in March 2022 and recorded in the accompanying 2021 financial statements as CARES and Consolidated Appropriations Act federal assistance revenues.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

11. CARES Act and Other Federal Assistance (continued)

The federal Consolidated Appropriations Act 2021, which was enacted on December 27, 2020, provides for an SBA PPP loan second draw and other additional fiscal relief in 2021 for entities impacted by the COVID-19 pandemic. In February 2021, the Association applied for and received a \$1,554,515 SBA PPP loan second draw from a bank. Management concluded that, as of December 31, 2021, the Association had met the compliance requirements established by the SBA and other federal agencies and, accordingly, recognized the SBA PPP loan as CARES and Consolidated Appropriations Act federal assistance revenue in the accompanying 2021 financial statements. The SBA confirmed that conclusion with the forgiveness of the second PPP loan on September 13, 2021.

12. Adjustment of Accrued Utilities

The Association accrues utilities expense based on estimates provided by the U.S. Naval Facilities Engineering Command (NAVFAC). During the year ended December 31, 2020, the Association recognized other income of \$246,245 as an adjustment of accrued utilities based on revised estimates provided by NAVFAC. No adjustment was required for the year ended December 31, 2021.