

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2016 and 2015

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.:

Report on the Financial Statements

We have audited the accompanying financial statements of USS Missouri Memorial Association, Inc. (the Association) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2016 and 2015, 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.

KMH LLP

KMH LLP

Honolulu, Hawaii

May 16, 2017

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 1,699,421	\$ 2,474,863
Cash, temporarily restricted	83,562	80,937
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2016 and 2015	1,792,157	1,433,122
Prepaid Expenses and Other Assets	436,160	259,115
Total current assets	4,011,300	4,248,037
Board Designated or Restricted for Long-Term Purposes:		
Cash, restricted for the purchase of equipment and shipboard improvements	39,600	65,296
Cash and investments, board designated for ship preservation	13,322,402	8,321,337
Equipment and shipboard improvements, net	18,929,016	19,379,088
Total assets board designated or restricted for long-term purposes	32,291,018	27,765,721
Total assets	<u>\$ 36,302,318</u>	<u>\$ 32,013,758</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 827,973	\$ 300,168
Accrued expenses	809,903	625,945
Total current liabilities	1,637,876	926,113
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Undesignated	2,289,862	3,240,987
Cash and investments, board designated for ship preservation	13,322,402	8,321,337
Invested in equipment and shipboard improvements	18,929,016	19,379,088
Total unrestricted	34,541,280	30,941,412
Temporarily restricted	123,162	146,233
Total net assets	34,664,442	31,087,645
Total liabilities and net assets	<u>\$ 36,302,318</u>	<u>\$ 32,013,758</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Ticket sales	\$ 11,896,712	10,583,375
Commissions	1,445,967	1,283,987
Contributions	1,012,410	145,974
Special events and other	535,263	572,386
Education	310,864	238,403
Investment income	291,072	354,338
Merchandise sales	-	18,182
Total unrestricted revenues	<u>15,492,288</u>	<u>13,196,645</u>
Net assets released from restrictions	<u>76,000</u>	<u>74,312</u>
Total unrestricted revenues and other support	<u>15,568,288</u>	<u>13,270,957</u>
Expenses:		
Program services	11,412,127	11,068,075
Management and general	978,979	817,795
Fundraising	1,748	7,510
Total expenses	<u>12,392,854</u>	<u>11,893,380</u>
Net realized and unrealized gains and (losses) on investments	<u>424,434</u>	<u>(411,255)</u>
Increase in unrestricted net assets	<u>3,599,868</u>	<u>966,322</u>
Changes in Temporarily Restricted Net Assets:		
Contributions	52,929	108,510
Net assets released from restrictions	<u>(76,000)</u>	<u>(74,312)</u>
(Decrease) increase in temporarily restricted net assets	<u>(23,071)</u>	<u>34,198</u>
Increase in net assets	3,576,797	1,000,520
Net Assets, beginning of year	<u>31,087,645</u>	<u>30,087,125</u>
Net Assets, end of year	<u>\$ 34,664,442</u>	<u>\$ 31,087,645</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2016 and 2015

	Program Services	Management and General	Fundraising	Total
2016:				
Payroll and related costs	\$ 5,429,962	\$ 719,014	\$ -	\$ 6,148,976
Depreciation	1,584,845	-	-	1,584,845
Ship operations	785,063	-	-	785,063
Utilities	735,006	14,750	-	749,756
Ground transportation	720,986	-	-	720,986
Marketing	711,057	-	-	711,057
Rent	433,071	17,374	-	450,445
Insurance	327,008	14,737	-	341,745
Ticketing and reservations	334,796	-	-	334,796
Professional fees	124,089	64,005	-	188,094
Special events	75,458	-	-	75,458
Safety, health and environmental	53,304	-	-	53,304
Donation expenses	-	-	1,748	1,748
Other	97,482	149,099	-	246,581
	<u>\$ 11,412,127</u>	<u>\$ 978,979</u>	<u>\$ 1,748</u>	<u>\$ 12,392,854</u>
2015:				
Payroll and related costs	\$ 5,193,495	\$ 570,116	\$ -	\$ 5,763,611
Depreciation	1,524,253	-	-	1,524,253
Utilities	918,564	14,786	-	933,350
Ship operations	710,106	-	-	710,106
Ground transportation	700,861	-	-	700,861
Marketing	628,449	-	-	628,449
Rent	429,438	13,294	-	442,732
Ticketing and reservations	306,025	-	-	306,025
Insurance	289,818	14,877	-	304,695
Professional fees	170,472	60,154	-	230,626
Special events	64,203	-	-	64,203
Safety, health and environmental	44,083	-	-	44,083
Cost of merchandise	8,166	-	-	8,166
Donation expenses	-	-	7,510	7,510
Other	80,142	144,568	-	224,710
	<u>\$ 11,068,075</u>	<u>\$ 817,795</u>	<u>\$ 7,510</u>	<u>\$ 11,893,380</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 3,576,797	\$ 1,000,520
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,584,845	1,524,253
Net realized and unrealized (gain) loss on investments	(424,434)	411,255
Gain on sale of equipment	(7,924)	-
Changes in certain assets and liabilities:		
Accounts receivable, net	(359,035)	(79,351)
Merchandise held for sale	-	290,405
Prepaid expenses and other assets	(177,045)	(17,807)
Accounts payable	527,805	(87,365)
Accrued expenses	183,958	140,848
Net cash provided by operating activities	<u>4,904,967</u>	<u>3,182,758</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of investments in marketable securities	4,849,265	5,454,920
Purchases of investments in marketable securities	(9,425,896)	(6,767,702)
Proceeds from sale of equipment	30,000	-
Capital expenditures	(1,156,849)	(1,585,735)
Net cash used in investing activities	<u>(5,703,480)</u>	<u>(2,898,517)</u>
Cash Flows from Financing Activity —		
Net Decrease in Cash Restricted for the Purchase of Equipment and Shipboard Improvements	25,696	8,336
Net (decrease) increase in cash and cash equivalents	(772,817)	292,577
Cash and Cash Equivalents, beginning of year	<u>2,555,800</u>	<u>2,263,223</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,782,983</u>	<u>\$ 2,555,800</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 1,699,421	\$ 2,474,863
Cash, temporarily restricted	83,562	80,937
Total cash and cash equivalents	<u>\$ 1,782,983</u>	<u>\$ 2,555,800</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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 activities according to three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) based upon the existence or absence of donor-imposed restrictions.

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.

d. Cash and Cash Equivalents

The Association maintains its cash and cash equivalents in commercial banks. At December 31, 2016, the Association had approximately \$4,632,000 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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

1. Organization and Significant Accounting Policies (continued)

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 4 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. Cash Restricted for the Purchase of Equipment and Shipboard Improvements

Cash restricted for the purchase of equipment and shipboard improvements has been restricted by donors and is not available for operating activities.

h. 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, 2016 and 2015

1. Organization and Significant Accounting Policies (continued)

i. Revenue Recognition

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

j. 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 temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. The Association has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

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.

k. In-Kind Contributions

In-kind contributions, including depreciable assets, are reflected as unrestricted contributions 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 unrestricted net assets.

l. 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 long-term strategic initiatives. The Board can re-designate these net assets at its discretion.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

1. Organization and Significant Accounting Policies (continued)

m. 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 2016 or 2015. 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.

n. Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU 2016-02 will be effective for the Association for the year ending December 31, 2020. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 will be effective for the Association on a modified retrospective basis for the year ending December 31, 2018, with early adoption permitted. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

1. Organization and Significant Accounting Policies (continued)

n. Recently Issued Accounting Pronouncements (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Association beginning on January 1, 2019 and must be applied using a retrospective transition method with early adoption permitted. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

o. Reclassifications

The Association made reclassifications to certain 2015 balances to conform to designations and classifications adopted by the Board in 2016. The reclassifications had no impact on the Association's net assets or increase in net assets for the year ended December 31, 2015.

p. Subsequent Events

The Association has evaluated subsequent events through May 16, 2017, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

2. Investments

Investments at December 31, 2016 and 2015 consist primarily of investments in mutual funds as follows:

	2016	2015
Cost	\$ 9,783,925	\$ 8,177,377
Gross unrealized gains	400,970	106,595
Gross unrealized losses	(181,767)	(246,660)
Mutual funds at fair value	10,003,128	8,037,312
Cash	3,104,566	912
Money market funds at fair value	206,429	276,752
Accrued interest	8,279	6,361
Total investments at fair value	<u>\$13,322,402</u>	<u>\$ 8,321,337</u>

The net realized gain on the sale of investments was \$65,166 and \$130,821 for the years ended December 31, 2016 and 2015, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

3. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Shipboard improvements	\$ 22,091,507	\$ 21,418,975
Equipment and fixtures	<u>6,778,289</u>	<u>6,795,310</u>
	28,869,796	28,214,285
Accumulated depreciation	<u>(10,685,911)</u>	<u>(9,561,368)</u>
	18,183,885	18,652,917
Construction in progress	<u>745,131</u>	<u>726,171</u>
Equipment and Shipboard Improvements, net	<u><u>\$ 18,929,016</u></u>	<u><u>\$ 19,379,088</u></u>

4. 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. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

4. Fair Value Measurements (continued)

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

	2016	2015
Mutual Funds:		
Intermediate Term Bond	\$ 3,393,302	\$ 1,886,681
Large Blend	2,375,095	1,625,949
Foreign Large Blend	1,385,210	912,139
Large Value	1,157,378	1,041,066
Large Growth	497,788	384,949
Mid-Cap Value	398,124	255,226
Mid-Cap Growth	388,446	241,035
Foreign Small/Mid Growth	225,785	161,268
Pacific/Asia Ex-Japan Stock	91,562	256,990
Diversified Emerging Markets	90,438	243,123
Short-Term Government	-	603,456
Global Real Estate	-	185,282
World Bond	-	168,560
Bank Loan	-	44,472
High Yield Bond	-	27,116
Total mutual funds at fair value	10,003,128	8,037,312
Money Market Funds	206,429	276,752
Accrued Interest	8,279	6,361
Cash	3,104,566	912
Total investments and cash, board designated for ship preservation	<u>\$ 13,322,402</u>	<u>\$ 8,321,337</u>

5. Net Assets

a. Unrestricted

Unrestricted net assets 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 \$32.3 million and \$27.8 million as of December 31, 2016 and 2015, respectively, in the Ship Preservation Fund, for the purpose of funding future preservation and major restoration projects for the Battleship.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

5. Net Assets (continued)

b. Temporarily Restricted

Temporarily restricted net assets at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash restricted for the following:		
Educational purposes	\$ 83,562	\$ 80,937
Shipboard improvements and displays	<u>39,600</u>	<u>65,296</u>
Temporarily restricted net assets	<u>\$ 123,162</u>	<u>\$ 146,233</u>

Temporarily restricted net assets released from restrictions during the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Restrictions satisfied by expenditures for:		
Educational purposes	\$ 71,355	\$ 61,574
Shipboard improvements and displays	<u>4,645</u>	<u>12,738</u>
Temporarily restricted net assets released from restrictions	<u>\$ 76,000</u>	<u>\$ 74,312</u>

6. 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, 2016 and 2015, the Association made employer contributions of approximately \$66,000 and \$53,000, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

7. Commitments and Contingencies

a. Operating Agreements

The Association has an agreement with a company to provide ground transportation for visitors to the Battleship through 2019. Ground transportation fees, based upon fixed hourly rates, were approximately \$721,000 in 2016 and \$701,000 in 2015 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, 2019. Percentage rents from these leases are reported as commission income for the years ended December 31, 2016 and 2015.

In 2011, the Association and the U.S. Navy entered into an operating lease agreement through December 31, 2015 for pier and building space on Ford Island where the Battleship is berthed. In December 2015, the lease was extended on a month to month basis through December 2016. In March 2017, the Association signed a new 25-year lease with the U.S. Navy which is effective January 1, 2017 through December 31, 2041. The new lease requires estimated monthly payments of \$35,000, which are trued up on an annual basis to equal an annual rent based on six percent of the Association's ticket sales revenue. The Association also receives credit towards the annual rent due for in-kind services provided by the Association to the U.S. Navy.

d. Construction Commitments

As of December 31, 2016, the Association is committed to approximately \$2.4 million under construction contracts for restoration and preservation work on the superstructure of the Battleship.