

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
September 28, 2020

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2019 and 2018

	<u>Assets</u>	
	2019	2018
Cash and Cash Equivalents	\$ 531,311	\$ 844,451
Cash, with donor restrictions	221,028	13,167
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2019 and 2018	2,135,374	1,697,779
Prepaid Expenses and Other Assets	379,478	409,469
Custodial Fund	952,058	-
Total current assets	4,219,249	2,964,866
Board Designated or Donor Restricted for Long-Term Purposes:		
Cash, donor restricted for the purchase of equipment and shipboard improvements	-	41,350
Cash and investments, board designated for ship preservation	14,910,653	14,409,449
Total assets board designated or restricted for long-term purposes	14,910,653	14,450,799
Equipment and Shipboard Improvements, net	26,670,678	22,808,326
Total assets	\$ 45,800,580	\$ 40,223,991
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable	\$ 1,194,370	\$ 1,025,783
Construction accounts payable	1,185,706	-
Accrued expenses	881,162	912,698
Liability for custodial fund	952,058	-
Total current liabilities	4,213,296	1,938,481
Deferred Rent Payable	347,151	-
Commitments and Contingencies		
Net Assets:		
Without donor restrictions:		
Undesignated	623,480	1,013,218
Cash and investments, board designated for ship preservation	14,910,653	14,409,449
Invested in equipment and shipboard improvements, net of construction accounts payable of \$1,185,706 and nil in 2019 and 2018, respectively	25,484,972	22,808,326
Total without donor restrictions	41,019,105	38,230,993
With donor restrictions	221,028	54,517
Total net assets	41,240,133	38,285,510
Total liabilities and net assets	\$ 45,800,580	\$ 40,223,991

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions:		
Revenues:		
Ticket sales	\$ 12,684,642	\$ 12,606,977
Commissions	1,516,207	1,619,106
Special events and other	671,168	688,686
Education	275,162	235,212
Contributions	<u>95,519</u>	<u>224,007</u>
Total revenues without donor restrictions	15,242,698	15,373,988
Net assets released from restrictions	<u>429,495</u>	<u>35,667</u>
Total revenues without donor restrictions and other support	<u>15,672,193</u>	<u>15,409,655</u>
Expenses:		
Program services	13,543,193	12,483,003
Management and general	1,654,267	1,375,036
Fundraising	<u>188,227</u>	<u>191,499</u>
Total expenses	<u>15,385,687</u>	<u>14,049,538</u>
Revenues without donor restrictions and other support less expenses	286,506	1,360,117
Net investment return (loss)	<u>2,501,606</u>	<u>(891,693)</u>
Increase in net assets without donor restrictions	<u>2,788,112</u>	<u>468,424</u>
Changes in Net Assets with Donor Restrictions:		
Contributions	596,006	18,000
Net assets released from restrictions	<u>(429,495)</u>	<u>(35,667)</u>
Increase (decrease) in net assets with donor restrictions	<u>166,511</u>	<u>(17,667)</u>
Increase in net assets	2,954,623	450,757
Net Assets, beginning of year	<u>38,285,510</u>	<u>37,834,753</u>
Net Assets, end of year	<u>\$ 41,240,133</u>	<u>\$ 38,285,510</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2019 and 2018

	Program Services	Management and General	Fundraising	Total
2019:				
Payroll and related costs	\$ 6,394,132	\$ 1,333,096	\$ -	\$ 7,727,228
Depreciation	2,001,085	-	-	2,001,085
Ticketing and reservations	1,086,394	-	-	1,086,394
Rent	790,769	26,371	-	817,140
Ground transportation	784,188	-	-	784,188
Ship operations	750,911	-	-	750,911
Utilities	633,992	14,171	-	648,163
Marketing	604,805	-	-	604,805
Insurance	245,701	18,518	-	264,219
Professional fees	119,285	79,225	-	198,510
Special events	69,484	-	-	69,484
Safety, health and environmental	38,796	-	-	38,796
Donation expenses	-	-	188,227	188,227
Other	23,651	182,886	-	206,537
	<u>\$ 13,543,193</u>	<u>\$ 1,654,267</u>	<u>\$ 188,227</u>	<u>\$ 15,385,687</u>
2018:				
Payroll and related costs	\$ 6,249,347	\$ 1,049,963	\$ -	\$ 7,299,310
Depreciation	1,901,898	-	-	1,901,898
Ship operations	856,844	-	-	856,844
Ground transportation	716,361	-	-	716,361
Rent	807,248	24,933	-	832,181
Marketing	592,281	-	-	592,281
Utilities	350,392	14,148	-	364,540
Insurance	275,003	18,376	-	293,379
Ticketing and reservations	352,328	-	-	352,328
Safety, health and environmental	122,457	-	-	122,457
Professional fees	131,628	68,458	-	200,086
Special events	87,411	-	-	87,411
Donation expenses	-	-	191,499	191,499
Other	39,805	199,158	-	238,963
	<u>\$ 12,483,003</u>	<u>\$ 1,375,036</u>	<u>\$ 191,499</u>	<u>\$ 14,049,538</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 2,954,623	\$ 450,757
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,001,085	1,901,898
Net realized and unrealized (gain) loss on investments	(2,220,675)	1,134,863
Write-off of capital assets	-	25,659
Loss on disposal of equipment	1,971	-
Changes in certain assets and liabilities:		
Accounts receivable, net	(437,595)	6,600
Prepaid expenses and other assets	29,991	12,263
Accounts payable	(1,017,119)	(852,422)
Construction accounts payable	1,185,706	-
Accrued expenses	(31,536)	129,100
Deferred rent payable	347,151	-
Net cash provided by operating activities	<u>2,813,602</u>	<u>2,808,718</u>
Cash Flows from Investing Activities:		
Capital expenditures	(4,679,702)	(2,211,657)
Purchases of investments board designated for ship preservation	(843,100)	(16,876,874)
Sales of investments board designated for ship preservation	<u>2,562,571</u>	<u>16,540,692</u>
Net cash used in investing activities	<u>(2,960,231)</u>	<u>(2,547,839)</u>
Cash Flows from Financing Activity --		
Net Increase (Decrease) in Cash Restricted for the Purchase of Equipment and Shipboard Improvements	<u>41,350</u>	<u>(1,500)</u>
Net (decrease) increase in cash and cash equivalents	(105,279)	259,379
Cash and Cash Equivalents, beginning of year	<u>857,618</u>	<u>598,239</u>
Cash and Cash Equivalents, end of year	<u>\$ 752,339</u>	<u>\$ 857,618</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 531,311	\$ 844,451
Cash, with donor restrictions	<u>221,028</u>	<u>13,167</u>
Total cash and cash equivalents	<u>\$ 752,339</u>	<u>\$ 857,618</u>
Supplemental Disclosure of Non-Cash Activity --		
Capital Expenditures included in Accounts Payable	<u>\$ 1,185,706</u>	<u>\$ -</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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 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, 2019 and 2018

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, 2019, the Association had approximately \$1,456,000 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 and certificates of deposit 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. 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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Significant Accounting Policies (continued)

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.

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 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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Significant Accounting Policies (continued)

k. 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.

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.

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 2019 or 2018.

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. 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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Significant Accounting Policies (continued)

o. Reclassifications

Certain amounts have been reclassified for 2018 to conform to the classifications adopted in 2019. Such reclassifications had no effect on the Association's previously reported increase in net assets.

p. Recently Adopted Accounting Pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies current guidance about whether a transfer of asset, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 was effective for the Association beginning on January 1, 2019 and did not have a significant impact to its financial statements.

q. Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In June 2020, ASU No. 2020-05 was issued which deferred the effective date for ASU 2014-09 to fiscal years beginning after December 15, 2019. The Association is currently evaluating the effect of adopting the new standard on its financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Significant Accounting Policies (continued)

q. Recently Issued Accounting Pronouncements (continued)

In February 2016, the FASB issued 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.

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 March 2020, the FASB issued ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. ASU 2020-04 also provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offer Rate (LIBOR) or another reference rate expected to be discontinued. ASU 2020-04 is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

1. Organization and Significant Accounting Policies (continued)

r. Subsequent Events

The Association has evaluated subsequent events through September 28, 2020, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

On March 11, 2020, the World Health Organization declared the coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. 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.

It is unknown how long adverse conditions associated with the coronavirus pandemic will last and what the financial effect will be to the Association. To date, the Association experienced declining revenue and substantial losses due to the mandated closure of the Battleship in March 2020 thru June 2020 and additional closures beginning August 27, 2020 to date.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

In April 2020, the Association executed a note payable of approximately \$1.4 million as part of the CARES Act's Small Business Administration (SBA) Paycheck Protection Program. Management expects the note payable to be forgiven as provided by SBA guidelines.

In August 2020, the Association increased its credit agreement to \$7 million. Through August 2020, the Association borrowed \$5.5 million under its existing credit agreement. See Note 4 for additional information.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2. Board Designated Cash and Investments

Cash and investments board designated for ship preservation are carried at fair value at December 31, 2019 and 2018, and consist primarily of investments in mutual funds as follows:

	<u>2019</u>	<u>2018</u>
Mutual Funds:		
Cost	\$ 13,201,842	\$ 13,011,480
Gross unrealized gains	1,367,427	-
Gross unrealized losses	<u>(13,246)</u>	<u>(859,565)</u>
Mutual Funds, at fair value	14,556,023	12,151,915
Cash	-	2,000,000
Money Market Funds, at fair value	344,802	246,829
Accrued Interest	<u>9,828</u>	<u>10,705</u>
Total cash and investments, board designated for ship preservation	<u>\$ 14,910,653</u>	<u>\$ 14,409,449</u>

Net investment returns for 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Net realized/unrealized gain (loss)	\$ 2,220,675	\$ (1,134,863)
Dividend and interest income	343,977	303,139
Investment fees	<u>(63,046)</u>	<u>(59,969)</u>
Net investment return (loss)	<u>\$ 2,501,606</u>	<u>\$ (891,693)</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

3. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2019 and 2018 were as follows:

	2019	2018
Shipboard improvements	\$ 30,540,127	\$ 26,985,352
Equipment and fixtures	10,667,722	8,165,264
	41,207,849	35,150,616
Accumulated depreciation	(16,186,114)	(14,202,766)
	25,021,735	20,947,850
Construction in progress	1,648,943	1,860,476
Equipment and Shipboard Improvements, net	<u>\$ 26,670,678</u>	<u>\$ 22,808,326</u>

4. Line of Credit

In August 2018, the Association entered into a credit agreement with a bank amounting 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 LIBOR plus applicable margins, as defined, with an expiration date of August 21, 2021. There were no borrowings outstanding at December 31, 2019 and 2018.

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.

In August 2020, the Association increased its credit agreement to \$7 million. Through August 2020, the Association borrowed \$5.5 million under its existing credit agreement. The borrowings bear interest at rates ranging from 1.2 percent to 1.7 percent.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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. 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, 2019 and 2018

5. 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:

	<u>2019</u>	<u>2018</u>
Mutual Funds:		
Intermediate Term Bond	\$ 4,231,835	\$ 4,174,614
Large Value	2,170,782	1,679,902
Large Growth	1,893,580	1,341,905
Foreign Large Blend	1,421,804	1,103,894
Mid-Cap Value	1,020,862	763,985
Mid-Cap Growth	833,595	652,311
Small Value	806,657	617,065
Small Growth	687,502	518,030
Diversified Emerging Mkts	587,742	486,236
High Yield Bond	341,534	321,090
Pacific/Asia Ex-Japan Stk	285,170	258,846
Foreign Small/Mid Value	<u>274,960</u>	<u>234,037</u>
Total mutual funds at fair value	14,556,023	12,151,915
Cash	-	2,000,000
Money Market Funds	344,802	246,829
Accrued Interest	<u>9,828</u>	<u>10,705</u>
Total cash and investments, board designated for ship preservation	<u>\$ 14,910,653</u>	<u>\$ 14,409,449</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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 \$14.9 million and \$14.4 million as of December 31, 2019 and 2018, respectively, in the Ship Preservation Fund, for the purpose of funding future preservation and major restoration projects for the Battleship.

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 is 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, 2019 and 2018 consisted of the following:

	2019	2018
Cash restricted for the following:		
Educational purposes	\$ 221,028	\$ 13,167
Shipboard improvements and displays	-	41,350
	<u>221,028</u>	<u>54,517</u>
Net assets with donor restrictions	<u>\$ 221,028</u>	<u>\$ 54,517</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

6. Net Assets (continued)

b. With Donor Restriction (continued)

Net assets with donor restrictions released from restrictions during the years ended December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Restrictions satisfied by expenditures for:		
Educational purposes	\$ 43,361	\$ 35,667
Shipboard improvements and displays	<u>386,134</u>	<u>-</u>
Net assets with donor restrictions released from restrictions	<u>\$ 429,495</u>	<u>\$ 35,667</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, 2019 and 2018, the Association made employer contributions of approximately \$167,000 and \$141,000, 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 \$18,000 (or \$24,000, 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, 2019 and 2018

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 2019. During 2019, the Association executed an extension on the agreement to provide ground transportation for visitors to the Battleship through 2021. Ground transportation fees, based upon fixed hourly rates, were approximately \$784,000 in 2019 and \$716,000 in 2018 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.

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, 2019 and 2018 and amounted to approximately \$1,516,000 and \$1,619,000, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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 new lease requires estimated monthly payments of rent totaling \$35,000, which are trueed up on an annual basis to equal an annual rent of six percent of the Association's ticket sales revenue as defined in the lease. Total rent expense recognized for the years ended December 31, 2019 and 2018 was approximately \$753,000 and \$771,000, 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 \$319,000 and \$296,000 and are reported as special events revenue for the years ended December 31, 2019 and 2018, respectively.

d. Construction Commitments

In 2019, the Association entered into a construction contract for approximately \$3.3 million for the renovation of a building to house the Association's Educational Resource Center which will contain artifacts such as historical photos, letters, and official documents. The building will also contain a library, offices for staff, a new shuttle area for pick up and drop offs, and new visitor restroom facilities. Construction and all contractual obligations should be complete before December 31, 2020.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

9. Liquidity and Availability

The following reflects the Association's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year because of board designations or donor-imposed restrictions.

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 531,311	\$ 844,451
Cash, with donor restrictions	221,028	13,167
Cash, donor restricted for the purchase of equipment and shipboard improvements	-	41,350
Accounts receivable, net	2,135,374	1,697,779
Cash and investments	<u>14,910,653</u>	<u>14,409,449</u>
Financial assets, at year end	17,798,366	17,006,196
Less those unavailable for general expenditure within one year, due to:		
Board designated for ship preservation	(14,910,653)	(14,409,449)
Donor restricted	<u>(221,028)</u>	<u>(54,517)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,666,685</u>	<u>\$ 2,542,230</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 and for ship preservation. 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 \$14,910,653 and \$14,409,449 as of December 31, 2019 and 2018, 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, 2019 and 2018, \$5 million remained available on the Association's line of credit.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

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 are the responsibility of the Committee. The Association is responsible to collect all donations and contributions related to the WWII Commemoration and to disburse approved expenditures. The Association has recorded these funds as custodial funds and liability for custodial fund in the accompanying financial statements.

A summary of the cash receipts and disbursements processed by the Association on behalf of the Committee during the year ended December 31, 2019 are as follows:

Assets:	
Cash	\$ 947,269
Accounts receivable	4,789
	<u>\$ 952,058</u>
Liabilities:	
Accounts payable	<u>\$ 607,734</u>
Funds available for expenses:	
Donations received	1,002,205
Less expenses incurred for:	
Events	(600,000)
Administrative and professional fees	(52,411)
Marketing costs	(5,470)
	<u>344,324</u>
	<u>\$ 952,058</u>