

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Years Ended December 31, 2022 and 2021**





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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the *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.

Change in Accounting Principle

As discussed in Note A to the financial statements, during the year ended December 31, 2022, the Association adopted new accounting guidance, Accounting Standards Update No. 2016-02, *Leases (Topic 842) – Leases: Amendments to the FASB Accounting Standards Codification*. Our opinion is not modified with respect to this matter.

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.

Responsibilities of Management for the Financial Statements (continued)

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 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

CW Associates, CPAs
Honolulu, Hawaii
April 26, 2023



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

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash (including savings accounts)	\$ 933,629	\$ 1,275,032
Accounts receivable – net	1,254,939	675,518
Pledges receivable, current – net	120,007	134,357
Prepaid expenses and other assets	<u>122,254</u>	<u>133,187</u>
Total current assets	2,430,829	2,218,094
INVESTMENTS	6,604,387	7,257,015
PLEDGES RECEIVABLE, Noncurrent – Net	11,479	108,954
PROPERTY AND EQUIPMENT – Net	26,019,290	24,671,106
HISTORICAL COLLECTION (See Note A)	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$35,065,985</u>	<u>\$34,255,169</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 293,887	\$ 100,412
Accrued liabilities	441,707	338,672
Notes payable – current	429,100	601,300
Total current liabilities	<u>1,164,694</u>	<u>1,040,384</u>
NOTES PAYABLE – Noncurrent	<u>9,970,425</u>	<u>11,576,088</u>
TOTAL LIABILITIES	<u>11,135,119</u>	<u>12,616,472</u>
NET ASSETS		
Net assets without donor restrictions	23,899,069	21,638,697
Net assets with donor restrictions	<u>31,797</u>	<u>-</u>
Total net assets	<u>23,930,866</u>	<u>21,638,697</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$35,065,985</u>	<u>\$34,255,169</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Admissions	\$ 6,608,015	\$ 4,539,929
Commission income	793,469	471,930
Net assets released from restrictions	632,558	2,337,185
Proceeds from SBA PPP loan	-	523,232
Interest and investment income (loss) – net	(702,859)	451,656
Rental income	364,393	303,476
Photobooth income	153,345	134,347
Grants and contributions without donor restrictions	56,992	111,804
Other revenue	140,030	45,561
Total revenue and support	<u>8,045,943</u>	<u>8,919,120</u>
Costs and expenses		
Program services		
Park operations	4,914,678	3,884,349
Cost of food concession operations	13,043	11,887
Cost of gift shop operations	13,043	11,887
Total program services	<u>4,940,764</u>	<u>3,908,123</u>
Supporting services		
Management and general	811,411	844,984
Fundraising and development	33,396	62,007
Total supporting services	<u>844,807</u>	<u>906,991</u>
Total costs and expenses	<u>5,785,571</u>	<u>4,815,114</u>
Increase in net assets without donor restrictions	<u>2,260,372</u>	<u>4,104,006</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Grants and contributions with donor restrictions	664,355	195,304
Net assets released from restrictions	<u>(632,558)</u>	<u>(2,337,185)</u>
Increase (decrease) in net assets with donor restrictions	<u>31,797</u>	<u>(2,141,881)</u>
INCREASE IN NET ASSETS	2,292,169	1,962,125
NET ASSETS – Beginning of year	<u>21,638,697</u>	<u>19,676,572</u>
NET ASSETS – End of year	<u>\$23,930,866</u>	<u>\$21,638,697</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, 2022

	Program Services			Supporting Services			2022 <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	\$ 1,255,692	\$ 5,292	\$ 5,292	\$ 1,266,276	\$ 179,464	\$ 13,284	\$ 192,748	\$ 1,459,024
Employee benefits	287,721	110	110	287,941	3,714	275	3,989	291,930
Payroll taxes	93,423	394	394	94,211	13,352	988	14,340	108,551
Total salaries and related expenses	<u>1,636,836</u>	<u>5,796</u>	<u>5,796</u>	<u>1,648,428</u>	<u>196,530</u>	<u>14,547</u>	<u>211,077</u>	<u>1,859,505</u>
Depreciation	855,420	3,605	3,605	862,630	122,256	9,050	131,306	993,936
Lease rent	590,502	2,297	2,297	595,096	77,885	5,765	83,650	678,746
Professional fees	546,083	-	-	546,083	96,577	-	96,577	642,660
Insurance	260,067	138	138	260,343	15,883	347	16,230	276,573
Interest Expense	-	-	-	-	261,353	-	261,353	261,353
Supplies	254,103	92	92	254,287	3,130	232	3,362	257,649
Repairs and maintenance	170,396	166	166	170,728	5,614	416	6,030	176,758
Utilities	145,840	615	615	147,070	20,843	1,543	22,386	169,456
Advertising and marketing	122,741	-	-	122,741	-	-	-	122,741
Bank and credit card service charges	121,312	-	-	121,312	-	657	657	121,969
Security	75,787	319	319	76,425	10,832	802	11,634	88,059
Hawaii general excise tax	64,955	-	-	64,955	-	-	-	64,955
Travel and meetings	13,437	-	-	13,437	-	-	-	13,437
Contributions to others	7,600	-	-	7,600	-	-	-	7,600
Other expenses	<u>49,599</u>	<u>15</u>	<u>15</u>	<u>49,629</u>	<u>508</u>	<u>37</u>	<u>545</u>	<u>50,174</u>
Total costs and expenses	<u>\$4,914,678</u>	<u>\$ 13,043</u>	<u>\$ 13,043</u>	<u>\$4,940,764</u>	<u>\$811,411</u>	<u>\$ 33,396</u>	<u>\$844,807</u>	<u>\$5,785,571</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
Lease rent	368,218	1,590	1,590	371,398	54,577	8,240	62,817	434,215
Professional fees	455,500	190	190	455,880	106,967	985	107,952	563,832
Insurance	169,494	723	723	170,940	34,297	3,747	38,044	208,984
Interest Expense	-	-	-	-	324,558	-	324,558	324,558
Supplies	226,189	87	87	226,363	2,998	453	3,451	229,814
Repairs and maintenance	120,708	93	93	120,894	3,186	481	3,667	124,561
Utilities	106,767	461	461	107,689	15,825	2,389	18,214	125,903
Advertising and marketing	70,494	-	-	70,494	-	-	-	70,494
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
Hawaii general excise tax	43,455	-	-	43,455	-	-	-	43,455
Travel and meetings	8,712	-	-	8,712	-	-	-	8,712
Contributions to others	189,064	-	-	189,064	-	-	-	189,064
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**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,292,169	\$ 1,962,125
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	993,936	765,018
Realized and unrealized (gains) losses on investments	916,117	(252,773)
(Gain) loss on disposal of property and equipment	(449)	54,655
(Increase) decrease in		
Accounts receivable – net	(579,421)	(549,451)
Pledges receivable – net	111,825	270,212
Prepaid expenses and other assets	10,933	(72,934)
Increase (decrease) in		
Accounts payable	193,475	(509,397)
Accrued liabilities	103,035	235,310
Net cash provided by operating activities	<u>4,041,620</u>	<u>1,902,765</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,623,970	2,012,201
Purchases of investments	(1,887,459)	(2,630,707)
Proceeds from sale of property and equipment	1,281	-
Purchases of property and equipment	<u>(2,342,952)</u>	<u>(687,415)</u>
Net cash used by investing activities	<u>(2,605,160)</u>	<u>(1,305,921)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to notes payable	-	1,007,698
Repayments of notes payable	<u>(1,777,863)</u>	<u>(728,828)</u>
Net cash provided (used) by financing activities	<u>(1,777,863)</u>	<u>278,870</u>
NET INCREASE (DECREASE) IN CASH	(341,403)	875,714
CASH – Beginning of year	<u>1,275,032</u>	<u>399,318</u>
CASH – End of year	<u>\$ 933,629</u>	<u>\$ 1,275,032</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 261,353	\$ 423,627
Interest capitalized during the year	\$ -	\$ 99,069

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, 2022 and 2021

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.

The Association; USS Missouri Memorial Association, Inc. (USS Missouri); and Pearl Harbor Aviation Museum (PHAM) have a ticketing services agreement with Service Systems Associates, Inc. (SSA) to outsource their admissions operations. Ticket prices for each park are independently determined by the Association, USS Missouri, and PHAM, respectively. The Association has concessionaire agreements with SSA to outsource its gift shop, food concession, and baggage storage operations in exchange for a percentage commission of all gift shop, food concession, and baggage storage sales.

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 2022 and 2021).

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.

**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, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2022 and 2021, the Association's cash balances at financial institutions exceeded the related federal deposit insurance by approximately \$748,400 and \$1,050,800, 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, 2022 and 2021), 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 (loss). Investments are classified as current or noncurrent based on their intended use.

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.

**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, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and photobooth income. 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 (loss), and other income. See Note J for disaggregation of revenue.

For performance obligations related to admissions and photobooth income, 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 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 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.

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 management's estimate of the time and effort of personnel. Advertising and marketing costs, which are expensed as incurred, amounted to \$122,741 and \$70,494 for the years ended December 31, 2022 and 2021, respectively.

**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, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 (none in 2022 and 2021). 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.

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 \$30,195 and \$24,608 for the years ended December 31, 2022 and 2021, 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 commission income, 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 \$64,955 and \$43,455 for the years ended December 31, 2022 and 2021, respectively.

**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, 2022 and 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2022 and 2021 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.

Adoption of New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) – Leases: Amendments to the FASB Accounting Standards Codification*. Under this ASU, lessees are required to recognize assets and liabilities on their balance sheets for all leases with a term of more than 12 months. The assets and liabilities recognize the rights and obligations created by each lease initially measured as the present value of lease payments. This recognition applies to all leases – capital and operating leases. Previously, only capital leases were recognized as assets and liabilities on balance sheets. This ASU also requires disclosures on the amount, timing and uncertainty of cash flows due to the leases, including qualitative and quantitative information.

The Association implemented this ASU during the year ended December 31, 2022 using the modified retrospective transition method, whereby leases that were longer than 12 months as of January 1, 2022 were evaluated under this ASU and the cumulative effect of initially applying this ASU was recognized as an adjustment to net assets as of that date. The cumulative effect of applying this ASU was not significant to the Association's financial position as of January 1, 2022 because the leases in effect on that date were operating leases and the present value of the future lease payments are not material to the financial statements or included only variable lease payments. Therefore, the respective assets and liabilities for these leases have not been recognized in the accompanying financial statements. See Note K for a summary of leases.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

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.

At December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Cash (including savings accounts)	\$ 933,629	\$ 1,275,032
Accounts receivable – net	1,254,939	675,518
Pledges receivable – net	120,007	134,357
Investments	6,604,387	7,257,015
Total financial assets	<u>8,912,962</u>	<u>9,341,922</u>
Donor-imposed restrictions	(31,797)	-
Investments in hedge fund	<u>(248,955)</u>	<u>(249,691)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,632,210</u>	<u>\$ 9,092,231</u>

NOTE C – PLEDGES RECEIVABLE

At December 31, 2022 and 2021, pledges receivable consisted of the following:

	<u>2022</u>	<u>2021</u>
Pledges receivable in		
Less than one year	\$ 126,007	\$ 140,357
One to five years	<u>12,050</u>	<u>114,400</u>
Total pledges receivable	138,057	254,757
Discount to present value at 5%	(571)	(5,446)
Discounted pledges receivable	<u>137,486</u>	<u>249,311</u>
Estimated allowance for uncollectible pledges receivable	<u>(6,000)</u>	<u>(6,000)</u>
Pledges receivable – net	<u>\$ 131,486</u>	<u>\$ 243,311</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

NOTE D – INVESTMENTS

At December 31, 2022 and 2021, investments consisted of the following:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$4,862,068	\$4,561,058	\$5,059,779	\$5,471,844
Money market funds	1,095,409	1,095,409	1,096,430	1,096,430
Exchange traded funds	664,087	698,965	251,358	439,050
Hedge funds	250,000	248,955	250,000	249,691
Total investments	<u>\$6,871,564</u>	<u>\$6,604,387</u>	<u>\$6,657,567</u>	<u>\$7,257,015</u>

At December 31, 2022, the cost of the investments exceeded their fair value by \$267,177. At December 31, 2021, the fair value of the investments exceeded their cost by \$599,448.

Interest and investment income (loss) consisted of the following for the years ended December 31, 2022 and 2021:

	2022	2021
Interest and dividends	\$ 231,427	\$224,761
Realized gains (losses) from sales of investments	(49,492)	175,842
Unrealized gains (losses) from holding investments	(866,625)	76,931
Investment fees	(18,169)	(25,878)
Interest and investment income (loss) – net	<u>\$ (702,859)</u>	<u>\$451,656</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, 2022 and 2021

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; and money market funds valued at stated value for which Level 1 valuation inputs were required. At December 31, 2022 and 2021, there were no investments for which Level 2 and 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.

The following sets forth by level, within the fair value hierarchy, the Association’s investments at fair value as December 31, 2022:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Bond funds	\$ 1,800,188	\$ -	\$ -	\$ 1,800,188
Money market	845,086	-	-	845,086
U.S. equity growth	728,906	-	-	728,906
U.S. equity value	382,078	-	-	382,078
Alternative income	232,187	-	-	232,187
International equity value	212,423	-	-	212,423
International equity growth	210,612	-	-	210,612
U.S. equity blend	149,578	-	-	149,578
Total mutual funds	<u>4,561,058</u>	-	-	<u>4,561,058</u>
Money market funds	<u>1,095,409</u>	-	-	<u>1,095,409</u>
Exchange traded funds				
U.S. equity growth	240,377	-	-	240,377
Bond funds	174,330	-	-	174,330
U.S. equity value	161,811	-	-	161,811
International equity	122,447	-	-	122,447
Total exchange traded funds	<u>698,965</u>	-	-	<u>698,965</u>
	<u>\$ 6,355,432</u>	<u>\$ -</u>	<u>\$ -</u>	6,355,432
Hedge funds				<u>248,955</u>
Total investments at fair value				<u>\$ 6,604,387</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

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, 2021:

	<u>Level 1</u>	<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
Alternative income	253,632	-	-	253,632
International equity value	259,103	-	-	259,103
International equity growth	261,920	-	-	261,920
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, 2022 and 2021

NOTE F – PROPERTY AND EQUIPMENT

At December 31, 2022 and 2021, property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Building and improvements	\$28,090,680	\$28,091,962
Submarine and improvements	2,433,887	767,988
Equipment and fixtures	136,368	132,698
Vehicles	14,000	27,997
Construction in progress	26,876	15,785
Total	<u>30,701,811</u>	<u>29,036,430</u>
Accumulated depreciation	<u>(4,682,521)</u>	<u>(4,365,324)</u>
Property and equipment – net	<u>\$26,019,290</u>	<u>\$24,671,106</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. The Association had dry dock maintenance and restoration performed on its submarine, which was completed in October 2022 at a cost of approximately \$2.4 million.

NOTE G – SBA PPP LOAN

The federal Consolidated Appropriations Act, 2021, which was enacted on December 27, 2020, provided for a Paycheck Protection Program (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 U.S. Small Business Administration (SBA) PPP second draw loan from Bank of Hawaii (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, 2022 and 2021

NOTE H – NOTES PAYABLE

At December 31, 2022 and 2021, notes payable consisted of the following:

	<u>2022</u>	<u>2021</u>
Note payable to the U.S. Department of Agriculture (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.	\$ 6,617,880	\$ 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.	3,781,645	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. Retired at stated value in October 2022.	-	<u>1,392,510</u>
Total	10,399,525	12,177,388
Notes payable – current	<u>(429,100)</u>	<u>(601,300)</u>
Notes payable – noncurrent	<u>\$ 9,970,425</u>	<u>\$ 11,576,088</u>

The note payable to BOH required the Association to meet certain financial ratios and make periodic reports to BOH.

At December 31, 2022, scheduled maturities of the notes payable is as follows:

Years Ending December 31st	
2023	\$ 429,100
2024	438,900
2025	448,800
2026	459,000
2027	469,500
Thereafter (cumulative)	<u>8,154,225</u>
Total note payable	<u>\$ 10,399,525</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

NOTE I – NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2022 and 2021, net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Net assets with donor restrictions for		
Scholarships	\$31,797	\$ -
Total net assets with donor restrictions	<u>\$31,797</u>	<u>\$ -</u>

NOTE J – DISAGGREGATION OF REVENUE

For the years ended December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Revenue from performance obligations satisfied at a point in time		
Admissions	\$6,608,015	\$4,539,929
Photobooth income	<u>153,345</u>	<u>134,347</u>
Total revenue from performance obligations satisfied at a point in time	<u>\$6,761,360</u>	<u>\$4,674,276</u>
Revenue from performance obligations satisfied over time		
Commission income	\$ 793,469	\$ 471,930
Rental income	<u>364,393</u>	<u>303,476</u>
Total revenue from performance obligations satisfied over time	<u>\$1,157,862</u>	<u>\$ 775,406</u>
Revenue from sources other than performance obligations		
Proceeds from SBA PPP loan	\$ -	\$ 523,232
Interest and investment income (loss) – net	(702,859)	451,656
Other revenue	<u>140,030</u>	<u>45,561</u>
Total revenue from sources other than performance obligations	<u>\$ (562,829)</u>	<u>\$1,020,449</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

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 is 6% of annual admission revenue and 18% of all other operating revenue, as defined in the lease agreement, and is considered a variable lease payment. 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. The present value of future lease payments for the equipment operating lease is not material to the financial statements, therefore, the related right of use asset and lease liability is not recognized in the financial statements. Lease rent expense for the years ended December 31, 2022 and 2021 amounted to \$678,746 and \$434,215, respectively.

At December 31, 2022, future operating lease rent payments for the facilities lease and future minimum lease payments for the equipment lease approximated the following:

Year Ending December 31st	
2023	\$ 402,100
2024	\$ 402,100
2025	\$ 377,600
2026	\$ 360,000
2027	\$ 360,000

Lessor

The Association leases its gift shop, 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, 2022 and 2021 amounted to \$793,469 and \$471,930, 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, 2022 and 2021 amounted to \$364,393 and \$303,476, respectively. At December 31, 2022, future minimum lease receipts approximated the following:

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2022 and 2021

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, 2022, the Association's one-third share of the net book value of the capital improvements and equipment purchases was approximately \$37,100.

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, 2022, the net book value of the capital improvements and equipment purchases was approximately \$179,200.

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, 2022, the net book value of the capital improvements and equipment purchases was approximately \$74,100.

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 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 April 26, 2023, 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.