

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, 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 audits 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, 2020 and 2019, 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
June 28, 2021

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2020 and 2019

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 133,359	\$ 531,311
Cash, with donor restrictions	36,884	221,028
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2020 and 2019	632,740	2,135,374
Cash and Investments, board designated for line of credit	7,000,000	-
Prepaid Expenses and Other Assets	295,707	379,478
Custodial Fund	83,761	952,058
Total Current Assets	<u>8,182,451</u>	<u>4,219,249</u>
Cash and Investments, board designated for ship preservation	<u>9,850,200</u>	<u>14,910,653</u>
Equipment and Shipboard Improvements, net	<u>28,624,938</u>	<u>26,670,678</u>
Total Assets	<u>\$ 46,657,589</u>	<u>\$ 45,800,580</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts Payable	\$ 519,180	\$ 1,194,370
Deferred Rent Payable	412,009	-
Line of Credit	7,000,000	-
Construction Accounts Payable	-	1,185,706
Accrued Expenses	555,732	881,162
Liability for Custodial Fund	83,761	952,058
Total Current Liabilities	<u>8,570,682</u>	<u>4,213,296</u>
Deferred Rent Payable	<u>-</u>	<u>347,151</u>
Commitments and Contingencies		
Net Assets:		
Without Donor Restrictions:		
Undesignated	(7,425,115)	623,480
Cash and Investments, board designated for ship preservation	9,850,200	14,910,653
Cash and Investments, board designated for line of credit	7,000,000	
Invested in Equipment and Shipboard Improvements, net of construction accounts payable of nil and \$1,185,706 in 2020 and 2019, respectively	<u>28,624,938</u>	<u>25,484,972</u>
Total Without Donor Restrictions	38,050,023	41,019,105
With Donor Restrictions	<u>36,884</u>	<u>221,028</u>
Total Net Assets	<u>38,086,907</u>	<u>41,240,133</u>
Total Liabilities and Net Assets	<u>\$ 46,657,589</u>	<u>\$ 45,800,580</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions:		
Revenues:		
Ticket sales	\$ 2,831,116	\$ 12,684,642
CARES Act federal assistance	1,434,200	-
Contributions	974,449	95,519
Commissions	339,228	1,516,207
Special events and other	165,084	671,168
Education	63,665	275,162
Other income	306,843	-
Total revenues without donor restrictions	<u>6,114,585</u>	<u>15,242,698</u>
Net assets released from restrictions	<u>663,054</u>	<u>429,495</u>
Total revenues without donor restrictions and other support	<u>6,777,639</u>	<u>15,672,193</u>
Expenses:		
Program services	10,032,009	13,543,193
Management and general	1,614,925	1,654,267
Fundraising	39,398	188,227
Total expenses	<u>11,686,332</u>	<u>15,385,687</u>
Revenues less expenses	(4,908,693)	286,506
Net investment return	<u>1,939,611</u>	<u>2,501,606</u>
(Decrease) increase in net assets without donor restrictions	<u>(2,969,082)</u>	<u>2,788,112</u>
Changes in Net Assets with Donor Restrictions:		
Contributions	478,910	596,006
Net assets released from restrictions	<u>(663,054)</u>	<u>(429,495)</u>
(Decrease) increase in net assets with donor restrictions	<u>(184,144)</u>	<u>166,511</u>
(Decrease) increase in net assets	(3,153,226)	2,954,623
Net Assets, beginning of year	<u>41,240,133</u>	<u>38,285,510</u>
Net Assets, end of year	<u>\$ 38,086,907</u>	<u>\$ 41,240,133</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2020 and 2019

	Program Services	Management and General	Fundraising	Total
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>
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>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
(Decrease) increase in net assets	\$ (3,153,226)	\$ 2,954,623
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	2,555,990	2,001,085
Net realized and unrealized gains on investments	(1,684,610)	(2,220,675)
Loss on disposal of equipment	-	1,971
Changes in certain assets and liabilities:		
Accounts receivable, net	1,502,634	(437,595)
Prepaid expenses and other assets	83,771	29,991
Accounts payable	(675,190)	(1,017,119)
Deferred rent payable	64,858	347,151
Accrued expenses	(325,430)	(31,536)
Net cash (used in) provided by operating activities	<u>(1,631,203)</u>	<u>1,627,896</u>
Cash Flows from Investing Activities:		
Capital expenditures	(5,695,956)	(3,493,996)
Purchases of investments board designated for ship preservation and line of credit	(4,825,184)	(843,100)
Sales of investments board designated for ship preservation and line of credit	4,570,247	2,562,571
Net cash used in investing activities	<u>(5,950,893)</u>	<u>(1,774,525)</u>
Cash Flows from Financing Activities:		
Proceeds from line of credit	7,000,000	-
Net increase in cash restricted for the purchase of equipment and shipboard improvements	-	41,350
Net cash provided by financing activities	<u>7,000,000</u>	<u>41,350</u>
Net decrease in cash and cash equivalents	(582,096)	(105,279)
Cash and Cash Equivalents, beginning of year	752,339	857,618
Cash and Cash Equivalents, end of year	<u>\$ 170,243</u>	<u>\$ 752,339</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 133,359	\$ 531,311
Cash, with donor restrictions	36,884	221,028
Total cash and cash equivalents	<u>\$ 170,243</u>	<u>\$ 752,339</u>
Supplemental Disclosure of Non-Cash Activity --		
Capital Expenditures included in Construction Accounts Payable	<u>\$ -</u>	<u>\$ 1,185,706</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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, 2020 and 2019

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, 2020, the Association did not have any cash or cash equivalents 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, 2020 and 2019

1. Organization and Significant Accounting Policies (continued)

h. 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.

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.

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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

1. Organization and Significant Accounting Policies (continued)

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 2020 or 2019.

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 Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. ASU 2014-09 was effective for the Association beginning January 1, 2020 and did not have a significant impact to its financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

1. Organization and Significant Accounting Policies (continued)

n. Recently Adopted Accounting Pronouncements (continued)

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. The adoption of this standard did not have a material impact on the financial statements.

o. Recently Issued Accounting Pronouncements

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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

1. Organization and Significant Accounting Policies (continued)

o. Recently Issued Accounting Pronouncements (continued)

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.

p. 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 and had additional closures from August 2020 through mid-December 2020. As a result, the Association experienced significant declines in revenues and 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.

q. Reclassifications

Certain amounts have been reclassified for 2019 to conform to the classification adopted in 2020. Such reclassifications had no effect on the Association's previously reported increase in net assets.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

1. Organization and Significant Accounting Policies (continued)

r. Subsequent Events

The Association has evaluated subsequent events through June 28, 2021, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

2. Board Designated Cash and Investments

Board designated cash and investments are carried at fair value at December 31, 2020 and 2019, and consist primarily of investments in mutual funds as follows:

	<u>2020</u>	<u>2019</u>
Mutual Funds:		
Cost	\$ 13,634,373	\$ 13,201,842
Gross unrealized gains	2,824,204	1,367,427
Gross unrealized losses	<u>(3,763)</u>	<u>(13,246)</u>
Mutual Funds, at fair value	16,454,814	14,556,023
Money Market Funds, at fair value	386,878	344,802
Accrued Interest	<u>8,508</u>	<u>9,828</u>
Total board designated cash and investments	<u>\$ 16,850,200</u>	<u>\$ 14,910,653</u>

Total board designated cash and investments consists of \$7 million designated for the line of credit and \$9,850,200 designated for ship preservation.

Net investment returns for 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Net realized/unrealized gains	\$ 1,684,610	\$ 2,220,675
Dividend and interest income	321,541	343,977
Investment fees	<u>(66,540)</u>	<u>(63,046)</u>
Net investment return	<u>\$ 1,939,611</u>	<u>\$ 2,501,606</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

3. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Shipboard improvements	\$ 31,378,442	\$ 30,540,127
Equipment and fixtures	<u>14,838,724</u>	<u>10,667,722</u>
	46,217,166	41,207,849
Accumulated depreciation	<u>(18,683,456)</u>	<u>(16,186,114)</u>
	27,533,710	25,021,735
Construction in progress	<u>1,091,228</u>	<u>1,648,943</u>
Equipment and Shipboard Improvements, net	<u><u>\$ 28,624,938</u></u>	<u><u>\$ 26,670,678</u></u>

As of December 31, 2020, 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. 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. The Association borrowed \$7 million and nil at December 31, 2020 and 2019, respectively. The outstanding borrowings at December 31, 2020 bear interest at rates ranging from 1.25 percent to 1.34 percent.

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, 2020 and 2019

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>2020</u>	<u>2019</u>
Mutual Funds	\$ 16,454,814	\$ 14,556,023
Money Market Funds	386,878	344,802
Accrued Interest	<u>8,508</u>	<u>9,828</u>
Total board designated cash and investments	<u>\$ 16,850,200</u>	<u>\$ 14,910,653</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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 \$16.9 million and \$14.9 million as of December 31, 2020 and 2019, 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 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, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Cash restricted for the following:		
Educational purposes	\$ 16,110	\$ 221,028
Shipboard improvements and displays	<u>20,774</u>	<u>-</u>
Net assets with donor restrictions	<u>\$ 36,884</u>	<u>\$ 221,028</u>

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

6. Net Assets (continued)

b. With Donor Restriction (continued)

Net assets with donor restrictions released from restrictions during the years ended December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Restrictions satisfied by expenditures for:		
Educational purposes	\$ 10,442	\$ 43,361
Shipboard improvements and displays	<u>652,612</u>	<u>386,134</u>
Net assets with donor restrictions released from restrictions	<u>\$ 663,054</u>	<u>\$ 429,495</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, 2020 and 2019, the Association made employer contributions of approximately \$93,000 and \$167,000, 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, 2020 and 2019

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. Ground transportation fees, based upon fixed hourly rates, were approximately \$229,000 in 2020 and \$784,000 in 2019 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 \$359,000 in 2020 and \$1,086,000 in 2019 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, 2020 and 2019 and amounted to approximately \$339,000 and \$1,516,000, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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, estimated monthly payments were reduced to \$1, effective April 2020. Management estimated total rent expense for the years ended December 31, 2020 and 2019 to be approximately \$170,000 and \$753,000, respectively. As of December 31, 2020 and 2019, the Association deferred rent payable approximated \$412,000 and \$347,000, 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 \$86,000 and \$319,000 and are reported as special events revenue for the years ended December 31, 2020 and 2019, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

9. Liquidity and Availability

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

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 133,359	\$ 531,311
Cash, with donor restrictions	36,884	221,028
Accounts receivable, net	632,740	2,135,374
Cash and investments	<u>16,850,200</u>	<u>14,910,653</u>
Financial assets, at year end	17,653,183	17,798,366
Less those unavailable for general expenditure within one year, due to:		
Board designated for ship preservation and line of credit	(16,850,200)	(14,910,653)
Donor restricted	<u>(36,884)</u>	<u>(221,028)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 766,099</u>	<u>\$ 2,666,685</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 \$16,850,200 and \$14,910,653 as of December 31, 2020 and 2019, 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, 2020 and 2019, \$2 million and \$5 million remained available on the Association's line of credit, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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 a custodial fund with a corresponding credit to a liability in the accompanying financial statements.

A summary of the cash receipts and disbursements processed by the Association on behalf of the Committee for the period from October 1, 2019 to December 31, 2020 are as follows:

Assets:

Cash	\$	43,761
Accounts receivable		<u>40,000</u>
	\$	<u>83,761</u>

Funds available for expenses:

Donations received	\$	1,660,167
Less expenses incurred for:		
Events		(1,098,452)
Administrative and professional fees		(238,922)
Marketing costs		<u>(239,032)</u>
		<u>83,761</u>
	\$	<u>83,761</u>

The remaining funds were distributed to participants in May 2021.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

11. CARES Act and Other Federal Assistance

The CARES Act, which was enacted on March 27, 2020, provided for fiscal relief in 2020 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 Act federal assistance 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 \$1,100,000 in employee retention credits based on such qualified wages for 2020. This amount will be recognized as other income when received. Collection of the Employee Retention Credit was pending as of the date of these financial statements.

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. The Association is considering its eligibility and need for other additional fiscal relief in 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.