

**PACIFIC FLEET SUBMARINE
MEMORIAL ASSOCIATION, INC.,
*DBA USS BOWFIN SUBMARINE
MUSEUM AND PARK***

**FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019
And Independent Auditor's Report**



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Pacific Fleet Submarine Memorial Association, Inc.,
dba USS Bowfin Submarine Museum and Park:

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific Fleet Submarine Memorial Association, Inc., *dba USS Bowfin Submarine Museum and Park* (Association), a nonprofit Hawaii corporation, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an 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.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2020 and 2019, and the changes in 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.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
May 11, 2021

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash (including savings accounts)	\$ 399,318	\$ 1,174,867
Accounts receivable – net	126,067	415,182
Pledges receivable, current – net	289,290	275,251
Prepaid expenses and other assets	<u>60,253</u>	<u>248,909</u>
Total current assets	874,928	2,114,209
INVESTMENTS	6,385,736	6,490,704
PLEDGES RECEIVABLE, Noncurrent – Net	224,233	483,550
PROPERTY AND EQUIPMENT – Net	24,803,364	15,531,916
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 32,288,261</u>	<u>\$ 24,620,379</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 609,809	\$ 1,902,966
Accrued liabilities	103,362	398,331
Due to others	-	41,265
Note payable – current	<u>422,500</u>	<u>-</u>
Total current liabilities	1,135,671	2,342,562
NOTE PAYABLE – Noncurrent	<u>11,476,018</u>	<u>2,285,412</u>
TOTAL LIABILITIES	<u>12,611,689</u>	<u>4,627,974</u>
NET ASSETS		
Net assets without donor restrictions	17,534,691	18,146,950
Net assets with donor restrictions	<u>2,141,881</u>	<u>1,845,455</u>
Total net assets	<u>19,676,572</u>	<u>19,992,405</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,288,261</u>	<u>\$ 24,620,379</u>

See accompanying notes to the financial statements.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Admissions	\$ 1,242,479	\$ 4,711,109
Proceeds from SBA PPP loan	479,665	-
Interest and investment income – net	337,609	945,031
Revenue from food concession operations	180,718	930,934
Storage locker rentals	175,106	878,538
Commission income	93,865	188,128
Grants and contributions without donor restrictions	81,230	86,146
Rental income	61,780	273,016
Net assets released from restrictions	52,000	7,700
Revenue from gift shop operations	27,870	1,207,942
Other revenue and support	73,077	199,473
Total revenue and support	<u>2,805,399</u>	<u>9,428,017</u>
Costs and expenses		
Program services		
Park operations	2,580,499	2,991,327
Cost of food concession operations	394,036	1,410,632
Cost of gift shop operations	9,643	1,371,946
Total program services	<u>2,984,178</u>	<u>5,773,905</u>
Supporting services		
Management and general	343,769	449,138
Fundraising and development	89,711	136,358
Total supporting services	<u>433,480</u>	<u>585,496</u>
Total costs and expenses	<u>3,417,658</u>	<u>6,359,401</u>
Increase (decrease) in net assets without donor restrictions	<u>(612,259)</u>	<u>3,068,616</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	348,426	1,348,065
Net assets released from restrictions	<u>(52,000)</u>	<u>(7,700)</u>
Increase in net assets with donor restrictions	<u>296,426</u>	<u>1,340,365</u>
INCREASE (DECREASE) IN NET ASSETS	(315,833)	4,408,981
NET ASSETS – Beginning of year	<u>19,992,405</u>	<u>15,583,424</u>
NET ASSETS – End of year	<u>\$ 19,676,572</u>	<u>\$ 19,992,405</u>

See accompanying notes to the financial statements.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

	Program Services			Supporting Services			2020 Total
	Park Operations	Cost of Food Concession Operations	Cost of Gift shop Operations	Total Program Services	Management and General	Fundraising and Development	
Salaries and wages	\$ 847,599	\$ 148,969	\$ 1,085	\$ 997,653	\$ 156,730	\$ 42,354	\$ 1,196,737
Employee benefits	250,452	44,018	321	294,791	46,311	12,515	353,617
Payroll taxes	65,336	11,483	84	76,903	12,081	3,265	92,249
Total salaries and related expenses	1,163,387	204,470	1,490	1,369,347	215,122	58,134	1,642,603
Professional fees	433,833	12,831	5,398	452,062	16,876	3,648	472,586
Repairs and maintenance	185,786	6,418	47	192,251	6,753	1,825	200,829
Lease rent	130,967	18,569	135	149,671	19,537	5,280	174,488
Depreciation	115,735	20,341	148	136,224	21,401	5,783	163,408
Insurance	109,080	18,702	136	127,918	28,096	5,317	161,331
Utilities	92,424	16,244	118	108,786	17,090	4,618	130,494
Supplies	111,330	4,423	384	116,137	4,654	1,258	122,049
Security	54,735	9,620	70	64,425	10,121	2,735	77,281
Advertising and marketing	64,643	-	-	64,643	-	-	64,643
Cost of goods sold	-	63,140	416	63,556	-	-	63,556
Contributions to others	52,000	-	-	52,000	-	-	52,000
Bank and credit card service charges	15,464	10,612	26	26,102	3,705	1,001	30,808
Hawaii general excise tax	16,588	8,269	1,275	26,132	-	-	26,132
Travel and meetings	5,364	-	-	5,364	-	-	5,364
Other expenses	29,163	397	-	29,560	414	112	30,086
Total costs and expenses	\$ 2,580,499	\$ 394,036	\$ 9,643	\$ 2,984,178	\$ 343,769	\$ 89,711	\$ 3,417,658

See accompanying notes to the financial statements.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

	Program Services			Supporting Services			2019 Total
	Park Operations	Cost of Food Concession Operations	Cost of Gift shop Operations	Total Program Services	Management and General	Supporting Fundraising and Development	
Salaries and wages	\$ 1,059,346	\$ 519,212	\$ 252,788	\$ 1,831,346	\$ 149,589	\$ 55,618	\$ 2,036,553
Employee benefits	257,900	126,403	61,542	445,845	36,418	13,540	495,803
Payroll taxes	85,076	41,698	20,301	147,075	12,013	4,467	163,555
Total salaries and related expenses	1,402,322	687,313	334,631	2,424,266	198,020	73,625	2,695,911
Professional fees	542,173	-	20,905	563,078	102,245	21,000	686,323
Repairs and maintenance	105,935	41,842	20,371	168,148	11,955	4,482	184,585
Lease rent	258,082	115,124	56,050	429,256	33,168	12,332	474,756
Depreciation	86,280	42,288	20,589	149,157	12,183	4,530	165,870
Insurance	99,487	48,761	23,740	171,988	14,048	5,223	191,259
Utilities	94,424	46,279	22,532	163,235	13,333	4,958	181,526
Supplies	110,584	16,328	91,971	218,883	4,704	1,749	225,336
Security	40,772	19,984	9,729	70,485	5,757	2,141	78,383
Advertising and marketing	104,671	-	-	104,671	12,203	4,538	121,412
Cost of goods sold	-	328,012	655,717	983,729	-	-	983,729
Contributions to others	7,700	-	-	7,700	-	-	7,700
Bank and credit card service charges	59,486	-	55,937	115,423	17,662	1,537	134,622
Hawaii general excise tax	40,423	62,923	56,793	160,139	-	-	160,139
Travel and meetings	16,531	-	2,115	18,646	23,187	-	41,833
Other expenses	22,457	1,778	866	25,101	673	243	26,017
Total costs and expenses	\$ 2,991,327	\$ 1,410,632	\$ 1,371,946	\$ 5,773,905	\$ 449,138	\$ 136,358	\$ 6,359,401

See accompanying notes to the financial statements.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (315,833)	\$ 4,408,981
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	163,408	165,870
In-kind contributions of investments	(24,141)	(85,643)
Realized and unrealized gains on investments	(237,115)	(708,213)
Loss on disposal of property and equipment	-	15,618
(Increase) decrease in		
Accounts receivable – net	289,115	(274,214)
Pledges receivable – net	245,278	(492,972)
Gift shop inventory	-	238,226
Prepaid expenses and other assets	188,656	(73,513)
Increase (decrease) in		
Accounts payable	(1,293,157)	1,703,933
Accrued liabilities	(294,969)	(218,546)
Due to others	(41,265)	(442,128)
Net cash provided (used) by operating activities	<u>(1,320,023)</u>	<u>4,237,399</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,378,239	8,763,787
Purchases of investments	(1,012,015)	(4,729,776)
Purchases of property and equipment	<u>(9,434,856)</u>	<u>(10,991,954)</u>
Net cash used by investing activities	<u>(9,068,632)</u>	<u>(6,957,943)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to note payable	<u>9,613,106</u>	<u>2,285,412</u>
Net cash provided by financing activities	<u>9,613,106</u>	<u>2,285,412</u>
NET DECREASE IN CASH	(775,549)	(435,132)
CASH – Beginning of year	<u>1,174,867</u>	<u>1,609,999</u>
CASH – End of year	<u>\$ 399,318</u>	<u>\$ 1,174,867</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest capitalized during the year	\$ 251,445	\$ 19,881
Noncash investing activity – in-kind contributions of investments	\$ 24,141	\$ 85,643

See accompanying notes to the financial statements.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Pacific Fleet Submarine Memorial Association, Inc., *dba USS Bowfin Submarine Museum and Park* (Association), is a nonprofit Hawaii corporation chartered in December 1978 to establish and maintain a World War II submarine, museum, and memorial.

In December 2018, the Association, USS Missouri Memorial Association, Inc. (USS Missouri), and Pearl Harbor Aviation Museum (PHAM) entered into a ticketing services agreement with Service Systems Associates, Inc. (SSA) to outsource their admissions operations in January 2019. Ticket prices for each park are independently determined by the Association, USS Missouri, and PHAM, respectively. In April 2019, the Association entered into a concessionaire agreement with SSA to outsource their gift shop operations in June 2019 in exchange for a percentage commission of all gift shop sales. In July 2020, the Association entered into a concessionaire agreement with SSA to outsource their food concession and baggage storage operations in August 2020 in exchange for a percentage commission of all food concession and baggage storage sales.

In March 2020, the Association temporarily closed due to government-mandated restrictions and shut downs as a result of the COVID-19 pandemic. The Association temporarily reopened in June 2020 and temporarily closed again in August 2020 due to government-mandated restrictions. The Association reopened again in November 2020.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Association to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets without Donor Restrictions consist of net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and board of directors.

Net Assets with Donor Restrictions consist of net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity (none in 2020 and 2019).

Certain amounts in the prior year comparative financial statements have been reclassified to conform to the current year presentation. Such reclassifications have no impact on the prior year's changes in net assets.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Association to credit risk include cash, accounts receivable, pledges receivable, and investments. At December 31, 2020 and 2019, the Association's cash balances at financial institutions exceeded the related federal deposit insurance by approximately \$171,800 and \$997,600, respectively. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded as required by federal regulations. Accounts receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2020 and 2019), and pledges receivable are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections. Investments are insured by federal and private insurance, as represented by the custodians. Future changes in market prices may make such investments less valuable.

Pledges Receivable

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year. When material, unconditional

promises expected to be collected in future years are recorded at the present value of expected future cash

promises was made. When considered necessary, an allowance is recorded based on management's estimate of uncollectibility including factors such as prior collection history, type of contribution, and the nature of the fundraising activity.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of three to 39 years for building and improvements, 15 to 39 years for the submarine, three to 10 years for equipment and fixtures, and five years for vehicles. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. Repairs and maintenance are expensed as incurred. Major improvements are capitalized.

Historical Collection

The historical collection consists of documents and artifacts held by the Association for educational, research, and curatorial purposes. The items in the collection, which were acquired through purchases and contributions since the Association's inception, are not recognized in the accompanying financial statements because they have no alternative uses. Purchases of collection items are recorded as decreases in net assets without donor restriction in the period in which the items are acquired or as net assets with donor restriction if they are purchased with donor-restricted funds. Contributed collection items are not reflected in the financial statements. Proceeds, if any, from the disposition of collection items are reflected as increases in the appropriate net asset classes.

Revenue and Expense Recognition

Revenue is recognized when the goods or services are provided to the customer. Revenue from performance obligations satisfied at a point in time consists of admissions, food and concession sales, storage locker rentals, and gift shop sales. Revenue from performance obligations satisfied over time consists of commission income and rental income, which consists of subleasing retail space to a third-party. Revenue from sources other than performance obligations consists of proceeds from SBA PPP loan, interest and investment income, and other income. See Note K for disaggregation of revenue.

For performance obligations related to admissions, food and concession sales, storage locker rentals, and gift shop sales, control transfers to the customer at a point in time. The Association transfers control and records revenue when the customer is granted access to the park, when the merchandise or food is delivered to the customer, or when the service is performed. The Association does not have any significant financing components as payment is received at or shortly after park access is granted, the merchandise or food is delivered, or the service is performed. For performance obligations related to commission income and rental income, control transfers to the concessionaire and lessee, respectively, over time. Revenue is recognized over the course of the concessionaire and lease agreement with the passage of time when control of the promised space is transferred to the concessionaire and lessee. Revenue is measured based on the consideration specified in a contract with the customers, and excludes any sales incentives and amounts collected on behalf of third parties.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expense Recognition (continued)

Cost of goods sold from gift shop sales and food and concession sales are recognized when the merchandise or food is delivered. Expenses are recognized when the related liability is incurred. The Association allocates its expenses on a functional basis among its various programs and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses that are common to several functions include lease rent, insurance, repairs and maintenance, utilities, depreciation, and security. These expenses are allocated based on time and effort of personnel. Advertising costs, which are expensed as incurred, amounted to \$64,643 and \$121,412 for the years ended December 31, 2020 and 2019, respectively.

Grants and Donor Contributions

The Association's revenue from grants is based on agreements with the State of Hawaii and other entities such as private foundations. The Association recognizes grants as either contributions or exchange transactions depending on whether the transaction is reciprocal or nonreciprocal.

The Association recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, which are those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Support is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported as an increase net assets with donor restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are released to net assets without donor restrictions.

Donated Goods and Services

In-kind contributions of goods and services that meet the criteria for recognition are recognized as contributions at the estimated fair market value at the date of donation, and are recorded as expenses or assets in the same amount. Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Association. A substantial number of unpaid volunteers have made significant contributions of their time to the Association. The value of their time is not reflected in these financial statements because it does not meet the criteria for recognition.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Retirement Plan

The Association sponsors a defined contribution SIMPLE IRA employee retirement plan covering substantially all of its employees to which it matches a portion of the employee contributions in accordance with the plan and Internal Revenue Code Section 401(k). Employer contributions to the plan amounted to \$25,806 and \$40,913 for the years ended December 31, 2020 and 2019, respectively.

Hawaii General Excise Tax

The State of Hawaii (State) imposes a general excise tax of 4% on the gross receipts of the Association from gift shop operations, food concession operations, rentals, and certain special events within the State, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. Hawaii general excise tax amounted to \$26,132 and \$160,139 for the years ended December 31, 2020 and 2019, respectively.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC). The Association is classified as a public charity under Section 509(a)(2) of the U.S. IRC. Accordingly, qualifying contributions to the Association are tax deductible.

U.S. GAAP requires uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the tax positions of the Association as of December 31, 2020 and 2019 and for the years then ended and determined that it had no uncertain tax positions required to be reported in accordance with U.S. GAAP. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE B – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Association monitors liquidity required to meet its operating needs and other contractual commitments while also striving to maximize the investment returns on its available funds. The Association has various sources of liquidity available for it use, including cash, receivables, and investments. In addition to financial assets available to meet general expenditures over the next 12 months, the Association anticipates collecting sufficient revenues to cover general operating expenditures.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE B – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

At December 31, 2020 and 2019, the Association's financial assets and the amounts of those assets that are readily available within one year of the statement of financial position date to meet general expenditures are as follows:

	<u>2020</u>	<u>2019</u>
Cash (including savings accounts)	\$ 399,318	\$ 1,174,867
Accounts receivable – net	126,067	415,182
Pledges receivable – net	289,290	275,251
Investments	6,385,736	6,490,704
Total financial assets	<u>7,200,411</u>	<u>8,356,004</u>
Donor-imposed restrictions	(2,141,881)	(1,845,455)
Investments in debt securities	<u>(573,116)</u>	<u>(1,476,310)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$4,485,414</u>	<u>\$5,034,239</u>

NOTE C – PLEDGES RECEIVABLE

At December 31, 2020 and 2019, pledges receivable consisted of the following:

	<u>2020</u>	<u>2019</u>
Pledges receivable in		
Less than one year	\$ 295,290	\$ 303,450
One to five years	<u>235,441</u>	<u>540,274</u>
Total pledges receivable	530,731	843,724
Discount to present value at 5%	<u>(11,208)</u>	<u>(40,173)</u>
Discounted pledges receivable	519,523	803,551
Estimated allowance for uncollectible pledges receivable	<u>(6,000)</u>	<u>(44,750)</u>
Pledges receivable – net	<u>\$513,523</u>	<u>\$758,801</u>

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE D – INVESTMENTS

At December 31, 2020 and 2019, investments consisted of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 4,063,167	\$ 4,539,810	\$ 3,227,486	\$ 3,363,245
Debt securities	669,034	573,116	1,537,244	1,476,310
Money market funds	452,250	452,250	209,196	209,196
Corporate bonds	407,248	427,093	707,299	716,253
Exchange traded funds	271,520	393,467	653,400	725,700
Total investments	<u>\$ 5,863,219</u>	<u>\$ 6,385,736</u>	<u>\$ 6,334,625</u>	<u>\$ 6,490,704</u>

At December 31, 2020 and 2019, the fair value of the investments exceeded their cost by \$522,517 and \$156,079, respectively.

Interest and investment income consisted of the following for the years ended December 31, 2020 and 2019:

	2020	2019
Interest and dividends	\$ 121,732	\$ 251,467
Realized gains (losses) from sales of investments	(129,323)	110,165
Unrealized gains from holding investments	366,438	598,048
Investment fees	(21,238)	(14,649)
Interest and investment income – net	<u>\$ 337,609</u>	<u>\$ 945,031</u>

NOTE E – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation methodologies used to measure fair value. There are three levels of the fair value hierarchy. Level 1 inputs to the valuation methodologies consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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DBA USS BOWFIN SUBMARINE MUSEUM AND PARK**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

The fair value measurements reportable by the Association (see Note D) consist of investments in mutual funds and exchange traded funds valued at quoted market prices for which Level 1 valuation inputs were required; money market funds valued at stated value for which Level 1 valuation inputs were required; corporate bonds valued at the discounted value of future cash flows for which Level 2 valuation inputs were required; and debt securities valued using a pricing matrix that is based on multiple variables, such as the current price of the stock attached to the note, where the current price of the stock attached to the note is in relation to the initial price, and the amount of time left until maturity of the note, for which Level 3 valuation inputs were required. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following sets forth by level, within the fair value hierarchy, the Association's investments at fair value as December 31, 2020:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Money market	\$ 1,570,137	\$ -	\$ -	\$ 1,570,137
Bond funds	1,004,415	-	-	1,004,415
U.S. equity growth	721,728	-	-	721,728
U.S. equity value	344,764	-	-	344,764
International equity growth	229,020	-	-	229,020
Emerging markets	209,524	-	-	209,524
U.S. equity blend	195,518	-	-	195,518
International equity blend	191,243	-	-	191,243
International equity value	73,461	-	-	73,461
Total mutual funds	<u>4,539,810</u>	<u>-</u>	<u>-</u>	<u>4,539,810</u>
Debt securities				
Financial services	-	-	573,116	573,116
Total debt securities	<u>-</u>	<u>-</u>	<u>573,116</u>	<u>573,116</u>
Money market funds	<u>452,250</u>	<u>-</u>	<u>-</u>	<u>452,250</u>
Corporate bonds				
Long-term	-	427,093	-	427,093
Total corporate bonds	<u>-</u>	<u>427,093</u>	<u>-</u>	<u>427,093</u>
Exchange traded funds				
U.S. equity growth	211,479	-	-	211,479
U.S. equity value	181,988	-	-	181,988
Total exchange traded funds	<u>393,467</u>	<u>-</u>	<u>-</u>	<u>393,467</u>
Total investments at fair value	<u>\$ 5,385,527</u>	<u>\$ 427,093</u>	<u>\$ 573,116</u>	<u>\$ 6,385,736</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$2,076,677	\$ -	\$ -	\$2,076,677
International equity growth	298,679	-	-	298,679
U.S. equity value	273,733	-	-	273,733
Emerging markets	259,293	-	-	259,293
International equity blend	167,613	-	-	167,613
U.S. equity growth	159,400	-	-	159,400
International equity value	127,850	-	-	127,850
Total mutual funds	<u>3,363,245</u>	<u>-</u>	<u>-</u>	<u>3,363,245</u>
Debt securities				
Financial services	-	-	1,476,310	1,476,310
Total debt securities	<u>-</u>	<u>-</u>	<u>1,476,310</u>	<u>1,476,310</u>
Money market funds	<u>209,196</u>	<u>-</u>	<u>-</u>	<u>209,196</u>
Corporate bonds				
Long-term	-	415,180	-	415,180
Intermediate-term	-	301,073	-	301,073
Total corporate bonds	<u>-</u>	<u>716,253</u>	<u>-</u>	<u>716,253</u>
Exchange traded funds				
Bond funds	310,323	-	-	310,323
U.S. equity value	211,546	-	-	211,546
U.S. equity growth	151,819	-	-	151,819
International equity	52,012	-	-	52,012
Total exchange traded funds	<u>725,700</u>	<u>-</u>	<u>-</u>	<u>725,700</u>
Total investments at fair value	<u>\$4,298,141</u>	<u>\$716,253</u>	<u>\$1,476,310</u>	<u>\$6,490,704</u>

For the years ended December 31, 2020 and 2019, changes in the Association's investments at fair value using Level 3 measurements were as follows:

	<u>2020</u>	<u>2019</u>
Fair value, beginning of year	\$1,476,310	\$1,655,789
Purchases	-	1,737,400
Sales	(721,691)	(2,270,400)
Interest and dividends	23,761	21,385
Net realized and unrealized gains (losses)	<u>(205,264)</u>	<u>332,136</u>
Fair value, end of year	<u>\$ 573,116</u>	<u>\$1,476,310</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE F – PROPERTY AND EQUIPMENT

At December 31, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 4,270,978	\$ 4,270,978
Submarine	767,988	767,988
Equipment and fixtures	189,011	161,527
Vehicles	27,997	27,997
Construction in progress	<u>23,322,340</u>	<u>13,914,968</u>
Total	28,578,314	19,143,458
Accumulated depreciation	<u>(3,774,950)</u>	<u>(3,611,542)</u>
Property and equipment – net	<u>\$24,803,364</u>	<u>\$15,531,916</u>

The Association had ongoing restoration and renovations of its museum and facilities, which was completed in April 2021 at a cost of approximately \$24 million. At December 31, 2020 and 2019, the Association had spent \$23,322,340 and \$13,914,968, respectively, on the restoration and renovations. The Association has a loan commitment (see Note I) and net assets with donor restrictions for capital campaign (see Note J) that funded the remaining costs of the project.

NOTE G – DUE TO OTHERS

Amounts due to others represent admission revenue collected by the Association on behalf of the neighboring historical parks, less amounts due to the Association for the other historical parks' share of credit card fees and admission revenue collected by the other historical parks' on behalf of the Association. At December 31, 2020 and 2019, amounts due to others consisted of the following:

	<u>2020</u>	<u>2019</u>
USS Battleship Missouri Memorial	\$ -	\$15,275
Pacific Aviation Museum	-	13,213
Pacific Historic Parks	<u>-</u>	<u>12,777</u>
Total due to others	<u>\$ -</u>	<u>\$41,265</u>

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE H – SBA PPP LOAN

In April 2020, the Association applied for and received a \$479,665 Paycheck Protection Program (PPP) loan from Bank of Hawaii (BOH). The U.S. Small Business Administration (SBA) established the PPP loan program in response to the COVID-19 pandemic to fund an entity's payroll and other applicable costs. All or a portion of the loan, which matures two years from the date of funding and bears interest at 1%, may be forgiven if the Association meets the compliance requirements established by the SBA and other federal agencies. In December 2020, the SBA forgave the PPP loan and the Association accordingly recognized the PPP loan as other income in the accompanying financial statements.

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provides for a PPP loan second draw and other additional fiscal relief for entities impacted by the COVID-19 pandemic. In January 2021, the Association applied for and received a PPP loan second draw from BOH in the amount of \$523,232. The PPP loan second draw bears interest at 1% and matures five years from the date of funding.

NOTE I – NOTE PAYABLE

In July 2019, the Association obtained a \$14,540,000 loan commitment from the U.S. Department of Agriculture (USDA), of which an amount not to exceed \$11,000,000 will be a direct loan from the USDA and \$3,540,000 will be a loan from a financial institution that the USDA will guarantee, to finance the cost of its museum renovations, capital improvements, and repairs. The USDA direct loan will bear interest at no more than 3.5%, is to be repaid in monthly installments of principal and interest over a period of 21 years, and will be collateralized by substantially all of the assets of the Association.

In connection with the USDA loan commitment, the Association obtained a \$14,540,000 non-revolving credit facility from BOH in September 2019, of which \$11,898,518 and \$2,285,412 had been advanced as of December 31, 2020 and 2019, respectively. The non-revolving credit facility is collateralized by substantially all of the assets of the Association and advances bear interest at BOH's base rate, which was 3.25% and 4.75% at December 31, 2020 and 2019, respectively. The non-revolving credit facility terminates in July 2021, at which time \$11,000,000 of the advances will be converted to a term loan with the USDA and the remaining balance will be converted to a term loan with BOH. Interest on the BOH term loan will be determined at the time of closing. The BOH term loan will be repaid in monthly installments of principal and interest over a period of 10 years, collateralized by substantially all of the assets of the Association, and guaranteed by the USDA.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE I – NOTE PAYABLE (Continued)

At December 31, 2020, scheduled maturities of the note payable is as follows:

Years Ending December 31st	
2021	\$ 422,500
2022	1,037,600
2023	1,071,900
2024	1,107,200
2025	1,143,800
Thereafter (cumulative)	<u>7,115,518</u>
Total note payable	<u>\$11,898,518</u>

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2020 and 2019, net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions for		
Capital campaign	\$2,134,640	\$1,790,141
Scholarships	<u>7,241</u>	<u>55,314</u>
Total net assets with donor restrictions	<u>\$2,141,881</u>	<u>\$1,845,455</u>

The Association has an ongoing capital campaign to obtain contributions for the restoration and renovation of its museum and facilities. Net assets with donor restrictions for capital campaign are not released to net assets without donor restrictions until the related capital assets are placed in service.

**PACIFIC FLEET SUBMARINE MEMORIAL ASSOCIATION, INC.,
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE K – DISAGGREGATION OF REVENUE

For the years ended December 31, 2020 and 2019, revenue from performance obligations satisfied at a point in time, revenue from performance obligations satisfied over time, and revenue from sources other than performance obligations consisted of the following:

	<u>2020</u>	<u>2019</u>
Revenue from performance obligations satisfied at a point in time		
Admissions	\$ 1,242,479	\$ 4,711,109
Revenue from food concession operations	180,718	930,934
Storage locker rentals	175,106	878,538
Revenue from gift shop operations	<u>27,870</u>	<u>1,207,942</u>
Total revenue from performance obligations satisfied at a point in time	<u>\$ 1,626,173</u>	<u>\$ 7,728,523</u>
Revenue from performance obligations satisfied over time		
Commission income	\$ 93,865	\$ 188,128
Rental income	<u>61,780</u>	<u>273,016</u>
Total revenue from performance obligations satisfied over time	<u>\$ 155,645</u>	<u>\$ 461,144</u>
Revenue from sources other than performance obligations		
Proceeds from SBA PPP loan	\$ 479,665	\$ -
Interest and investment income – net	337,609	945,031
Other revenue and support	<u>73,077</u>	<u>199,473</u>
Total revenue from sources other than performance obligations	<u>\$ 890,351</u>	<u>\$ 1,144,504</u>

NOTE L – LEASES

Lessee

The Association leases the land underlying its facilities from the federal government under an operating lease agreement expiring in December 2043. Annual lease rent due to the federal government was 6% of the Association's annual operating revenue, as defined in the lease agreement. Effective January 2021, annual lease rent due to the federal government is 6% of annual admission revenue and 18% of all other operating revenue, as defined in the lease agreement. The Association is required to make monthly estimated payments of \$30,000 per month (\$1 per month from April 2020 to September 2021), which is applied towards its annual lease obligation. The Association also leases equipment under an operating lease agreement expiring in May 2025. Lease rent expense for the years ended December 31, 2020 and 2019 amounted to \$174,488 and \$474,756, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE L – LEASES (Continued)

Lessee (continued)

At December 31, 2020, future minimum lease payments approximated the following:

Year Ending December 31st	
2021	\$38,600
2022	\$42,100
2023	\$42,100
2024	\$42,100
2025	\$17,600

Lessor

Effective June 2019, the Association leases its gift shop to SSA for a monthly commission based on a variable percentage of gross receipts, as defined, through July 2025. Effective August 2020, the Association leases its food concession and baggage storage to SSA for a monthly commission based on a variable percentage of gross receipts, as defined, through July 2025. Commission income for the years ended December 31, 2020 and 2019 amounted to \$93,865 and \$188,128, respectively.

The Association leases a portion of its facilities to a retailer for the greater of \$3,000 per month or 12% of gross sales, as defined, under an operating lease agreement that expires in July 2024. Lease rent income, including Hawaii general excise tax, for the years ended December 31, 2020 and 2019 amounted to \$61,780 and \$273,016, respectively. At December 31, 2020, future minimum lease receipts approximated the following:

Years Ending December 31st	
2021	
2022	\$37,600
2023	\$37,600
2024	\$37,600
	\$21,900

NOTE M – CONTINGENCIES

As part of the joint ticketing agreement with SSA, SSA made capital improvements and equipment purchases for admission operations, which are depreciated on a straight-line basis over five years from the in-service date. In the event the joint ticketing agreement is terminated, the Association, USS Missouri, and PHAM will owe SSA the net book value of the capital improvements and equipment purchases. At December 31, 2020, the Association's one-third share of the net book value of the capital improvements and equipment purchases was approximately \$89,400.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE M – CONTINGENCIES (Continued)

As part of the gift shop concessionaire agreement with SSA, SSA made capital improvements and equipment purchases for gift shop operations, which are depreciated on a straight-line basis over 10 years from the in-service date. In the event the concessionaire agreement is terminated, the Association will owe SSA the net book value of the capital improvements and equipment purchases. At December 31, 2020, the net book value of the capital improvements and equipment purchases was approximately \$232,300.

As part of the food concession and baggage storage concessionaire agreement with SSA, SSA made capital improvements and equipment purchases for food concession and baggage storage operations, which are depreciated on a straight-line basis over 10 years from the in-service date. In the event the concessionaire agreement is terminated, the Association will owe SSA the net book value of the capital improvements and equipment purchases. At December 31, 2020, the net book value of the capital improvements and equipment purchases was approximately \$82,200.

The Association may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Association operates in the State of Hawaii. Local, national, and international events (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if the Association were to account for future losses or asset impairments, as the effects on the financial statements of the Association from such changes are not presently determinable.

The COVID-19 pandemic has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries, and affected the fair value of marketable securities. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the economic impact from such disruption. The Association expects this matter will continue to impact its operating results; however, the related financial impact cannot be reasonably estimated at this time.

NOTE N – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 11, 2021, which is the date the financial statements were available to be issued, and determined that the Association did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements, except as described in Notes F, H, and L to the financial statements.