

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

**FINANCIAL STATEMENTS
For the Years Ended December 31, 2021 and 2020
And Independent Auditor's Report**



CW Associates
A Hawaii Certified Public Accounting Corporation



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 Audit of the Financial Statements

Opinion

We have audited the 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, 2021 and 2020, 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 the Association as of December 31, 2021 and 2020, 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Association 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 the Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's 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 auditor's 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 the Association'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 the Association'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.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
May 4, 2022

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

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash (including savings accounts)	\$ 1,275,032	\$ 399,318
Accounts receivable – net	675,518	126,067
Pledges receivable, current – net	134,357	289,290
Prepaid expenses and other assets	133,187	60,253
Total current assets	<u>2,218,094</u>	<u>874,928</u>
INVESTMENTS	7,257,015	6,385,736
PLEDGES RECEIVABLE, Noncurrent – Net	108,954	224,233
PROPERTY AND EQUIPMENT – Net	24,671,106	24,803,364
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 34,255,169</u>	<u>\$ 32,288,261</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 100,412	\$ 609,809
Accrued liabilities	338,672	103,362
Notes payable – current	601,300	422,500
Total current liabilities	<u>1,040,384</u>	<u>1,135,671</u>
NOTES PAYABLE – Noncurrent	<u>11,576,088</u>	<u>11,476,018</u>
TOTAL LIABILITIES	<u>12,616,472</u>	<u>12,611,689</u>
NET ASSETS		
Net assets without donor restrictions	21,638,697	17,534,691
Net assets with donor restrictions	-	2,141,881
Total net assets	<u>21,638,697</u>	<u>19,676,572</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,255,169</u>	<u>\$ 32,288,261</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Admissions	\$ 4,539,929	\$ 1,242,479
Net assets released from restrictions	2,337,185	52,000
Proceeds from SBA PPP loan	523,232	479,665
Commission income	471,930	93,865
Interest and investment income – net	451,656	337,609
Rental income	303,476	61,780
Food concession operations	-	180,718
Storage locker rentals	-	175,106
Photobooth income	134,347	21,194
Grants and contributions without donor restrictions	111,804	81,230
Gift shop operations	-	6,676
Other revenue and support	45,561	73,077
Total revenue and support	<u>8,919,120</u>	<u>2,805,399</u>
Costs and expenses		
Program services		
Park operations	3,884,349	2,580,499
Cost of food concession operations	11,887	394,036
Cost of gift shop operations	11,887	9,643
Total program services	<u>3,908,123</u>	<u>2,984,178</u>
Supporting services		
Management and general	844,984	343,769
Fundraising and development	62,007	89,711
Total supporting services	<u>906,991</u>	<u>433,480</u>
Total costs and expenses	<u>4,815,114</u>	<u>3,417,658</u>
Increase (decrease) in net assets without donor restrictions	<u>4,104,006</u>	<u>(612,259)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	195,304	348,426
Net assets released from restrictions	<u>(2,337,185)</u>	<u>(52,000)</u>
Increase (decrease) in net assets with donor restrictions	<u>(2,141,881)</u>	<u>296,426</u>
INCREASE (DECREASE) IN NET ASSETS	1,962,125	(315,833)
NET ASSETS – Beginning of year	<u>19,676,572</u>	<u>19,992,405</u>
NET ASSETS – End of year	<u>\$21,638,697</u>	<u>\$19,676,572</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, 2021

	Program Services			Supporting Services			2021 <u>Total</u>	
	<u>Park Operations</u>	<u>Cost of Food Concession Operations</u>	<u>Cost of Gift shop Operations</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>		<u>Total Supporting Services</u>
Salaries and wages	\$ 1,006,018	\$ 4,344	\$ 4,344	\$ 1,014,706	\$ 149,110	\$ 22,513	\$ 171,623	\$ 1,186,329
Employee benefits	233,698	1,009	1,009	235,716	34,638	5,230	39,868	275,584
Payroll taxes	74,482	321	321	75,124	11,040	1,667	12,707	87,831
Total salaries and related expenses	<u>1,314,198</u>	<u>5,674</u>	<u>5,674</u>	<u>1,325,546</u>	<u>194,788</u>	<u>29,410</u>	<u>224,198</u>	<u>1,549,744</u>
Depreciation	648,742	2,801	2,801	654,344	96,156	14,518	110,674	765,018
Professional fees	455,500	190	190	455,880	106,967	985	107,952	563,832
Lease rent	368,218	1,590	1,590	371,398	54,577	8,240	62,817	434,215
Interest Expense	-	-	-	-	324,558	-	324,558	324,558
Supplies	226,189	87	87	226,363	2,998	453	3,451	229,814
Insurance	169,494	723	723	170,940	34,297	3,747	38,044	208,984
Contributions to others	189,064	-	-	189,064	-	-	-	189,064
Utilities	106,767	461	461	107,689	15,825	2,389	18,214	125,903
Repairs and maintenance	120,708	93	93	120,894	3,186	481	3,667	124,561
Bank and credit card service charges	86,736	-	-	86,736	-	362	362	87,098
Security	62,066	268	268	62,602	9,199	1,389	10,588	73,190
Advertising and marketing	70,494	-	-	70,494	-	-	-	70,494
Hawaii general excise tax	43,455	-	-	43,455	-	-	-	43,455
Travel and meetings	8,712	-	-	8,712	-	-	-	8,712
Other expenses	<u>14,006</u>	<u>-</u>	<u>-</u>	<u>14,006</u>	<u>2,433</u>	<u>33</u>	<u>2,466</u>	<u>16,472</u>
Total costs and expenses	<u>\$3,884,349</u>	<u>\$ 11,887</u>	<u>\$ 11,887</u>	<u>\$3,908,123</u>	<u>\$844,984</u>	<u>\$ 62,007</u>	<u>\$906,991</u>	<u>\$4,815,114</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		Total Supporting Services
Salaries and wages	\$ 847,599	\$ 148,969	\$ 1,085	\$ 997,653	\$ 156,730	\$ 42,354	\$ 199,084	\$ 1,196,737
Employee benefits	250,452	44,018	321	294,791	46,311	12,515	58,826	353,617
Payroll taxes	65,336	11,483	84	76,903	12,081	3,265	15,346	92,249
Total salaries and related expenses	<u>1,163,387</u>	<u>204,470</u>	<u>1,490</u>	<u>1,369,347</u>	<u>215,122</u>	<u>58,134</u>	<u>273,256</u>	<u>1,642,603</u>
Depreciation	115,735	20,341	148	136,224	21,401	5,783	27,184	163,408
Professional fees	433,833	12,831	5,398	452,062	16,876	3,648	20,524	472,586
Lease rent	130,967	18,569	135	149,671	19,537	5,280	24,817	174,488
Supplies	111,330	4,423	384	116,137	4,654	1,258	5,912	122,049
Insurance	109,080	18,702	136	127,918	28,096	5,317	33,413	161,331
Contributions to others	52,000	-	-	52,000	-	-	-	52,000
Utilities	92,424	16,244	118	108,786	17,090	4,618	21,708	130,494
Repairs and maintenance	185,786	6,418	47	192,251	6,753	1,825	8,578	200,829
Bank and credit card service charges	15,464	10,612	26	26,102	3,705	1,001	4,706	30,808
Security	54,735	9,620	70	64,425	10,121	2,735	12,856	77,281
Advertising and marketing	64,643	-	-	64,643	-	-	-	64,643
Cost of goods sold	-	63,140	416	63,556	-	-	-	63,556
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	<u>29,163</u>	<u>397</u>	<u>-</u>	<u>29,560</u>	<u>414</u>	<u>112</u>	<u>526</u>	<u>30,086</u>
Total costs and expenses	<u>\$2,580,499</u>	<u>\$394,036</u>	<u>\$ 9,643</u>	<u>\$2,984,178</u>	<u>\$343,769</u>	<u>\$ 89,711</u>	<u>\$433,480</u>	<u>\$3,417,658</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,962,125	\$ (315,833)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	765,018	163,408
In-kind contributions of investments	-	(24,141)
Realized and unrealized gains on investments	(252,773)	(237,115)
Loss on disposal of property and equipment	54,655	-
(Increase) decrease in		
Accounts receivable – net	(549,451)	289,115
Pledges receivable – net	270,212	245,278
Prepaid expenses and other assets	(72,934)	188,656
Increase (decrease) in		
Accounts payable	(509,397)	(1,293,157)
Accrued liabilities	235,310	(294,969)
Due to others	-	(41,265)
Net cash provided (used) by operating activities	<u>1,902,765</u>	<u>(1,320,023)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,012,201	1,378,239
Purchases of investments	(2,630,707)	(1,012,015)
Purchases of property and equipment	(687,415)	(9,434,856)
Net cash used by investing activities	<u>(1,305,921)</u>	<u>(9,068,632)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to notes payable	1,007,698	9,613,106
Repayments of notes payable	(728,828)	-
Net cash provided by financing activities	<u>278,870</u>	<u>9,613,106</u>
NET INCREASE (DECREASE) IN CASH	875,714	(775,549)
CASH – Beginning of year	<u>399,318</u>	<u>1,174,867</u>
CASH – End of year	<u>\$ 1,275,032</u>	<u>\$ 399,318</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 423,627	\$ 251,445
Interest capitalized during the year	\$ 99,069	\$ 251,445
Noncash investing activity – in-kind contributions of investments	\$ -	\$ 24,141

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, 2021 and 2020

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 its 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 and has remained open since 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 2021 and 2020).

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, 2021 and 2020

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 will 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, 2021 and 2020, the Association's cash balances at financial institutions exceeded the related federal deposit insurance by approximately \$1,050,800 and \$171,800, respectively. Management evaluates the credit standings of these financial institutions to ensure that such deposits are adequately safeguarded as required by federal regulations. Accounts receivable, which have been adjusted for all known doubtful accounts (none at December 31, 2021 and 2020), 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 flows. The cash flows are discounted using a discount rate commensurate with the risks involved, at the date the promise 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.

Investments

Investments are stated at fair value. Net realized and unrealized gains and losses, determined using the specific identification method, are included in interest and investment income. Investments are classified as current or noncurrent based on their intended use.

**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, 2021 and 2020

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 and improvements, 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, photobooth income, 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 J for disaggregation of revenue.

For performance obligations related to admissions, food and concession sales, storage locker rentals, photobooth income, 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, 2021 and 2020

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 and marketing costs, which are expensed as incurred, amounted to \$70,494 and \$64,643 for the years ended December 31, 2021 and 2020, 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 in 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 number of unpaid volunteers have made 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, 2021 and 2020

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 \$24,608 and \$25,806 for the years ended December 31, 2021 and 2020, 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, photobooth income, 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 \$43,455 and \$26,132 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020 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. 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, 2021 and 2020

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

At December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash (including savings accounts)	\$ 1,275,032	\$ 399,318
Accounts receivable – net	675,518	126,067
Pledges receivable – net	134,357	289,290
Investments	<u>7,257,015</u>	<u>6,385,736</u>
Total financial assets	9,341,922	7,200,411
Donor-imposed restrictions	-	(2,141,881)
Investments in debt securities	-	(573,116)
Investments in hedge fund	<u>(249,691)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,092,231</u>	<u>\$ 4,485,414</u>

NOTE C – PLEDGES RECEIVABLE

At December 31, 2021 and 2020, pledges receivable consisted of the following:

	<u>2021</u>	<u>2020</u>
Pledges receivable in		
Less than one year	\$ 140,357	\$ 295,290
One to five years	<u>114,400</u>	<u>235,441</u>
Total pledges receivable	254,757	530,731
Discount to present value at 5%	<u>(5,446)</u>	<u>(11,208)</u>
Discounted pledges receivable	249,311	519,523
Estimated allowance for uncollectible pledges receivable	<u>(6,000)</u>	<u>(6,000)</u>
Pledges receivable – net	<u>\$ 243,311</u>	<u>\$ 513,523</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE D – INVESTMENTS

At December 31, 2021 and 2020, investments consisted of the following:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual funds	\$ 5,059,779	\$ 5,471,844	\$ 4,063,167	\$ 4,539,810
Money market funds	1,096,430	1,096,430	452,250	452,250
Debt securities	-	-	669,034	573,116
Exchange traded funds	251,358	439,050	271,520	393,467
Corporate bonds	-	-	407,248	427,093
Hedge funds	250,000	249,691	-	-
Total investments	<u>\$ 6,657,567</u>	<u>\$ 7,257,015</u>	<u>\$ 5,863,219</u>	<u>\$ 6,385,736</u>

At December 31, 2021 and 2020, the fair value of the investments exceeded their cost by \$599,448 and \$522,517, respectively.

Interest and investment income consisted of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 224,761	\$ 121,732
Realized gains (losses) from sales of investments	175,842	(129,323)
Unrealized gains from holding investments	76,931	366,438
Investment fees	<u>(25,878)</u>	<u>(21,238)</u>
Interest and investment income – net	<u>\$ 451,656</u>	<u>\$ 337,609</u>

NOTE E – FAIR VALUE MEASUREMENTS

U.S. GAAP 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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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

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. Hedge funds are valued at net asset value (NAV) as a practical expedient at the close of business on the valuation date, based on the value of the underlying investments in commercial real estate debt. 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, 2021:

	Level 1	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 1,705,854	\$ -	\$ -	\$ 1,705,854
Money market	1,370,530	-	-	1,370,530
U.S. equity growth	775,988	-	-	775,988
U.S. equity value	481,934	-	-	481,934
International equity growth	261,920	-	-	261,920
International equity value	259,103	-	-	259,103
Alternative income	253,632	-	-	253,632
U.S. equity blend	185,621	-	-	185,621
Emerging markets	177,262	-	-	177,262
Total mutual funds	<u>5,471,844</u>	<u>-</u>	<u>-</u>	<u>5,471,844</u>
Money market funds	<u>1,096,430</u>	<u>-</u>	<u>-</u>	<u>1,096,430</u>
Exchange traded funds				
U.S. equity growth	236,526	-	-	236,526
U.S. equity value	202,524	-	-	202,524
Total exchange traded funds	<u>439,050</u>	<u>-</u>	<u>-</u>	<u>439,050</u>
	<u>\$ 7,007,324</u>	<u>\$ -</u>	<u>\$ -</u>	7,007,324
Hedge funds				<u>249,691</u>
Total investments at fair value				<u>\$ 7,257,015</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Bond funds	\$ 1,004,415	\$ -	\$ -	\$ 1,004,415
Money market	1,570,137	-	-	1,570,137
U.S. equity growth	721,728	-	-	721,728
U.S. equity value	344,764	-	-	344,764
International equity growth	229,020	-	-	229,020
International equity value	73,461	-	-	73,461
U.S. equity blend	195,518	-	-	195,518
Emerging markets	209,524	-	-	209,524
International equity blend	191,243	-	-	191,243
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>

For the years ended December 31, 2021 and 2020, changes in the Association’s investments at fair value using Level 3 measurements were as follows:

	<u>2021</u>	<u>2020</u>
Fair value, beginning of year	\$ 573,116	\$ 1,476,310
Purchases	-	-
Sales	(695,157)	(721,691)
Interest and dividends	26,123	23,761
Net realized and unrealized gains (losses)	<u>95,918</u>	<u>(205,264)</u>
Fair value, end of year	<u>\$ -</u>	<u>\$ 573,116</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE F – PROPERTY AND EQUIPMENT

At December 31, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Building and improvements	\$28,091,962	\$ 4,270,978
Submarine and improvements	767,988	767,988
Equipment and fixtures	132,698	189,011
Vehicles	27,997	27,997
Construction in progress	15,785	23,322,340
Total	<u>29,036,430</u>	<u>28,578,314</u>
Accumulated depreciation	<u>(4,365,324)</u>	<u>(3,774,950)</u>
Property and equipment – net	<u>\$24,671,106</u>	<u>\$24,803,364</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.

NOTE G – SBA PPP LOAN

In April 2020, the Association applied for and received a \$479,665 Paycheck Protection Program (PPP) first draw 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 first draw loan and the Association accordingly recognized the PPP loan as other income during the year ended December 31, 2020.

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provided for a PPP second draw loan and other additional fiscal relief for entities impacted by the COVID-19 pandemic. In January 2021, the Association applied for and received a PPP second draw loan from BOH in the amount of \$523,232. The PPP second draw loan bears interest at 1% and matures five years from the date of funding. In August 2021, the SBA forgave the PPP second draw loan and the Association accordingly recognized the PPP second draw loan as other income during the year ended December 31, 2021.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE H – NOTES PAYABLE

At December 31, 2021, notes payable consisted of the following:

Note payable to the USDA in monthly installments of \$34,930, including interest at 2.25%. Matures July 2042. Collateralized by substantially all of the assets of the Association.	\$ 6,863,104
Note payable to the USDA in monthly installments of \$19,960, including interest at 2.25%. Matures July 2042. Collateralized by substantially all of the assets of the Association.	3,921,774
Note payable to BOH in monthly installments of \$18,628, including interest at 3.25%. Matures November 2031. Collateralized by substantially all of the assets of the Association and guaranteed by the USDA.	<u>1,392,510</u>
Total	12,177,388
Notes payable – current	<u>(601,300)</u>
Notes payable – noncurrent	<u>\$ 11,576,088</u>

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 would be a direct loan from the USDA and \$3,540,000 would be a loan from a financial institution that the USDA would guarantee, to finance the cost of its museum renovations, capital improvements, and repairs.

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 had been advanced as of December 31, 2020. The non-revolving credit facility was collateralized by substantially all of the assets of the Association and advances bore interest at BOH's base rate, which was 3.25% at December 31, 2020. The non-revolving credit facility terminated in July 2021, with a total of \$12,906,216 being advanced. \$11,000,000 of the advances was converted to a term loan with the USDA and the remaining balance of \$1,906,216 was converted to a term loan with BOH. The note payable to BOH requires the Association to meet certain financial ratios and make periodic reports to BOH.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE H – NOTES PAYABLE (Continued)

At December 31, 2021, scheduled maturities of the note payable is as follows:

Years Ending December 31st	
2022	\$ 601,300
2023	616,800
2024	632,800
2025	649,100
2026	665,900
Thereafter (cumulative)	<u>9,011,488</u>
 Total note payable	 <u>\$ 12,177,388</u>

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2021 and 2020, net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions for		
Capital campaign	\$ -	\$ 2,134,640
Scholarships	<u>-</u>	<u>7,241</u>
 Total net assets with donor restrictions	 <u>\$ -</u>	 <u>\$ 2,141,881</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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE J – DISAGGREGATION OF REVENUE

For the years ended December 31, 2021 and 2020, 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>2021</u>	<u>2020</u>
Revenue from performance obligations satisfied at a point in time		
Admissions	\$4,539,929	\$1,242,479
Revenue from food concession operations	-	180,718
Storage locker rentals	-	175,106
Photobooth income	134,347	21,194
Revenue from gift shop operations	-	6,676
Total revenue from performance obligations satisfied at a point in time	\$4,674,276	\$1,626,173
Revenue from performance obligations satisfied over time		
Commission income	\$ 471,930	\$ 93,865
Rental income	303,476	61,780
Total revenue from performance obligations satisfied over time	\$ 775,406	\$ 155,645
Revenue from sources other than performance obligations		
Proceeds from SBA PPP loan	\$ 523,232	\$ 479,665
Interest and investment income – net	451,656	337,609
Other revenue and support	45,561	73,077
Total revenue from sources other than performance obligations	\$1,020,449	\$ 890,351

NOTE K – 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 due to the COVID-19 pandemic), 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, 2021 and 2020 amounted to \$434,215 and \$174,488, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE K – LEASES (Continued)

Lessee (continued)

At December 31, 2021, future minimum lease payments approximated the following:

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

Lessor

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, 2021 and 2020 amounted to \$471,930 and \$93,865, 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, 2021 and 2020 amounted to \$303,476 and \$61,780, respectively. At December 31, 2021, future minimum lease receipts approximated the following:

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

NOTE L – 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, 2021, the Association's one-third share of the net book value of the capital improvements and equipment purchases was approximately \$63,200.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2021 and 2020

NOTE L – 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, 2021, the net book value of the capital improvements and equipment purchases was approximately \$205,800.

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, 2021, the net book value of the capital improvements and equipment purchases was approximately \$79,900.

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.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 4, 2022, 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.
