

**PACIFIC BATTLESHIP CENTER**

Financial Statements  
December 31, 2017 and 2016  
(With Independent Auditor's Report Thereon)

# 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 the Pacific Battleship Center (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 2017 financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Battleship Center as of December 31, 2017 and 2016, 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.

*Maclean Consulting Group, Inc.*

June 28, 2018  
Sacramento, California

**Pacific Battleship Center**  
**Statements of Financial Position**  
**December 31, 2017 and 2016**

| <b>Assets</b>                         | <b>2017</b>         | <b>2016</b>         |
|---------------------------------------|---------------------|---------------------|
| Cash                                  | \$ 845,172          | \$ 604,642          |
| Accounts receivable                   | 132,115             | 80,912              |
| Contributions receivable              | 307,000             | 555,000             |
| Engineering/machine shop materials    | 64,427              | 64,446              |
| Deposits and prepaid insurance        | 98,472              | 77,075              |
| Property and equipment, net           | 3,890,229           | 4,256,307           |
| Total assets                          | <u>\$ 5,337,415</u> | <u>\$ 5,638,382</u> |
| <br><b>Liabilities and Net Assets</b> |                     |                     |
| Liabilities:                          |                     |                     |
| Accounts payable                      | \$ 303,456          | \$ 294,307          |
| Accrued and other liabilities         | 174,284             | 249,831             |
| Unearned revenue                      | 33,736              | 59,119              |
| Lines of credit                       | 274,360             | -                   |
| Loan and notes payable                | 849,689             | 1,021,026           |
| Total liabilities                     | <u>1,635,525</u>    | <u>1,624,283</u>    |
| Net Assets:                           |                     |                     |
| Unrestricted                          | 2,844,775           | 2,995,629           |
| Temporarily restricted                | 857,115             | 1,018,470           |
| Total net assets                      | <u>3,701,890</u>    | <u>4,014,099</u>    |
| Total liabilities and net assets      | <u>\$ 5,337,415</u> | <u>\$ 5,638,382</u> |

See accompanying notes to financial statements.

**Pacific Battleship Center**  
Statement of Activities  
Year ended December 31, 2017

|  | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|---------------------|
| Revenues and other support:  |                     |                                   |                     |
| Admissions   | \$ 2,383,338        | \$ -                              | \$ 2,383,338        |
| Contributions  | 586,482             | 845,625                           | 1,432,107           |
| Donated goods and services   | 351,303             | -                                 | 351,303             |
| Commissions  | 193,971             | -                                 | 193,971             |
| Other income   | 177,943             | -                                 | 177,943             |
|  | <u>3,693,037</u>    | <u>845,625</u>                    | <u>4,538,662</u>    |
| Total revenues   |                     |                                   |                     |
| Net assets released from restriction   | 1,006,980           | (1,006,980)                       | -                   |
|  | <u>4,700,017</u>    | <u>(161,355)</u>                  | <u>4,538,662</u>    |
| Total revenues and other support   |                     |                                   |                     |
| Expenses:  |                     |                                   |                     |
| Program services (including \$314,427 of<br>donated goods and services)            | 3,064,949           | -                                 | 3,064,949           |
| General and administrative (including \$7,045 of<br>donated professional services) | 408,962             | -                                 | 408,962             |
| Fundraising  | 674,621             | -                                 | 674,621             |
|  | <u>4,148,532</u>    | <u>-</u>                          | <u>4,148,532</u>    |
| Subtotal expenses  |                     |                                   |                     |
| Change in net assets, before depreciation  | 551,485             | (161,355)                         | 390,130             |
| Depreciation   | (702,339)           | -                                 | (702,339)           |
|  | <u>(150,854)</u>    | <u>(161,355)</u>                  | <u>(312,209)</u>    |
| Change in net assets   |                     |                                   |                     |
| Net assets, beginning of year  | 2,995,629           | 1,018,470                         | 4,014,099           |
|  | <u>\$ 2,844,775</u> | <u>\$ 857,115</u>                 | <u>\$ 3,701,890</u> |
| Net assets, end of year  |                     |                                   |                     |

See accompanying notes to financial statements.

**Pacific Battleship Center**  
Statement of Activities  
Year ended December 31, 2016

|   | <u>Unrestricted</u> | <u>Temporarily<br/>restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|---------------------|
| Revenues and other support:   |                     |                                   |                     |
| Admissions  | \$ 2,413,227        | \$ -                              | \$ 2,413,227        |
| Contributions   | 1,043,453           | 624,150                           | 1,667,603           |
| Donated goods and services  | 476,775             | -                                 | 476,775             |
| Commissions   | 217,182             | -                                 | 217,182             |
| Other income  | 126,544             | -                                 | 126,544             |
|   | <u>4,277,181</u>    | <u>624,150</u>                    | <u>4,901,331</u>    |
| Total revenues  | 4,277,181           | 624,150                           | 4,901,331           |
| Net assets released from restriction                                    | 505,164             | (505,164)                         | -                   |
|   | <u>4,782,345</u>    | <u>118,986</u>                    | <u>4,901,331</u>    |
| Total revenues and other support  | 4,782,345           | 118,986                           | 4,901,331           |
| Expenses:   |                     |                                   |                     |
| Program services (including \$240,820 of<br>donated goods and services) | 2,909,881           | -                                 | 2,909,881           |
| General and administrative  | 651,482             | -                                 | 651,482             |
| Fundraising   | 614,916             | -                                 | 614,916             |
|   | <u>4,176,279</u>    | <u>-</u>                          | <u>4,176,279</u>    |
| Subtotal expenses   | 4,176,279           | -                                 | 4,176,279           |
| Change in net assets, before depreciation                               | 606,066             | 118,986                           | 725,052             |
| Depreciation  | (637,339)           | -                                 | (637,339)           |
| Change in net assets  | (31,273)            | 118,986                           | 87,713              |
| Net assets, beginning of year   | 3,026,902           | 899,484                           | 3,926,386           |
| Net assets, end of year   | <u>\$ 2,995,629</u> | <u>\$ 1,018,470</u>               | <u>\$ 4,014,099</u> |

See accompanying notes to financial statements.

**Pacific Battleship Center**  
**Statements of Cash Flows**  
Years ended December 31, 2017 and 2016

|   | <u>2017</u>           | <u>2016</u>           |
|---|-----------------------|-----------------------|
| Cash flows provided by operating activities:  |                       |                       |
| Change in net assets  | \$ (312,209)          | \$ 87,713             |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                       |                       |
| Depreciation  | 702,339               | 637,339               |
| Contributed property and equipment  | (15,831)              | (182,100)             |
| Change in assets and liabilities:   |                       |                       |
| Accounts receivable   | (51,203)              | (16,038)              |
| Contributions receivable  | 248,000               | (36,460)              |
| Engineering/machine shop materials  | 19                    | (14,408)              |
| Deposits and prepaid insurance  | (21,397)              | (2,413)               |
| Accounts payable  | 9,149                 | 189,042               |
| Accrued and other liabilities   | (75,547)              | 86,343                |
| Unearned revenue  | (25,383)              | (2,074)               |
| Cash provided by operating activities   | <u>457,937</u>        | <u>746,944</u>        |
| Cash flows from investing activity:   |                       |                       |
| Purchases of property and equipment   | <u>(320,430)</u>      | <u>(443,261)</u>      |
| Cash used in investing activity   | <u>(320,430)</u>      | <u>(443,261)</u>      |
| Cash flows from financing activities:   |                       |                       |
| Proceeds from issuance of lines of credit   | 368,656               | 70,000                |
| Principal repayments on lines of credit   | (94,296)              | (245,000)             |
| Proceeds from issuance of loan and notes payable  | 27,245                | 180,000               |
| Principal repayments on loan and notes payable  | (198,582)             | (357,004)             |
| Payments on capital lease obligation  | -                     | (2,808)               |
| Cash provided by (used in) financing activities   | <u>103,023</u>        | <u>(354,812)</u>      |
| Net increase (decrease) in cash   | 240,530               | (51,129)              |
| Cash, beginning of year   | <u>604,642</u>        | <u>655,771</u>        |
| Cash, end of year   | <u><u>845,172</u></u> | <u><u>604,642</u></u> |
| Supplemental disclosure of cash flow information:   |                       |                       |
| Cash paid during the year for interest  | \$ 30,552             | \$ 38,476             |
| Non-cash investing activity:  |                       |                       |
| Contributed property and equipment  | \$ 15,831             | \$ 182,100            |

See accompanying notes to financial statements.

## **PACIFIC BATTLESHIP CENTER**

Notes to Financial Statements

December 31, 2017 and 2016

### **(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.

## **PACIFIC BATTLESHIP CENTER**

### **Notes to Financial Statements**

**December 31, 2017 and 2016**

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.

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, 2017 or 2016.

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 approximately \$619,000 at December 31, 2017. 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.

## **PACIFIC BATTLESHIP CENTER**

### **Notes to Financial Statements**

**December 31, 2017 and 2016**

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.

**(e) *Deposits and prepaid insurance***

The PBC has entered into a financing arrangement for annual insurance premiums. After the down payment, the PBC had an obligation to pay \$37,450 and \$41,608 as of December 31, 2017 and 2016, respectively, and was recorded as accrued and other liabilities in the accompanying financial statements. The financed asset amounts as of December 31, 2017 and 2016 of \$53,120 and \$51,775, respectively, is included in deposits and prepaid insurance in the accompanying financial statements, and will be amortized over the next year.

**(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 3 - 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, 2017 and 2016, 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. 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 has not recorded an income tax provision for the years ended December 31, 2017 and 2016, respectively.

## **PACIFIC BATTLESHIP CENTER**

### Notes to Financial Statements

December 31, 2017 and 2016

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.

#### **(j) Donated goods and services**

In 2017 and 2016, the PBC received donated goods and services of \$351,303 and \$476,775, 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, 2017 and 2016 are as follows:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Donated program services                                     | \$ 304,773        | \$ 239,763        |
| Donated professional services/<br>general and administrative | 7,045             | -                 |
| Debt forgiveness   | 14,000            | 21,379            |
| Donated goods  | 9,654             | 1,057             |
| Capitalized equipment  | <u>15,831</u>     | <u>214,576</u>    |
| Total donated goods and services                             | <u>\$ 351,303</u> | <u>\$ 476,775</u> |

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, 2017 and 2016 were \$385,524 and \$362,610, respectively.

## PACIFIC BATTLESHIP CENTER

Notes to Financial Statements

December 31, 2017 and 2016

### *(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.

## **(3) Property and equipment**

Property and equipment are summarized as follows at December 31, 2017 and 2016:

|                                   | <b>2017</b>         | <b>2016</b>         |
|-----------------------------------|---------------------|---------------------|
| Furniture and equipment           | \$ 3,092,433        | \$ 2,756,172        |
| Sewer installation                | 254,625             | 254,625             |
| Ship restoration and improvement  | <u>3,679,387</u>    | <u>3,679,387</u>    |
| Subtotal capital assets           | 7,026,445           | 6,690,184           |
| Accumulated depreciation          | <u>(3,136,216)</u>  | <u>(2,433,877)</u>  |
| Total property and equipment, net | <u>\$ 3,890,229</u> | <u>\$ 4,256,307</u> |

Depreciation expense was \$702,339 and \$637,339 for the years ended December 31, 2017 and 2016, respectively.

**PACIFIC BATTLESHIP CENTER**

Notes to Financial Statements

December 31, 2017 and 2016

**(4) Contributions receivable**

Contributions receivable at December 31, 2017 and 2016, respectively, are expected to be received as follows:

|                                | <u>2017</u>       | <u>2016</u>       |
|--------------------------------|-------------------|-------------------|
| Within one year                | \$ 139,000        | \$ 401,000        |
| Within one to five years       | <u>168,000</u>    | <u>154,000</u>    |
| Total contributions receivable | <u>\$ 307,000</u> | <u>\$ 555,000</u> |

**(5) Capital lease obligation**

The PBC operates a ticketing booth which was purchased under a capital lease, which was fully paid off during the year ended December 31, 2016.

**(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 first of the 5-year renewals was successfully completed in June 2017.

Minimum future rental payments under the non-cancellable operating lease is as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u>     |
|----------------------------------|-------------------|
| 2018                             | \$ 100,000        |
| 2019                             | 100,000           |
| 2020                             | 100,000           |
| 2021                             | 100,000           |
| 2022                             | <u>100,000</u>    |
|                                  | <u>\$ 500,000</u> |

Rent expense was approximately \$112,092 and \$111,661 for the years ended December 31, 2017 and 2016, respectively.

## **PACIFIC BATTLESHIP CENTER**

### **Notes to Financial Statements**

**December 31, 2017 and 2016**

(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 \$66,667 and \$108,300 made in 2017 and 2016, 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 unsecured line of credit was reduced to \$300,000 and renewed with an expiration date of October 29, 2018. The line of credit had a balance of \$250,000 and \$0 at December 31, 2017 and 2016, respectively. Interest is payable monthly on outstanding balances at the interest rate of 6.0%.

In Spring 2017, the PBC began work on its hull preservation project, which will be funded by a \$500,000 grant from the State of Iowa. This will allow the PBC to indefinitely defer the significantly more-costly process of dry-docking the ship for repairs in future years. The grant requires the PBC to submit invoices to the State of Iowa for reimbursement. In order to provide cash flow for the time between payments to vendors and receipt of the grant reimbursement, the PBC obtained a \$250,000 line of credit, expiring in October 2018. As of December 31, 2017, the balance outstanding on the line of credit was \$24,360. Interest is payable monthly on outstanding balances at the interest rate of 6.0%.

#### **(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 each of 2017 and 2016, an additional \$10,000 was forgiven, and is included in donated goods and services in the accompanying financial statements, respectively.

**PACIFIC BATTLESHIP CENTER**

Notes to Financial Statements

December 31, 2017 and 2016

At December 31, 2017 and 2016, respectively, loan and notes payable consist of the following:

|   | <u>2017</u>       | <u>2016</u>         |
|---|-------------------|---------------------|
| Non-interest bearing loan due to a related party, payable monthly with outstanding principal and interest due in 2021.  | \$ 437,700        | \$ 488,625          |
| Note due to a related party with annual interest rate of 4.0%, with outstanding principal due in January 2019. The PBC recorded \$4,000 and \$12,000 of forgiven interest as donated goods and services in 2017 and 2016, respectively, in the accompanying statements of activities. | 100,000           | 100,000             |
| Note bearing interest rate of 4.0% annually, due upon demand.   | 50,000            | 50,000              |
| Note payable, with annual interest rate of 6.0%, payable monthly with outstanding principal and interest due in 2018.   | 13,602            | -                   |
| Notes payable as settlement for pre-opening payables, with annual interest rate of 4.0%, payable monthly with outstanding principal and interest paid in full in 2017.  | -                 | 9,212               |
| 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 2018.   | 50,359            | 121,388             |
| Notes payable as settlement for pre-opening payables, with an annual interest rate of 4.0%, payable monthly with outstanding principal and interest due in 2019.  | 41,151            | 73,538              |
| Note payable, bank, for costs related to installation of shore power, with annual interest rate of 6.0%, payable monthly with outstanding principal and interest due in 2023.   | 156,877           | 178,263             |
| Total loan and notes payable  | <u>\$ 849,689</u> | <u>\$ 1,021,026</u> |

**PACIFIC BATTLESHIP CENTER**

Notes to Financial Statements

December 31, 2017 and 2016

Future principal payments due at December 31 are as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u>     |
|----------------------------------|-------------------|
| 2018                             | \$ 349,073        |
| 2019                             | 154,910           |
| 2020                             | 157,637           |
| 2021                             | 130,961           |
| 2022                             | 28,966            |
| Thereafter                       | 28,142            |
|                                  | <u>\$ 849,689</u> |

**9) Functional allocation of expenses**

For the years ended December 31, 2017 and 2016, expenses by functional basis (inclusive of depreciation) are as follows:

|                                    | <u>2017</u>         | <u>2016</u>         |
|------------------------------------|---------------------|---------------------|
| Program services                   | \$ 3,767,288        | \$ 3,547,220        |
| General and administrative         | 408,962             | 651,482             |
| Fundraising                        | 674,621             | 614,916             |
| Total expenses by functional basis | <u>\$ 4,850,871</u> | <u>\$ 4,813,618</u> |

**(10) Subsequent events**

The PBC has evaluated subsequent events from the date of the statement of financial position through June 28, 2018, which is the date the financial statements were available to be issued.

During spring 2018 the PBC retro-fitted its approximately 10,000 fluorescent electric light bulbs with energy-saving LEDs which is expected to result in a substantial decrease in power costs. In addition, the PBC also qualified for the Los Angeles Department of Water and Power's Business Promotion Bill Credit program. Under this program, the PBC will receive a discount of 7.5%, 5% and 2.5%, respectively, on its electric bill for years 1, 2 and 3.

In May 2018 the PBC received a \$50,000 unrestricted grant from a nationally-recognized charitable foundation.

The PBC plans to open its Lost at Sea exhibit during the summer of 2018. Designed to create a human connection between exploration, history and shipwrecks, the Lost at Sea exhibit focuses on the technical and historical details of Dr. Robert Ballard's explorations throughout his long and prolific career. It is comprised of approximately 11,000 square feet of exhibit and tour space

**PACIFIC BATTLESHIP CENTER**

Notes to Financial Statements

December 31, 2017 and 2016

to include an exhibit hall, interactive theater space, ocean exploration gallery, future discovery lab, art gallery and additional tour components.

The PBC's Line of Credit expires in 2018 and we have begun initial discussions with the bank regarding an extension of the credit facility. Based on these initial discussions, management believes the Line of Credit will be renewed for an additional 2-year term.