

PACIFIC BATTLESHIP CENTER

FINANCIAL STATEMENTS

December 31, 2022 and 2021



PACIFIC BATTLESHIP CENTER

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Pacific Battleship Center (a nonprofit public benefit corporation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Pacific Battleship Center as of December 31, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pacific Battleship Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pacific Battleship Center's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pacific Battleship Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pacific Battleship Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a large loop, and the "P" and "M" are also stylized.

Long Beach, California
June 21, 2023

PACIFIC BATTLESHIP CENTER
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 2,314,359	\$ 4,313,401
Receivables	86,072	89,043
Contributions receivable	478,807	418,249
Investments	1,732,860	108,385
Prepaid expenses	81,676	56,109
Engineering/machine shop materials	61,030	61,160
Property and equipment, net	1,932,613	2,032,380
Right-of-use asset - operating	517,537	-
Other assets	26,078	44,511
	<u>7,231,032</u>	<u>7,123,238</u>
Total assets	<u>\$ 7,231,032</u>	<u>\$ 7,123,238</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 65,631	\$ 26,105
Accrued and other liabilities	385,014	302,854
Deferred revenue	63,495	58,105
Loans and notes payable	2,246,812	2,355,256
Operating lease liability	525,550	-
Finance lease liability	100,103	-
	<u>3,386,605</u>	<u>2,742,320</u>
Total liabilities	<u>3,386,605</u>	<u>2,742,320</u>
Commitments (Note 13)		
Net assets:		
Without donor restrictions	2,367,381	2,940,927
With donor restrictions	1,477,046	1,439,991
	<u>3,844,427</u>	<u>4,380,918</u>
Total net assets	<u>3,844,427</u>	<u>4,380,918</u>
Total liabilities and net assets	<u>\$ 7,231,032</u>	<u>\$ 7,123,238</u>

PACIFIC BATTLESHIP CENTER

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Admissions	\$ 2,537,298	\$ -	\$ 2,537,298
Grants and contributions	924,802	1,693,560	2,618,362
Donated goods and services	14,328	-	14,328
Commissions	168,590	-	168,590
Investment loss, net	(29,275)	(26,562)	(55,837)
Other income	216,343	-	216,343
Total revenues	3,832,086	1,666,998	5,499,084
Net assets released from restrictions	1,629,943	(1,629,943)	-
Total revenues and other support	5,462,029	37,055	5,499,084
Expenses:			
Program services	4,516,869	-	4,516,869
General and administrative	495,248	-	495,248
Fundraising	1,023,458	-	1,023,458
Total expenses	6,035,575	-	6,035,575
Change in net assets	(573,546)	37,055	(536,491)
Net assets, beginning of year	2,940,927	1,439,991	4,380,918
Net assets, end of year	\$ 2,367,381	\$ 1,477,046	\$ 3,844,427

PACIFIC BATTLESHIP CENTER

STATEMENT OF ACTIVITIES

For the year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Admissions	\$ 1,544,875	\$ -	\$ 1,544,875
Grants and contributions	803,195	3,093,816	3,897,011
Donated goods and services	11,255	-	11,255
Commissions	82,130	-	82,130
Gain on forgiveness of Paycheck Protection Program loan	256,795	-	256,795
Investment income, net	426	934	1,360
Other income	739,160	-	739,160
Total revenues	3,437,836	3,094,750	6,532,586
Net assets released from restrictions	1,967,467	(1,967,467)	-
Total revenues and other support	5,405,303	1,127,283	6,532,586
Expenses:			
Program services	3,317,106	-	3,317,106
General and administrative	384,939	-	384,939
Fundraising	1,001,795	-	1,001,795
Total expenses	4,703,840	-	4,703,840
Change in net assets	701,463	1,127,283	1,828,746
Net assets, beginning of year	2,239,464	312,708	2,552,172
Net assets, end of year	\$ 2,940,927	\$ 1,439,991	\$ 4,380,918

PACIFIC BATTLESHIP CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2022

	Program Services	General and Administrative	Fundraising	Total Expenses
Salaries and wages	\$ 1,873,971	\$ 223,592	\$ 339,555	\$ 2,437,118
Payroll taxes	164,534	17,955	25,664	208,153
Depreciation	722,477	19,012	19,012	760,501
Rent, fuel, and utilities	416,105	27,342	7,383	450,830
Professional fundraising services	-	-	449,071	449,071
Maintenance, equipment rental, and small equipment	393,807	351	3,486	397,644
Event expenses	229,684	-	97,137	326,821
Advertising and marketing	242,606	-	599	243,205
Information technology	103,819	7,256	14,417	125,492
Other program services	57,300	10,023	21,883	89,206
Insurance	77,434	4,109	4,466	86,009
Interest	-	80,498	-	80,498
Ticketing and credit card fees	66,156	-	4,086	70,242
Travel	34,532	15,301	9,752	59,585
Office expense	12,368	17,547	9,556	39,471
Accounting services	-	38,766	-	38,766
Miscellaneous	25,827	7,937	-	33,764
Group food and group lunch	32,301	-	-	32,301
Conference, conventions, and meetings	6,509	18,950	1,029	26,488
Commission	19,098	-	-	19,098
Cost of goods sold - ship store	18,599	-	-	18,599
Donor and prospect relations	172	-	16,362	16,534
Exhibit expenses	13,904	-	-	13,904
Training	2,414	6,609	-	9,023
Security services	3,252	-	-	3,252
Total expenses	<u>\$ 4,516,869</u>	<u>\$ 495,248</u>	<u>\$ 1,023,458</u>	<u>\$ 6,035,575</u>

PACIFIC BATTLESHIP CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2021

	Program Services	General and Administrative	Fundraising	Total Expenses
Salaries and wages	\$ 1,277,844	\$ 202,414	\$ 293,611	\$ 1,773,869
Payroll taxes	108,808	15,448	23,988	148,244
Depreciation	895,690	23,571	23,571	942,832
Professional fundraising services	-	-	473,245	473,245
Rent, fuel, and utilities	247,121	25,321	6,194	278,636
Maintenance, equipment rental, and small equipment	246,632	3,648	746	251,026
Event expenses	48,862	-	115,494	164,356
Advertising and marketing	158,174	-	1,931	160,105
Information technology	80,694	5,716	9,945	96,355
Insurance	70,037	4,139	4,158	78,334
Accounting services	-	52,750	-	52,750
Ticketing and credit card fees	45,422	-	5,754	51,176
Other program services	31,353	6,247	11,990	49,590
Travel	25,009	10,460	6,781	42,250
Office expense	11,161	13,026	8,760	32,947
Group food and group lunch	31,724	-	-	31,724
Donor and prospect relations	339	-	14,816	15,155
Conference, conventions, and meetings	4,877	8,350	722	13,949
Cost of goods sold - ship store	11,380	-	-	11,380
Interest	-	10,872	-	10,872
Miscellaneous	6,207	2,977	-	9,184
Exhibit expenses	7,606	-	-	7,606
Commission	5,062	-	-	5,062
Security services	2,171	-	-	2,171
Training	933	-	89	1,022
Total expenses	<u>\$ 3,317,106</u>	<u>\$ 384,939</u>	<u>\$ 1,001,795</u>	<u>\$ 4,703,840</u>

PACIFIC BATTLESHIP CENTER

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (536,491)	\$ 1,828,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	760,501	942,832
Donated securities	(102,480)	(116,933)
Realized and unrealized gains on investments	101,211	(1,161)
Right-of-use assets and operating leases	8,013	-
Endowment fund contributions	(102,480)	(607,474)
Proceeds from sale of donated securities	-	9,709
Gain on forgiveness of Paycheck Protection Program loan	-	(256,795)
Change in assets and liabilities:		
Receivables	2,971	(81,434)
Contributions receivable	(60,558)	(365,401)
Prepaid expenses	(25,567)	(6,711)
Engineering/machine shop materials	130	-
Other assets	17,525	(14,628)
Accounts payable	16,938	(227,612)
Accrued and other liabilities	82,160	101,885
Deferred revenue	5,390	9,993
Cash provided by operating activities	167,263	1,215,016
Cash flows from investing activities:		
Proceeds from sale of investments	199,363	-
Purchase of investments	(1,822,569)	-
Purchases of property and equipment	(529,060)	(325,933)
Cash used in investing activities	(2,152,266)	(325,933)
Cash flows from financing activities:		
Principal payments on finance leases	(8,075)	-
Principal payments on loans and notes payable	(108,444)	(70,197)
Endowment fund contributions	102,480	607,474
Proceeds from loans and notes payable	-	1,885,000
Proceeds from Paycheck Protection Program loan	-	246,795
Cash (used in) provided by financing activities	(14,039)	2,669,072
Net (decrease) increase in cash and cash equivalents	(1,999,042)	3,558,155
Cash and cash equivalents, beginning of year	4,313,401	755,246
Cash and cash equivalents, end of year	\$ 2,314,359	\$ 4,313,401
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 19,394	\$ 10,872
Recognition of in-kind contributions and related expenses	\$ 14,328	\$ 11,255
Noncash investing and financing activities:		
Right-of-use assets obtained in exchange for operating leases	\$ 630,409	\$ -
Right-of-use assets obtained in exchange for finance leases	\$ 108,178	\$ -
Capital purchases in accounts payable	\$ 22,588	\$ -

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

1. Organization

Pacific Battleship Center ("PBC" or the "Organization") is a nonprofit public benefit corporation incorporated in California on December 30, 2008, with a mission to:

- Celebrate the American spirit through the preservation and interpretation of the Battleship ex-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 Battleship ex-USS Iowa (BB-61) moored in the Port of Los Angeles. The ship opened to the public in July 2012, following restoration and pre-opening preparation.

The United States Navy has granted PBC the right to use the ex-USS Iowa as a maritime museum. In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the fair value of the use of the ex-USS Iowa should be reported in PBC's financial statements. However, since no objective basis is available to measure the fair value of the ship's usage, no amount has been reported in the accompanying financial statements.

PBC leases from the City of Los Angeles, the pier where the ex-USS Iowa is moored. In accordance with U.S. GAAP, 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, PBC has not reported an expense in the financial statement as donated goods or rent expense.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

PBC's financial statements are prepared in accordance with U.S. GAAP. The Financial Accounting Standards Board ("FASB") has established the 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 U.S. GAAP.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Net Assets

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 subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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.

Investments and Fair Value

The Organization has an undivided interest in a pool of marketable debt and equity securities that is managed by an outside custodian. This pool of marketable debt and equity securities is stated at fair value based on quoted market prices within active markets.

Purchases and sales of investments are recorded on a trade-date basis. Interest and dividend income are recorded when earned. Realized gains and losses are recorded as the difference between historical cost and fair value when an investment is sold. Unrealized gains and losses are recorded for the change in the fair value of investments. All gains and investment income are without donor restrictions.

The Organization applies a framework for measuring fair value and requires certain disclosures about fair value measurements.

PACIFIC BATTLESHIP CENTER
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Investments and Fair Value, continued

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date. There have been no changes in the methodologies used during the years ending December 31, 2022 and 2021.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, receivables, payables and debt. The Organization's investment policy is intended to limit its exposure to credit risk. PBC maintains its cash balances in the form of bank demand deposits and money market accounts, which at times exceed the Federal Depository Insurance Corporation insurance limits with major financial institutions that management has determined to be credit worthy.

PBC has no significant financial instruments with off-balance sheet risk of accounting loss.

Contributions

The Organization recognizes contributions as revenue at the time they are received or unconditionally pledged. That revenue is either reported as with donor restrictions or without donor restrictions according to donor stipulations that limit the use of these assets due to either a time or a purpose restriction. When a restriction expires or is met, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets. Conditional contributions or promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Receivables

Receivables principally consist of amounts due the Organization for admissions and special events. Management determines the allowance for uncollectable receivables based on historical experience and review of subsequent collections. During the years ended December 31, 2022 and 2021, the Organization did not record an allowance for uncollectable receivables.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Engineering/Machine Shop Materials

When PBC received possession of the ex-USS Iowa, it contained excess quantities of various metals, such as aluminum, brass and steel. These materials are being consumed in the repair and maintenance of the ship. Accordingly, the estimated fair value of these materials has been 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 expense.

Deposits and Prepaid Insurance

As of December 31, 2022 and 2021, PBC reported insurance premiums of \$54,119 and \$52,098, respectively, 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 estimated 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 to 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 as of December 31, 2022 and 2021, approximate fair value because of the short term maturity of these financial instruments.

Revenue Recognition

Revenues without donor restrictions are from admission fees and program fees. Admission revenues are recorded when tickets are used, which generally occurs within a short time period as tickers are normally sold on the date of attendance or in advance with a specific time and date of eligible use. Educational program fees are recorded as revenues on the date the program occurs. Revenues received in advance of their usage are classified as deferred revenue in the statements of financial position. PBC offers annual memberships which provide for various benefits depending upon the level of giving ranging from \$50 to \$1,000 annually. PBC considers memberships to be exchange transactions. As exchange transactions, the membership revenue is deferred and amortized over the life of the membership.

PBC generates commission revenue from the operation of its gift shop, event catering, food concessions, soft drink machines and ATM machines. PBC generally recognizes commission revenue when received.

The beginning receivable balance related to revenue was \$7,609 as of December 31, 2020.

Tax Exempt Status

PBC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) 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 IRC, is subject to state and federal income taxes. Management has not recorded an income tax provision for the years ended December 31, 2022 and 2021.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Tax Exempt Status, continued

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. Management does not believe that its income tax returns include any uncertain tax positions and accordingly, have not recorded a liability for unrecognized tax benefits in the accompanying financial statements.

Retirement Plan

The Organization is a member of a multiple-employer plan (the "Plan") that is designed to follow the regulations under Internal Revenue Service Section 413(c). The Plan is sponsored by Emplicity 401(k) Retirement Savings Plan. Full-time employees over the age of 21 may enroll on the first day of the quarter after completing (3) months of employment.

Contributed Nonfinancial Assets

Donated services are recognized as contributions at their estimated fair value, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by PBC. A substantial number of volunteers, including the Board of Directors, have made significant contributions of their time to PBC's programs and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill.

Donations of materials, supplies, property and equipment are recorded as in-kind contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Effective January 1, 2022, PBC adopted Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* (see Note 14). Pursuant to ASU 2020-07, contributed nonfinancial assets are presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. PBC is required to disclose (a) A disaggregation of the amount of contributed nonfinancial assets recognized within the consolidated statement of activities by category that depicts the type of contributed nonfinancial assets and (b) For each category of contributed nonfinancial assets recognized provides: (i) Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, PBC will disclose a description of the programs or other activities in which those assets were used; (ii) PBC's policy about monetizing rather than utilizing contributed nonfinancial assets; (iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; (iv) a description of the valuation techniques and inputs used to arrive at a fair value measure; and (v) the principal market (or most advantageous market) used to arrive at a fair value measure.

Advertising

PBC uses advertising to promote its programs to the constituents it serves. All advertising costs are expensed as incurred. Total advertising costs for the years ended December 31, 2022 and 2021 were \$243,205 and \$160,105, respectively.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses

The costs for providing various program services, general administrative services, and fundraising expense have been summarized on a functional basis in the statements of activities. Program related and fundraising expenses are tracked in a time entry system, then reviewed and allocated to their functional classification. Those costs not directly associated with program services or fundraising activities are allocated to general administration expenses. Certain costs have been allocated among the programs and supporting services benefited.

Leases

PBC adopted ASU No. 2016-02, *Leases (Topic 842)*, effective January 1, 2022. Pursuant to ASU 2016-02, lessees are required to recognize the following for all leases at the commencement date: 1) a lease liability which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and 2) a right-of-use asset, which is an asset that represents the lessee's right-of-use, or control the use of, a specified asset for the lease term. Additionally, leases are required to be classified as either finance or operating and presented separately on the statement of financial position or notes to the financial statements.

ASU 2016-02 was adopted using a modified retrospective transition approach for leases existing at the time of adoption. PBC elected a package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to not reassess lease classification and initial direct costs. PBC also elected a practical expedient to use a risk-free interest rate using a period comparable to that of the lease term.

Adoption of the new lease standard resulted in the recording of right-of-use asset – operating and operating lease liability of \$630,409 as of January 1, 2022, and recording of right-of-use asset – finance and finance lease liability of \$108,178 as of August 1, 2022. There was no material impact on beginning net assets.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") a pandemic. Governments, both locally and nationally, instituted varying levels of restrictions to contain the virus's spread. PBC does not fall under the "Essential Business" classification as outlined in the Essential Critical Infrastructure Memorandum from the US Department of Homeland Security and the Cybersecurity and Infrastructure Security Agency. Accordingly, PBC closed its facilities in March 2020 and implemented a work from home policy for certain of its employees. On May 31, 2020, PBC reopened for public admissions on a limited basis. Subsequently, PBC has reopened for full admission, however COVID-19 remains a concern and the ultimate impact of COVID-19 on PBC's revenue and grants in the future is unknown. PBC continues to review its program activities and will make necessary modifications of its operating plan based on the impact the pandemic has on social, economic and market conditions.

PBC is subject to various claims which might arise in the normal course of its activities. These matters typically involve claims from employees, vendors or governmental agencies related to operational and employment issues. 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.

Reclassifications

Certain reclassifications were made to the December 31, 2021 financial statements herein to conform to the December 31, 2022 presentation. These reclassifications had no effect on the total net assets or total change in net assets for December 31, 2021.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

3. Contributions Receivable

Unconditional promises to give are recorded as contributions receivable. PBC discounts pledges 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 as of December 31, 2022 and 2021 and determined that no allowance for doubtful pledges was considered necessary.

Contributions receivable expected to be received in the following periods as of December 31:

	2022	2021
Less than one year	\$ 402,434	\$ 310,097
One to four years	80,000	120,000
	482,434	430,097
Less: discount at 3.15%	(3,627)	(11,848)
	<u>\$ 478,807</u>	<u>\$ 418,249</u>

4. 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:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 2,314,359	\$ 4,313,401
Receivables	86,072	89,043
Investments	1,732,860	108,385
Contributions receivable	478,807	418,249
Total financial assets available	<u>4,612,098</u>	<u>4,929,078</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(1,477,046)	(1,439,991)
Less net assets with donor restrictions to be met in less than a year	420,489	337,111
Subtotal	<u>(1,056,557)</u>	<u>(1,102,880)</u>
Financial assets available to meet general expenditures over the next twelve months	3,555,541	3,826,198
Available financing through existing line of credit	400,000	400,000
Total liquidity and availability	<u>\$ 3,955,541</u>	<u>\$ 4,226,198</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

4. Liquidity and Availability, continued

As of December 31, 2022 and 2021, the Organization had available funds of \$3,955,541 and \$4,226,198, respectively, 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.

5. Investments

Investments in marketable equity securities at fair value consisted of the following:

December 31, 2022				
	Level 1	Level 2	Level 3	Total
Equities	\$ 950,058	\$ -	\$ -	\$ 950,058
Fixed income	585,231	-	-	585,231
Certificate of deposit	100,000	-	-	100,000
U.S. Treasury Bill	97,571	-	-	97,571
Total	<u>\$ 1,732,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,732,860</u>

December 31, 2021				
	Level 1	Level 2	Level 3	Total
Equities	<u>\$ 108,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,385</u>

Investment income consists of the following for the years ended December 31:

	2022	2021
Interest and dividends	\$ 45,374	\$ 449
Gain (loss) on investments	(96,128)	911
Investment fees	(5,083)	-
Total investment income (loss)	<u>\$ (55,837)</u>	<u>\$ 1,360</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

6. Property and Equipment

Property and equipment are summarized as follows as of December 31:

	2022	2021
Furniture and equipment	\$ 4,440,639	\$ 4,194,781
Ship restoration and improvements	4,252,401	4,186,084
Sewer installation	254,625	254,625
Subtotal	8,947,665	8,635,490
Less: accumulated depreciation	(7,362,703)	(6,603,110)
Subtotal	1,584,962	2,032,380
Construction in progress	347,651	-
Property and equipment, net	\$ 1,932,613	\$ 2,032,380

Depreciation and amortization expense was \$760,501 and \$942,832 for the years ended December 31, 2022 and 2021, respectively.

During the year ended December 31, 2022, PBC began a construction project to build the National Museum of the Surface Navy under exclusive charter from the U.S. Congress. The first phase of the project is scheduled to be completed by October 13, 2025, the 250th anniversary of the United States Navy. The project is expected to be completed in phases over several years. While it is currently impractical to estimate the total project cost, it is estimated to be a minimum of \$40 million.

As of December 31, 2022, furniture and equipment includes \$108,178 of right-of-use asset – finance and accumulated depreciation includes \$9,015 of right-of-use asset – finance, accumulated amortization.

7. Line of Credit

As of December 31, 2022, PBC had a \$400,000 revolving line of credit for working capital and short-term capital needs from Farmers & Merchants Bank, which expires on October 20, 2024. Certain assets of PBC, including its inventory and equipment, secure the revolving line of credit. Interest is payable monthly on outstanding balances at the interest rate of 1.750% per annum over the prime rate as published in the Wall Street Journal. The revolving line of credit had no outstanding borrowings as of December 31, 2022 and 2021.

8. Loan and Notes Payable

In 2020, the Organization obtained a loan under the Economic Injury Disaster Loan (“EIDL”) assistance program from the United States Small Business Administration (“SBA”) because of the impact of the COVID-19 pandemic on the Organization’s operations. The original principal amount of the loan was \$150,000, with proceeds to be used for working capital purposes. In 2021, the Organization received approval for an increase in the EIDL loan to \$2,000,000, and accordingly the PBC received additional proceeds from the EIDL of \$1,850,000 in November 2021. Interest accrues at the rate of 2.75% per annum on the outstanding borrowings. Installment payments of \$8,677 are due monthly commencing November 21, 2022 through May 21, 2050. As of December 31, 2022 and 2021, accrued interest totaled \$61,104 and \$0, respectively.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

8. Loan and Notes Payable, continued

Loans and notes payable are summarized as follows as of December 31:

	2022	2021
Non-interest bearing loan due to a related party, payable in monthly installments commencing January 2022, due June 2025.	\$ 113,850	\$ 126,850
Non-interest bearing loan due to a related party, payable in monthly installments commencing January 2022, due September 2023.	22,850	78,850
Note payable, EIDL, with interest at 2.75% per annum, payable in monthly principal and interest installments of \$8,677, maturing May 21, 2050. The note is secured by substantially all of PBC's assets.	2,000,000	2,000,000
Note payable, bank, for costs related to installation of shore power, with interest at 6.00% 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.	40,061	68,154
Note payable, bank, for acquisition of a vehicle, with interest at 4.00% per annum, payable in monthly principal and interest installments of \$1,035, maturing July 15, 2024. The note is secured by the vehicle purchased with the proceeds from the note.	20,051	31,402
Unsecured note payable bearing interest at a rate of 4.00% due upon demand.	50,000	50,000
Total loans and notes payable	<u>\$ 2,246,812</u>	<u>\$ 2,355,256</u>

Future principal payments are due as follows:

	Amounts
For the years ending December 31:	
2023	\$ 152,538
2024	105,181
2025	77,375
2026	52,206
2027	53,660
Thereafter	1,805,852
	<u>\$ 2,246,812</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

9. Paycheck Protection Program

In April 2020, the Organization received a loan in the original principal amount of \$254,225 under the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP is administered by the SBA. Under the terms of the CARES Act, PPP loan recipients can apply for, and the SBA can grant forgiveness of all or a portion of loans made under the PPP if the recipients use the PPP loan proceeds for eligible purposes, as set forth in the CARES Act. On December 11, 2020, the Organization applied for and received \$244,225 in PPP loan forgiveness, recognized as debt forgiveness income, in accordance with the terms of the CARES Act. On February 11, 2021, the remaining outstanding balance of \$10,000 was forgiven by the SBA.

On February 25, 2021, the Organization secured a second-draw loan of \$246,795 under the PPP. The Organization applied for and received full forgiveness of the \$246,795 loan on December 6, 2021.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available to support the following purposes as of December 31:

	2022	2021
Donor restricted by purpose:		
STEM education	\$ 135,433	\$ 254,071
Museum and exhibits	402,933	432,277
Ship restoration	156,067	136,947
Veteran affairs	92,700	-
Other	5,587	8,288
Total donor restricted by purpose	792,720	831,583
Donor restricted endowment:		
Endowment corpus	709,954	607,474
Endowment earnings	(25,628)	934
Total donor restricted endowment	684,326	608,408
Total net assets with donor restrictions	\$ 1,477,046	\$ 1,439,991

Net assets released from net assets with donor restrictions are as follows for the year ended December 31:

	2022	2021
Satisfaction of purpose restrictions:		
STEM education	\$ 241,508	\$ 121,108
Veterans affairs	882,171	465,280
Museum and exhibits	445,265	1,352,419
Ship restoration	52,095	12,386
Other	8,904	16,274
	\$ 1,629,943	\$ 1,967,467

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

11. Endowment Funds

In 2021, the Organization received two donor restricted grants to establish endowment funds for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds with donor restrictions fall under the provisions of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which was adopted by the State of California. This policy defines the Organization's interpretation of the provisions of this law as they relate to the prudent management of its endowment fund.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund. Net assets are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the Organization and donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires the organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in one donor-restricted endowment fund which has an original gift value of \$500,000, a current fair value of \$461,937, and a deficiency of \$38,063 as of December 31, 2022. There were no deficiencies as of December 31, 2021.

Investment Return Objectives, Risk Parameters and Strategies

In accordance with the investment policy, the objectives of the endowment funds are to provide a total return that, over the long term, exceeds inflation and maximizes the investment return on assets subject to a level of risk deemed appropriate by the Organization. The Organization seeks to mitigate the impact of losses in single investments or with single investment managers by setting and following an asset allocation policy.

Spending Policy

The Organization has adopted a discretionary spending policy to be applied to its endowment funds, which is within prudent limits as outlined in UPMIFA. The Board determines each year how much to distribute from its designated endowment to use for its current operating purposes. This policy enables the Organization to preserve and strengthen its endowment for the future.

Investment Return

Investment return is accumulated in net assets with donor restrictions until appropriated for expenditure.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

11. Endowment Funds, continued

Summary of Endowment Fund Balances and Activity

The following represents a description of the endowment net asset composition by type of fund as of December 31:

	2022		
	Without Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original gift amounts	\$ -	\$ 709,954	\$ 709,954
Accumulated investment losses	-	(25,628)	(25,628)
Total endowment funds	<u>\$ -</u>	<u>\$ 684,326</u>	<u>\$ 684,326</u>
	2021		
	Without Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original gift amounts	\$ -	\$ 607,474	\$ 607,474
Accumulated investment earnings	-	934	934
Total endowment funds	<u>\$ -</u>	<u>\$ 608,408</u>	<u>\$ 608,408</u>

The following represents the changes in endowment net assets for the year ended December 31:

	2022		
	Without Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 608,408	\$ 608,408
Investment return:			
Investment income (interest and dividends)	-	13,518	13,518
Net depreciation - realized and unrealized in fair value of investments	-	(37,828)	(37,828)
Investment fees	-	(2,252)	(2,252)
Total investment return	-	(26,562)	(26,562)
Contributions	-	102,480	102,480
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 684,326</u>	<u>\$ 684,326</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

11. Endowment Funds, continued

Summary of Endowment Fund Balances and Activity, continued

	2021		
	Without Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Investment return:			
Investment income (interest and dividends)	-	911	911
Net appreciation - realized and unrealized in fair value of investments	-	23	23
Total investment return	-	934	934
Contributions	-	607,474	607,474
Endowment net assets, end of year	\$ -	\$ 608,408	\$ 608,408

12. Related Party Transactions

As of December 31, 2020, the Organization had an outstanding note payable due to a related party totaling \$245,700, maturing on November 1, 2021. On November 23, 2021, the note, which had an outstanding balance of \$208,200, was replaced with two notes payable under new repayment terms. The first note payable to a related party was in the principal amount of \$126,850 with payments due in monthly installments commencing January 2022 through June 2025. The second note payable to a related party was for the principal amount of \$81,350 with payments due in monthly installments commencing January 2022 through September 2023.

During the years ended December 31, 2022 and 2021, the Organization received approximately \$154,688 and \$198,830, respectively, in contributions from members of the Board of Directors and organizations over which the Board members have significant influence.

13. Leases

PBC leases the pier where the ex-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 admissions, commissions and other income arising from any business, use or operation occurring on the premises. The lease agreement was amended in 2020 providing for a limited deferral from July 1, 2020 to June 30, 2021, with repayment of any deferred rent from July 1, 2021 through May 25, 2022. The lease contains two 5-year renewal options, with the first 5-year renewal option exercised in June 2022. PBC is not reasonably certain that the second 5-year renewal option will be exercised therefore excluded the lease payments from measurement.

PBC also leases vehicles under finance leases expiring through July 21, 2027. Right-of-use asset and accumulated amortization for these finance leases are included in the statement of financial position under property and equipment, net of accumulated depreciation.

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

13. Leases, continued

The components of lease expense were as follows for the year ended:

Operating lease expense	\$	120,902
Variable lease expense		9,213
Finance leases:		
Amortization of right-of-use assets		9,015
Interest on lease liabilities		3,772
		<u>12,787</u>
Total lease expense	\$	<u>142,902</u>

Additional information related to leases as of December 31, 2022 was as follows:

Operating lease:		
Right-of-use asset - operating	\$	630,409
Right-of-use asset - operating, accumulated amortization		<u>(112,872)</u>
Right-of-use asset - operating leases, net	\$	<u>517,537</u>
Finance lease:		
Property and equipment	\$	108,178
Accumulated depreciation		<u>(9,015)</u>
Property and equipment, net	\$	<u>99,163</u>

Other information related to leases:

	Operating	Finance
Weighted-average remaining lease term (in years):	4.42	4.58
Weighted-average discount rate:	1.40 %	8.49 %

Future non-cancellable minimum lease payments are as follows:

	Operating	Finance
For the year ending December 31:		
2023	\$ 116,696	\$ 26,664
2024	120,197	26,664
2025	123,803	26,664
2026	127,517	26,664
2027	53,787	14,479
	<u>542,000</u>	<u>121,135</u>
Total lease payments	542,000	121,135
Less: present value discount	<u>(16,450)</u>	<u>(21,032)</u>
Lease liability	525,550	100,103
Current portion of lease liability	<u>(116,696)</u>	<u>(18,896)</u>
Long-term portion of lease liability	<u>\$ 408,854</u>	<u>\$ 81,207</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

13. Leases, continued

Reported under ASC 840—For the year ended December 31, 2021:

PBC leases the pier where the ex-USS Iowa is moored from the City of Los Angeles under a noncancelable operating lease agreement. Rent expense was \$111,808 for the year ended December 31, 2021.

14. Contributed Nonfinancial Assets

Donated goods and services received during the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Donated goods	\$ 14,328	\$ 9,919
Donated professional services	-	1,336
Total donated goods and services	<u>\$ 14,328</u>	<u>\$ 11,255</u>

Contributed nonfinancial assets are recorded as revenue at fair value. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Donated goods were \$14,328 and \$9,919 for the years ended December 31, 2022 and 2021, respectively. PBC estimated the fair value of donated goods based on estimates of wholesale value that would be received for selling similar products in the United States. Donated professional services for the year ended December 31, 2021 was \$1,336. The estimated fair value of these professional services was provided by the service providers who estimated the fair value based on the date, time, and market in which services were rendered.

Contributed nonfinancial assets are used for various programs and supporting activities. During December 31, 2022, donated goods totaling \$3,453 and \$10,875 were used for program services and supporting services, respectively. During December 31, 2021, donated goods totaling \$9,919 were used for program services and professional services totaling \$1,336, were used for supporting services.

15. Conditional Contributions

PBC has conditional contributions of approximately \$520,036 and \$1,385,283 as of December 31, 2022 and 2021, respectively, from a granting agency, which have not been recognized in the accompanying financial statements because the conditions have not been met. PBC will recognize this grant as grant expenditures are incurred and conditions are met.

16. Deferred Revenue

The following table provides information about significant changes in deferred revenue liabilities for the years ended December 31:

	2022	2021
Beginning balance, net	\$ 58,105	\$ 48,112
Revenue recognized that was included in deferred revenue at the beginning of the year	(54,805)	(44,672)
Refunds	(3,300)	(3,440)
Current year increases in deferred revenue	63,495	58,105
Deferred revenue as of year-end	<u>\$ 63,495</u>	<u>\$ 58,105</u>

PACIFIC BATTLESHIP CENTER

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

17. Subsequent Events

Subsequent events have been evaluated through June 21, 2023, which is the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2022 that require recognition or disclosure in such financial statements.