

PACIFIC BATTLESHIP CENTER

Financial Statements
December 31, 2015 and 2014
(With Independent Auditor's Report Thereon)



Certified
Public
Accountants

PACIFIC BATTLESHIP CENTER

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Independent Auditor's Report

The Board of Directors
Pacific Battleship Center
San Pedro, California

We have audited the accompanying financial statements of Pacific Battleship Center (PBC) (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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 of 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 Pacific Battleship Center as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

June 24, 2016
Newport Beach, California

Pacific Battleship Center
Statements of Financial Position
December 31, 2015 and 2014

Assets	2015	2014
Cash	\$ 655,771	\$ 564,467
Accounts receivable	64,874	47,014
Contributions receivable	518,540	767,500
Engineering/machine shop materials	50,038	50,518
Deposits and prepaid insurance	74,662	69,411
Property and equipment, net	<u>4,268,285</u>	<u>4,724,517</u>
Total assets	<u><u>\$ 5,632,170</u></u>	<u><u>\$ 6,223,427</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 105,265	\$ 259,928
Accrued and other liabilities	163,488	220,832
Unearned revenue	61,193	6,850
Line of credit	175,000	80,000
Capital lease obligation	2,808	32,088
Loan and notes payable	<u>1,198,030</u>	<u>1,365,590</u>
Total liabilities	<u>1,705,784</u>	<u>1,965,288</u>
Net Assets:		
Unrestricted	3,026,902	3,301,673
Temporarily restricted	<u>899,484</u>	<u>956,466</u>
Total net assets	<u>3,926,386</u>	<u>4,258,139</u>
Total liabilities and net assets	<u><u>\$ 5,632,170</u></u>	<u><u>\$ 6,223,427</u></u>

See accompanying notes to financial statements.

Pacific Battleship Center
Statement of Activities
Year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and other support:			
Admissions	\$ 2,444,218	\$ -	\$ 2,444,218
Contributions	204,063	355,264	559,327
Donated goods and services	226,624	-	226,624
Commissions	218,359	-	218,359
Other income	210,378	-	210,378
Total revenues	<u>3,303,642</u>	<u>355,264</u>	<u>3,658,906</u>
Net assets released from restriction	412,246	(412,246)	-
Total revenues and other support	<u>3,715,888</u>	<u>(56,982)</u>	<u>3,658,906</u>
Expenses:			
Program services (including \$202,624 of donated goods and services)	2,643,659	-	2,643,659
General and administrative	626,478	-	626,478
Fundraising	140,116	-	140,116
Subtotal expenses	<u>3,410,253</u>	<u>-</u>	<u>3,410,253</u>
Change in net assets, before depreciation	305,635	(56,982)	248,653
Depreciation	(580,406)	-	(580,406)
Change in net assets	(274,771)	(56,982)	(331,753)
Net assets, beginning of year	<u>3,301,673</u>	<u>956,466</u>	<u>4,258,139</u>
Net assets, end of year	<u>\$ 3,026,902</u>	<u>\$ 899,484</u>	<u>\$ 3,926,386</u>

See accompanying notes to financial statements.

Pacific Battleship Center
Statement of Activities
Year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and other support:			
Admissions	\$ 2,068,203	\$ -	\$ 2,068,203
Contributions	193,359	363,476	556,835
Donated goods and services	272,083	-	272,083
Commissions	331,374	-	331,374
Other income	144,133	-	144,133
Total revenues	<u>3,009,152</u>	<u>363,476</u>	<u>3,372,628</u>
Net assets released from restriction	443,096	(443,096)	-
Total revenues and other support	<u>3,452,248</u>	<u>(79,620)</u>	<u>3,372,628</u>
Expenses:			
Program services (including \$140,434 of donated services)	2,266,171	-	2,266,171
General and administrative	699,548	-	699,548
Fundraising	161,475	-	161,475
Subtotal expenses	<u>3,127,194</u>	<u>-</u>	<u>3,127,194</u>
Change in net assets, before depreciation	325,054	(79,620)	245,434
Depreciation	(515,030)	-	(515,030)
Change in net assets	(189,976)	(79,620)	(269,596)
Net assets, beginning of year	<u>3,491,649</u>	<u>1,036,086</u>	<u>4,527,735</u>
Net assets, end of year	<u>\$ 3,301,673</u>	<u>\$ 956,466</u>	<u>\$ 4,258,139</u>

See accompanying notes to financial statements.

Pacific Battleship Center
Statements of Cash Flows
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows provided by operating activities:		
Change in net assets	\$ (331,753)	\$ (269,596)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	580,406	515,030
Contributed property and equipment	(2,000)	(119,649)
Change in assets and liabilities:		
Accounts receivable	(17,860)	15,739
Contributions receivable	248,960	239,500
Engineering/machine shop materials	480	190
Deposits and prepaid insurance	(5,251)	(5,020)
Accounts payable	(76,957)	101,366
Accrued and other liabilities	(57,344)	50,447
Unearned revenue	54,343	6,850
Cash provided by operating activities	<u>393,024</u>	<u>534,857</u>
Cash flows from investing activity:		
Purchases of property and equipment	<u>(199,880)</u>	<u>(280,735)</u>
Cash used in investing activity	<u>(199,880)</u>	<u>(280,735)</u>
Cash flows from financing activities:		
Proceeds from issuance of line of credit	320,000	80,000
Principal repayments on line of credit	(225,000)	-
Principal repayments on notes payable	(167,560)	(167,653)
Payments on capital lease obligations	<u>(29,280)</u>	<u>(86,744)</u>
Cash used in financing activities	<u>(101,840)</u>	<u>(174,397)</u>
Net increase in cash	91,304	79,725
Cash, beginning of year	<u>564,467</u>	<u>484,742</u>
Cash, end of year	<u><u>655,771</u></u>	<u><u>564,467</u></u>
<u>Non-cash investing and financing activities:</u>		
Additions to property and equipment in accounts payable	\$ 671	\$ 78,377
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 35,688	\$ 44,575

See accompanying notes to financial statements.

PACIFIC BATTLESHIP CENTER

Notes to Financial Statements

December 31, 2015 and 2014

(1) Organization

The Pacific Battleship Center (PBC or Organization) is a California not-for-profit corporation, with a mission to:

- celebrate the American spirit through the preservation and interpretation of the Battleship USS Iowa,
- educate the public on the accomplishments and sacrifices of American patriots, and
- engage guests in unique and exciting ways that bring the ship to life by connecting the past with the future.

The PBC accomplishes this through the operation of a museum of naval history aboard the former Battleship USS Iowa (BB-61), which is moored in the Port of Los Angeles. Following ship restoration and pre-opening preparation, the ship was opened to the public in July 2012.

The PBC leases from the City of Los Angeles, through its Board of Harbor Commissioners, the pier where the USS Iowa is moored. In accordance with accounting principles generally accepted in the United States of America, the fair value of the use of the pier in excess of the amounts paid is to be reflected on the Organization's financial statements. Since no objective basis is available to determine the fair value of the use of the pier, no amounts have been reported in the financial statements for the use of the pier.

The United States Navy has allowed PBC to use the USS Iowa as a maritime museum. In accordance with accounting principles generally accepted in the United States of America, the fair value of the use of the USS Iowa is to be reflected on the PBC's financial statements. However, since no objective basis is available to measure the related value, no amounts have been recorded in the financial statements for the use of the ship.

(2) Summary of Significant Accounting Policies

(a) *Basis of presentation*

The financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Presentation of Financial Statements – Not-for-Profit Entities*. The assets, liabilities, and net assets of the PBC are reported within categories as follows:

Unrestricted net assets – Net assets not subject to donor imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the PBC and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restriction.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the PBC. The income from these assets is available for either general operations or specific programs as specified by the donor. The PBC did not have any permanently restricted net assets as of December 31, 2015 or 2014.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(b) Cash

The PBC considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. The PBC maintains its cash in one financial institution. The accounts maintained in the institution are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The PBC's cash balance exceeded FDIC limits by \$434,934 at December 31, 2015. The PBC has not experienced any losses on these accounts and does not believe it is exposed to any significant risk.

(c) Contributions receivable

Unconditional promises to give are recorded as contributions receivable. The PBC discounts contributions that are expected to be collected after one year at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue.

(d) Engineering/machine shop materials

When the PBC took possession of the USS Iowa, it contained excess quantities of various metals, such as aluminum, brass and steel. It is anticipated these materials will be consumed in the repair and maintenance of the ship. The fair value is estimated based on current retail prices, and has been recorded as engineering/machine shop materials in the accompanying financial statements.

In addition, the ship included wooden decking, the majority of which consisted of teak wood. However, unlike the metals, this wood is not in excess of the ship's needs, and has not been recorded in the accompanying financial statements.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

(e) *Deposits and prepaid insurance*

During the year ended December 31, 2014, the PBC entered into a financing arrangement for annual insurance premiums. After the down payments paid in 2014, the PBC had an obligation to pay \$46,126 as of December 31, 2014, and was recorded as accrued and other liabilities in the accompanying financial statements. The financed asset amounts as of December 31, 2014 of \$57,390, is included in deposits and prepaid insurance in the accompanying financial statements, and was fully amortized during the year ended December 31, 2015.

(f) *Property and equipment*

Property and equipment are carried at cost at date of purchase or fair value at date of donation, net of accumulated depreciation.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Ship restoration and improvements and furniture and equipment are depreciated over 10 years. The costs of normal maintenance and repairs and minor replacements are charged to expense when incurred.

(g) *Fair value of financial instruments*

The carrying amounts of cash, accounts and contribution receivable, accounts payable, accrued and other liabilities, unearned revenue, line of credit, capital lease obligation, and loan and notes payable at December 31, 2015 and 2014, approximate fair value because of the short term maturity of these financial instruments.

(h) *Commissions*

The PBC generates commission revenue from the operation of its gift shop and its photo booth. In 2014, the photo booth services were brought in-house. The PBC also generates smaller amounts of commission revenue from event catering, food concessions, soft drink machines and ATM machines.

(i) *Tax exempt status*

The PBC is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and, generally, is subject to state and federal income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which the PBC was granted exemption. Management recorded an income tax provision for the years ended December 31, 2015 and 2014 of approximately \$10,370 and \$2,600, respectively,

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

The PBC has evaluated the financial statement impact of tax positions taken or expected to be taken in its tax returns. The PBC has reviewed its positions for all open tax years and has determined that no additional provision for income taxes is required. The PBC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The PBC believes it is no longer subject to income tax examinations for years prior to 2011.

(j) Donated goods and services

In 2015 and 2014, the PBC received donated goods and services of \$226,624 and \$272,083, respectively, which are reflected in the accompanying statements of activities at their estimated fair values at the date of receipt as donated goods and services revenue. Contributions of services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated goods and services received for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Donated program services	\$ 197,669	\$ 140,434
Debt forgiveness	22,000	12,000
Donated goods	4,955	-
Capitalized equipment	2,000	119,649
Total donated goods and services	\$ 226,624	\$ 272,083

The PBC also has community volunteers that provide their services through oversight and hands-on participation in the PBC's activities. Such contributed services have not been recognized in the accompanying financial statements as they do not require specialized skills.

(k) Membership Revenue

The PBC receives membership dues and considers the memberships exchange transactions. As exchange transactions, the membership dues are deferred and amortized over the lives of the memberships.

(l) Advertising

The PBC uses advertising to promote its programs among the audiences it serves. All advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2015 and 2014 were \$268,421 and \$180,451, respectively.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

(m) Functional allocation of expenses

The costs for providing various program services, general administrative services, and fundraising expenses, excluding depreciation, have been summarized on a functional basis in the statements of activities. Program related and fundraising expenses are tracked on a time entry system and reviewed and allocated regularly, and those costs not directly associated with program services or fundraising are allocated to general administration expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(n) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(o) Reclassifications

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format.

(3) Property and equipment

Property and equipment are summarized as follows at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 2,130,811	\$ 2,010,343
Sewer installation	254,625	254,625
Ship restoration and improvement	<u>3,679,387</u>	<u>3,675,681</u>
Subtotal capital assets	6,064,823	5,940,649
Accumulated depreciation	<u>(1,796,538)</u>	<u>(1,216,132)</u>
Total property and equipment, net	<u>\$ 4,268,285</u>	<u>\$ 4,724,517</u>

Depreciation expense was \$580,406 and \$515,030 for the years ended December 31, 2015 and 2014, respectively.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

(4) Contributions receivable

Contributions receivable at December 31, 2015 and 2014, respectively, are expected to be received as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 262,000	\$ 267,500
Within one to five years	<u>256,540</u>	<u>500,000</u>
Total contributions receivable	<u>\$ 518,540</u>	<u>\$ 767,500</u>

The amounts due from one donor represent 97% and 98% of the contributions receivable at December 31, 2015 and 2014, respectively.

(5) Capital lease obligation

The PBC operates a ticketing booth under a capital lease, with a principal balance due of \$2,808 and \$32,088 at December 31, 2015 and 2014, respectively.

Future minimum lease payments under capital lease obligations as of December 31, 2015, are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2016	<u>\$ 2,880</u>
Total future minimum lease payments	2,880
Less amount representing interest	<u>(72)</u>
Present value of future minimum lease payments	<u>\$ 2,808</u>

(6) Commitments

(a) The PBC leases the pier where the USS Iowa is moored from the City of Los Angeles, through its Board of Harbor Commissioners. The PBC leases the pier under an agreement that requires PBC to pay monthly rent based on the greater of a) a fixed-minimum monthly rental, or b) an amount equal to a percentage of admission, commission and other income arising from any business, use or operation occurring on the premises. The lease contains two 5-year renewal options after the original lease period expires. The PBC also leases office equipment under operating leases with varying expirations.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

Minimum future rental payments under the non-cancellable operating leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2016	\$ 100,000
2017	100,000
2018	100,000
2019	100,000
2020	100,000
Thereafter	<u>200,000</u>
	<u>\$ 700,000</u>

Rent expense was approximately \$118,000 and \$88,000 for the years ended December 31, 2015 and 2014, respectively.

(b) In 2013, the PBC entered into a contractual agreement with a former employee to provide consulting services to the PBC until August 31, 2017. Management believes that the contract includes substantial risk of forfeiture and therefore only payments of approximately \$108,300 and \$91,600 made in 2015 and 2014, respectively, are reflected as expenses in the accompanying financial statements.

(7) Line of credit

During 2014, the PBC obtained a \$250,000 revolving line of credit from Farmers & Merchants Bank to help finance its working capital and short-term capital needs. The unsecured line of credit was increased in 2015 to \$325,000 and renewed with an expiration date of October 29, 2016. The line of credit had a balance of \$175,000 and \$80,000 at December 31, 2015 and 2014, respectively. Interest is payable monthly on outstanding balances at the interest rate of 7.5%.

(8) Loan and notes payable

At December 31, 2012, the PBC had approximately \$1.2 million of accounts payable representing pre-opening amounts, i.e., amounts arising from activities prior to the opening of the USS Iowa to the public. During 2013, the PBC negotiated the settlement of these amounts with various vendors, which resulted in \$728,279 converted to long-term notes payable and \$259,223 of debt forgiveness, the latter represented as a contribution in 2013. In 2015, an additional \$10,000 was forgiven, and is included in donated goods and services in the accompanying financial statements.

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

At December 31, 2015 and 2014, respectively, loan and notes payable consist of the following:

	2015	2014
Non-interest bearing loan due to related party payable upon demand.	\$ 500,000	\$ 500,000
Note due to related party with annual interest rate of 4.0%, with outstanding principal due in January 2019. The PBC recorded \$12,000 of forgiven interest as donated goods and services in 2015 and 2014, respectively, in the accompanying statements of activities.	300,000	300,000
Note bearing interest rate of 4.0% annually, due upon demand.	50,000	50,000
Notes payable as settlement for pre-opening payables, with annual interest rate of 4.0%, payable monthly with outstanding principal and interest due in 2016.	29,532	81,812
Notes payable as settlement for pre-opening payables, with annual imputed interest rate of 4.0%, payable monthly with outstanding principal and interest due in 2017.	25,004	40,796
Notes payable as settlement for pre-opening payables, with annual interest rate of 4.0%, payable monthly with outstanding principal and interest due in 2018.	189,435	254,672
Note payable as settlement for pre-opening payables, with annual imputed interest rate of 4.0%, payable monthly with outstanding principal and interest due in 2019.	104,059	138,310
Total loan and notes payable	\$ 1,198,030	\$ 1,365,590

Future principal payments due at December 31 are as follows:

Years Ending December 31,	Amount
2016	691,740
2017	112,536
2018	75,098
2019	318,656
	\$ 1,198,030

PACIFIC BATTLESHIP CENTER
Notes to Financial Statements (Continued)
December 31, 2015 and 2014

(9) Functional allocation of expenses

For the years ended December 31, 2015 and 2014, expenses by functional basis (inclusive of depreciation) are as follows:

	<u>2015</u>	<u>2014</u>
Program services	\$ 3,224,065	\$ 2,781,201
General and administrative	626,478	699,548
Fundraising	<u>140,116</u>	<u>161,475</u>
Total expenses by functional basis	<u>\$ 3,990,659</u>	<u>\$ 3,642,224</u>

(10) Subsequent events

The PBC has evaluated subsequent events from the date of the statement of financial position through June 24, 2016, which is the date the financial statements were available to be issued.

In the spring of 2016, the PBC began construction of shore power facilities to provide electricity to the ship and eliminate the current reliance on generator-based power. Construction is expected to conclude in July 2016 and will provide increased operational flexibility and lead to cost reductions. The cost of the shore power construction is being financed primarily by in-kind donations, with a smaller amount being financed by bank financing in the form of a construction loan.

In the spring of 2016, the PBC began a Matching Challenge Grant campaign, in which a donor agreed to match donations up to a maximum of \$100,000. As of June 24, 2016, the Matching Challenge Grant campaign had raised the maximum of \$100,000.

In May 2016 the State of Iowa authorized a \$500,000 grant to the PBC, payable over 2 years, for hull preservation. This will allow the PBC to indefinitely defer the significantly more-costly process of dry-docking the ship for repairs in future years.

In June 2016 the PBC completed and unveiled a significant renovation of its museum space. The exhibits, entitled “STEM Careers at Sea” and “Naval Gunnery Incidents”, will enhance the telling of the Battleship Iowa’s story and encourage repeat visitation. A majority of the costs were financed by donations specifically restricted to this project.