PACIFIC BATTLESHIP CENTER

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2018

PACIFIC BATTLESHIP CENTER
FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pacific Battleship Center
San Pedro, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Pacific Battleship Center (a nonprofit organization) (the "Organization" or "PBC") which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PBC as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Rossi LLP

Long Beach, California
June 20, 2019

PACIFIC BATTLESHIP CENTER
STATEMENT OF FINANCIAL POSITION

As of December 31,	2018
ASSETS	
Cash and cash equivalents	$ 532,195
Receivables	68,030
Contributions receivable	26,000
Engineering/machine shop materials	64,427
Prepaid expenses	77,033
Property and equipment, net	4,169,537
Intangible and other assets, net	56,678
Total assets	$ 4,993,900
LIABILITIES AND NET ASSETS	
Revolving credit facility	$ 250,000
Accounts payable	260,003
Accrued and other liabilities	170,624
Deferred revenue	64,070
Notes payable	656,651
Total liabilities	1,401,348
Commitments	
Net assets:	
Without donor restrictions	3,231,834
With donor restrictions	360,718
Total net assets	3,592,552
Total liabilities and net assets	$ 4,993,900

The accompanying notes are an integral part of these financial statements

PACIFIC BATTLESHIP CENTER
STATEMENT OF ACTIVITIES

For the year ended December 31, 2018	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Admissions	$ 2,294,322	$ -	$ 2,294,322
Contributions	562,579	761,871	1,324,450
Donated goods and services	44,083	-	44,083
Commissions	171,966	-	171,966
Other income	436,811	-	436,811
Total revenues	3,509,761	761,871	4,271,632
Net assets released from restriction:			
Satisfaction of program restrictions	1,258,268	(1,258,268)	-
Total net assets released from restrictions	1,258,268	(1,258,268)	-
Total revenues and other support	4,768,029	(496,397)	4,271,632
Expenses:			
Program services	3,235,906	-	3,235,906
General and administrative	362,485	-	362,485
Fundraising	782,579	-	782,579
Total expenses	4,380,970	-	4,380,970
Change in net assets	387,059	(496,397)	(109,338)
Net assets, beginning of year	2,844,775	857,115	3,701,890
Net assets, end of year	$ 3,231,834	$ 360,718	$ 3,592,552

The accompanying notes are an integral part of these financial statements

PACIFIC BATTLESHIP CENTER
STATEMENT OF CASH FLOWS

For the years ended December 31,		2018
Cash flows from operating activities:		
Change in net assets	$	(109,338)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		743,497
Change in assets and liabilities:		
Receivables		64,084
Contributions receivable		281,000
Prepaid expenses		4,093
Other assets		(499)
Accounts payable		(43,453)
Accrued and other liabilities		(3,662)
Deferred revenue		30,334
Cash provided by operating activities		966,056
Cash flows from investing activity:		
Purchases of property and equipment		(1,061,636)
Cash used in investing activity		(1,061,636)
Cash flows from financing activities:		
Principal repayments on lines of credit		(24,360)
Principal repayments on loan and notes payable		(193,038)
Cash used in financing activities		(217,398)
Net decrease in cash		(312,978)
Cash beginning of year		845,173
Cash end of year	$	532,195
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	30,668
Recognition of in-kind contributions and related assets and expenses	$	44,083

The accompanying notes are an integral part of these financial statements

PACIFIC BATTLESHIP CENTER
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018	Program Services	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 1,035,130	$ 93,277	$ 112,094	$ 1,240,501
Payroll taxes	106,388	7,801	10,712	124,901
Employee benefits	61,492	6,948	5,856	74,296
Advertising and marketing	145,901	-	74	145,975
Camp Battleship overnight costs	71,431	-	-	71,431
Commission	5,049	-	-	5,049
Conference and meetings	58,803	7,623	3,447	69,873
Depreciation and amortization	669,147	37,175	37,175	743,497
Dues and subscriptions	750	3,200	39	3,989
Equipment rental	16,541	-	-	16,541
Events and exhibits	94,040	-	3,627	97,667
Expense allowance	27,000	3,000	2,400	32,400
Fundraising direct costs	-	-	541,200	541,200
Insurance	52,782	29,808	3,097	85,687
Interest	-	34,668	-	34,668
IT infrastructure	42,515	2,087	4,428	49,030
License and fees	97,063	10,621	1,464	109,148
Office expense	27,578	6,557	25,524	59,659
Professional fees	344,964	93,316	14,799	453,079
Rent	75,936	18,894	12,656	107,486
Repairs and maintenance	205,502	-	-	205,502
Supplies	63,385	464	3,066	66,915
Training	1,008	1,135	60	2,203
Travel	24,192	5,656	861	30,709
Utilities	9,309	255	-	9,564
Total expenses	$ 3,235,906	$ 362,485	$ 782,579	$ 4,380,970

The accompanying notes are an integral part of these financial statements

For the year ended December 31, 2018

NOTE 1

ORGANIZATION

Pacific Battleship Center ("PBC" or the "Organization") is a nonprofit public benefit corporation incorporated in California on December 31, 2008, 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.

PBC fulfills its mission 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. The ship was opened to the public in July 2012, following ship restoration and pre-opening preparation.

The United States Navy has granted PBC the rights 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 should be reflected in PBC's financial statements. However, since no objective basis is available to measure the fair value of the ship, no amounts have been recorded in the financial statements for the use of the ship.

PBC leases from the City of Los Angeles, 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 pier mooring in excess of the amounts paid should be reported in the Organization's financial statements as donated goods and rent expense. However, since no objective basis is available to determine the fair value for the use of the pier, no amounts have been reported in the financial statements as donated goods or rent expense.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement presentation:

PBC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Financial Accounting Standards Board ("FASB") has established the FASB Accounting Standards Codification ("ASC") as the sole source of authoritative accounting principles to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP.

In preparing these financial statements, PBC evaluated the period from December 31, 2018 through June 20, 2019, the date that the financial statements were available to be issued, for subsequent events requiring recognition or disclosure in the accompanying financial statements.

Use of 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 period. Actual results could differ from these estimates and assumptions, and such differences may be material to the financial statements.

NOTE 2 – continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets:

In accordance with ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, PBC's net assets, revenues, gains, expenses and losses are classified as with donor restrictions and without donor restrictions.

Net assets without donor restrictions

Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the "Board") and/or management for general operating purposes. From time to time the Board may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net assets with donor restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved spending policy.

Cash and cash equivalents:

For purposes of the statement of financial position and the statement of cash flows, the Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Receivables:

Receivables consist of amounts due to the Organization for services rendered prior to December 31, 2018. Management determines the allowance for uncollectable receivables based on historical experience and review of subsequent collections. During the year ended December 31, 2018, the Organization did not record an allowance for uncollectable receivables.

Contributions receivable:

Unconditional promises to give are recorded as contributions receivable. 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. Management evaluated the collectability of contributions receivable at December 31, 2018 and no allowance for doubtful pledges was considered necessary.

Engineering/machine shop materials:

When 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. Accordingly, the estimated fair value has been

NOTE 2 – continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Engineering/machine shop materials – continued:

recorded as engineering/machine shop materials in the accompanying financial statements. As these materials are used for the ship's maintenance, the shop materials are expensed as maintenance.

Deposits and prepaid insurance:

PBC has entered into a financing arrangement for $25,610 of annual insurance premiums, recorded as accrued and other liabilities in the accompanying financial statements. At December 31, 2018, PBC reported insurance premiums of $54,358 as prepaid insurance in the accompanying financial statements to be amortized over the next year.

Property and equipment:

Property and equipment are recorded at cost if purchased or fair value if donated.

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 a period of 3 – 10 years. The costs of normal maintenance, repairs and minor replacements are charged to expense when incurred.

Fair value of financial instruments:

The carrying amounts of cash, accounts and contributions receivable, accounts payable, accrued and other liabilities, unearned revenue, line of credit, and loan and notes payable at December 31, 2018, approximate fair value because of the short term maturity of these financial instruments.

Commissions:

PBC generates commission revenue from the operation of its gift shop. PBC also generates smaller amounts of commission revenue from event catering, food concessions, soft drink machines and ATM machines.

Membership revenue:

PBC receives membership dues which it considers to be exchange transactions. As exchange transactions, the membership dues are deferred and amortized over the life of the membership.

Tax exempt status:

PBC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to state and federal income taxes. Management has not recorded an income tax provision for the year ended December 31, 2018.

PBC follows the provisions of FASB ASC 740, *Income Taxes*. Accordingly, PBC accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. PBC recognizes the effect of income tax positions only if those positions are more likely than not of being sustained by the appropriate taxing authorities. PBC does not believe that its income tax returns include any uncertain tax positions and accordingly, has not recorded a liability for unrecognized tax benefits in the accompanying financial statements.

NOTE 2 – continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Donated goods and services:

In 2018, PBC received donated goods and services of $44,083 which are reported in the accompanying statement of activities at their estimated fair value 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 year ended December 31, 2018 are as follows:

December 31,	**2018**
Donated professional services	$ 32,081
Debt and interest forgiveness	12,002
Total donated goods and services	$ 44,083

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

Advertising:

PBC uses advertising to promote its programs to the constituents it serves. All advertising costs are expensed as incurred. Total advertising cost for the year ended December 31, 2018 was $112,170.

Functional allocation of expenses:

The costs for providing various program services, general administrative services, and fundraising expenses, 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.

Recent accounting pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers,"* which establishes a comprehensive revenue recognition standard in U.S. GAAP. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect the adoption of ASU 2014-09 will have on the financial statements

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842)"*, pursuant to which lessees are required to recognize a lease asset and lease obligation in the statement of financial position for leases with a noncancelable term longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of activities. The Organization is currently evaluating the provisions of ASU 2016-02 to determine the effect, if any, ASU 2016-02 will have on its financial statements.

For the year ended December 31, 2018

NOTE 2 – continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting pronouncements adopted:

In August 2016, the FASB, the FASB issued ASU 2016-14, *"Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958)*. This ASU was issued to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 reduces the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). Additionally, this ASU improves the reporting of liquidity, financial flexibility and the availability of resources to meet cash needs for general expenditures within one year of the financial statements. The Organization adopted ASU 2016-14 as of and for the year ended December 31, 2018.

NOTE 3

LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet dates, are comprised of the following:

As of December 31,	**2018**
Financial assets at year-end:	
Cash and cash equivalents	$ 532,195
Receivables	68,030
Contributions receivable	26,000
Total financial assets available	626,225
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(360,718)
Less net assets with donor restrictions to be met in less than a year	123,803
Subtotal	(236,915)
Financial assets available to meet general expenditures over the next twelve months	389,310
Available financing through existing line of credit	50,000
Total liquidity and availability	$ 439,310

At December 31, 2018, the Organization has available funds of $439,310, consisting of financial assets and unused line of credit borrowings to meet cash needs for general expenditures within one year of the balance sheet date. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

For the year ended December 31, 2018

NOTE 4

PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

As of December 31,	**2018**
Furniture and equipment	$ 4,114,026
Ship restoration and improvements	3,679,387
Sewer installation	254,625
Subtotal	8,048,038
Less: accumulated depreciation	(3,878,501)
	$ 4,169,537

Depreciation expense was $743,497 for the year ended December 31, 2018.

NOTE 5

CONTRIBUTIONS RECEIVABLE

Contributions receivable are expected to be received as follows:

December 31,	**2018**
Within one year	$ 14,000
Within one to five years	12,000
Total contributions receivable	$ 26,000

NOTE 6

LINE OF CREDIT

During 2014, PBC obtained a $250,000 revolving line of credit from Farmers & Merchants Bank to help finance its working capital and short-term capital needs.

Subsequently, through various amendments, the line of credit was increased to $300,000 and renewed with a maturity date of October 29, 2020. The line of credit had an outstanding balance of $250,000 at December 31, 2018. Interest is payable monthly on outstanding balances at the interest rate of 6.0%.

In the spring of 2017, PBC began work on its hull preservation project, which is funded by a $500,000 grant from the State of Iowa. This grant allows PBC to indefinitely defer the significantly more-costly process of dry-docking the ship for repairs in future years. The grant requires 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, PBC obtained a bank line of credit. The line of credit allows for borrowings of up to $298,328 and matures on July 31, 2019. As of December 31, 2018, PBC had $145,038 of available credit and no borrowings outstanding on this line of credit. Interest is payable monthly on outstanding balances at the interest rate of 6.0%.

NOTE 7

LOAN AND NOTES PAYABLE

At December 31, 2012, PBC had approximately $1.2 million of accounts payable representing pre-opening costs, i.e., amounts arising from activities prior to the opening of the USS Iowa to the public. During 2013, PBC negotiated the settlement of these amounts with various vendors, which resulted in $728,279 being converted to long-term notes payable and debt forgiveness of $259,223 with the debt forgiveness reported as a contribution in 2013. In 2018, an additional $12,002 was forgiven and included in donated goods and services in the accompanying financial statements.

For the year ended December 31, 2018

NOTE 7 – CONTINUED

LOAN AND NOTES PAYABLE

Loans and notes payable are summarized as follows:

As of December 31,	2018
Unsecured note payable bearing interest at a rate of 4.0% due upon demand.	$ 50,000
Notes payable as settlement for pre-opening payables, with interest at 4.0%, payable in monthly installments of $1,860, with outstanding principal due October 1, 2019.	18,764
Note payable to a related party with interest at 4.0%, with outstanding principal due January 15, 2021.	100,000
Non-interest bearing loan due to a related party, payable in monthly installments of $7,000, due November 1, 2021.	353,700
Note payable, bank, for costs related to installation of shore power, with interest at 6.0% per annum, payable in monthly principal and interest installments of $2,637, maturing November 29, 2023. The note is secured by substantially all of PBC's assets.	134,187
Total notes payable	$ 656,651

Future principal payments are due as follows:

For the years ending December 31,	Amounts
2019	$ 206,410
2020	155,138
2021	237,961
2022	28,966
2023	28,176
	$ 656,651

NOTE 8

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at December 31, 2018:

As of December 31,	2018
Restricted by purpose:	
STEM education	$ 153,330
Museum and exhibits	105,941
Ship restoration	80,534
Employee training	20,913
	$ 360,718

NOTE 9

COMMITMENTS

PBC leases the pier where the USS Iowa is moored from the City of Los Angeles, through its Board of Harbor Commissioners pursuant to a noncancelable operating lease agreement. The lease agreement 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 expired. The first 5-year renewal was successfully completed in June 2017.

For the year ended December 31, 2018

NOTE 9 – CONTINUED

COMMITMENTS

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

For the years ending December 31,	Amounts
2019	$ 103,000
2020	103,000
2021	103,000
2022	103,000
2023	103,000
Thereafter	360,500
	$ 875,500

Rent expense was $107,486 for the year ended December 31, 2018.

NOTE 10

RELATED PARTY TRANSACTIONS

At December 31, 2018, the Organization has two outstanding notes payable due to a related party totaling $453,700 (note 7).

During the year ended December 31, 2018, the Organization received approximately $130,000 in contributions from members of the board of directors and organizations over which the board members exert significant influence.

NOTE 11

LEGAL CONTINGENCIES

PBC is subject to various claims which might arise in the normal course of its activities. In the opinion of management, the ultimate disposition of any such claims will not have a material adverse effect on the financial position, liquidity or changes in net assets of the Organization.

NOTE 12

SUBSEQUENT EVENTS

In February 2019, the Organization entered into a collaborative memorandum of understanding (“MOU”) with another not-for-profit organization to promote and produce LA Fleet Week, an annual Labor Day weekend event. The MOU allows the other not-for-profit organization access and use of the Organization’s staff and assets for this event and in return, PBC will receive $168,763 in cost reimbursements, payable in monthly installments through December 31, 2019.