PACIFIC BATTLESHIP CENTER

Financial Statements

(With Independent Auditor's Report Thereon)

December 31, 2012

MGO Certified Public Accountants.

PACIFIC BATTLESHIP CENTER

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Independent Auditor's Report

The Board of Directors
Pacific Battleship Center:

We have audited the accompanying financial statements of Pacific Battleship Center (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Battleship Center as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP

Newport Beach, California
July 31, 2013

Pacific Battleship Center
Statement of Financial Position
December 31, 2012

Assets		
Cash and cash equivalents	$	122,901
Accounts receivable		80,942
Contributions receivable		1,500,000
Engineering/machine shop materials		228,977
Deposits		8,334
Property and equipment, net		4,576,632
Total assets	$	6,517,786
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	1,472,998
Accrued and other liabilities		87,099
Capital lease obligations		306,636
Notes payable		884,834
Total liabilities	$	2,751,567
Net Assets:		
Unrestricted		2,266,219
Temporarily restricted		1,500,000
Total net assets		3,766,219
Total liabilities and net assets	$	6,517,786

See accompanying notes to financial statements.

Pacific Battleship Center
Statement of Activities
For the year ended December 31, 2012

	Unrestricted	Temporarily restricted	Total
Revenues and other support:			
Admissions	$ 2,333,877	$ -	$ 2,333,877
Contributions	3,926,704	1,500,000	5,426,704
Commissions	233,616	-	233,616
Other income	210,685	-	210,685
Total revenues	6,704,882	1,500,000	8,204,882
Expenses:			
Program services	3,249,380	-	3,249,380
General and administrative	396,227	-	396,227
Fundraising	571,332	-	571,332
Total expenses	4,216,939	-	4,216,939
Change in net assets	2,487,943	1,500,000	3,987,943
Net assets, beginning of year	(221,724)	-	(221,724)
Net assets, end of year	$ 2,266,219	$ 1,500,000	$ 3,766,219

See accompanying notes to financial statements.

Pacific Battleship Center
Statement of Cash Flows
For the year ended December 31, 2012

Cash flows provided by operating activities:		
Change in net assets	$	3,987,943
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		220,424
Change in assets and liabilities:		
Accounts receivable		(80,942)
Contributions receivable		(1,500,000)
Engineering/machine shop materials		(1,065)
Deposits		(8,334)
Accounts payable		1,343,302
Accrued and other liabilities		80,868
Cash provided by operating activities		4,042,196
Cash flows from investing activities:		
Purchases of property and equipment		(4,508,466)
Cash used in investing activities		(4,508,466)
Cash flows from financing activities:		
Proceeds from issuance of notes payable		550,000
Payments on capital lease obligations		(78,147)
Cash used in investing activities		471,853
Net increase in cash and cash equivalents		5,583
Cash and cash equivalents, beginning of year		117,318
Cash and cash equivalents, end of year	$	122,901

See accompanying notes to financial statements.

(1) Organization

The Pacific Battleship Center (PBC or Organization) is a California not-for-profit corporation, with a mission to:

- celebrate the American spirit through the preservation and interpretation of the Battleship USS Iowa,
- to educate the public on the accomplishments and sacrifices of American patriots, and
- to engage guests in unique and exciting ways that bring the ship to life by connecting the past with the future.

The PBC accomplishes this through the operation of a museum of naval history aboard the former Battleship USS Iowa (BB-61), which is moored in the Port of Los Angeles. Following ship restoration and pre-opening preparation, the ship was opened to the public in July 2012.

The City of Los Angeles, through its Board of Harbor Commissioners, owns the pier where the USS Iowa is moored. The PBC leases the pier under an agreement that requires PBC to pay monthly rent based on the greater of a) a fixed-minimum monthly rental, or b) an amount equal to a percentage of admission, commission and other income arising from any business, use or operation occurring on the premises. In accordance with accounting principles generally accepted in the United States of America, the fair value of the use of the pier in excess of the amounts paid is to be reflected on the Organization's financial statements. The fair value of the lease may be in excess of the amounts paid under the agreement. However, since no objective basis is available to measure the related value, no amounts have been reflected in the financial statements for the use of the premises.

The United States Navy has allowed PBC to use the USS Iowa as a maritime museum. In accordance with accounting principles generally accepted in the United States of America, the fair value of the use of the USS Iowa is to be reflected on the PBC's financial statements. However, since no objective basis is available to measure the related value, no amounts have been recorded in the financial statements for the use of the ship.

(2) Summary of Significant Accounting Policies

(a) Basis of presentation

The financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 *Presentation of Financial Statements – Not-for-Profit Entities*. The assets, liabilities, and net assets of the PBC are reported within categories as follows:

Unrestricted net assets – Net assets not subject to donor imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the PBC and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the PBC. The income from these assets is available for either general operations or specific programs as specified by the donor. The PBC did not have any permanently restricted net assets as of December 31, 2012.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(b) Cash and cash equivalents

The PBC considers all highly liquid instruments purchased with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents consist of cash temporarily invested in money market accounts. The PBC maintains its cash and cash equivalents in one financial institution. The accounts maintained in this institution are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000 for interest bearing accounts and unlimited for non-interest bearing accounts until December 31, 2012. At December 31, 2012, the PBC was not in excess of the FDIC insurance limits for interest bearing accounts.

(c) Contributions receivable

Unconditional promises to give are recorded as contributions receivable. The PBC discounts contributions that are expected to be collected after one year at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue.

(d) Property and equipment

Property and equipment are carried at cost at date of purchase or fair value at date of donation.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Ship restoration and improvements and furniture and equipment are depreciated over 10 years. Depreciation commenced in July 2012, when the ship opened to the public. The costs of normal maintenance and repairs and minor replacements are charged to expense when incurred.

(e) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, contribution receivable, accounts payable and accrued and other liabilities at December 31, 2013, approximate fair value because of the short term maturity of these financial instruments.

(f) Engineering/machine shop materials

When the PBC took possession of the USS Iowa, it contained excess quantities of various metals, such as aluminum, brass and copper. It is anticipated these materials will be consumed in the repair and maintenance of the ship. The fair value is estimated based on current retail prices, and has been recorded in the accompanying financial statements.

In addition, the ship included wooden decking, the majority of which consisted of teak wood. However, unlike the metals discussed above, this wood is not in excess of the ship's needs, and has not been recorded in the accompanying financial statements.

(g) Commissions

The PBC generates commission revenue from the operation of its gift shop and its photo booth, both of which are operated by third parties. In addition, the PBC also generates smaller amounts of commission revenue from event catering, food concessions, soft drink machines and ATM machines.

(h) Tax exempt status

The PBC is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California and, generally, is subject to state and federal income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which the PBC was granted exemption. No income tax provision has been recorded as net income, if any, from unrelated trade or business is, in the opinion of management, not material to the financial statements taken as a whole.

(Continued)

(i) Uncertainty in income taxes

The PBC has evaluated the financial statement impact of tax positions taken or expected to be taken in its tax returns. The PBC has reviewed its positions for all open tax years and has determined that no provision for income taxes is required.

(j) Donated services

Donated services are reflected in the accompanying financial statements at their estimated fair values at the date of receipt. Contributions of services are recognized if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The PBC also has community volunteers that provide their services through oversight and hands-on participation in the PBC's activities. Such contributed services have not been recognized in the accompanying financial statements as they do not require specialized skills.

(k) Functional allocation of expenses

The costs for providing various program services and general administrative services, including fundraising expenses, have been summarized on a functional basis in the statement of activities. Program related expenses are tracked on a time entry system and reviewed and allocated regularly, and those costs not directly associated with program services are allocated to general administration expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(l) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) Property and equipment

Property and equipment are summarized as follows at December 31, 2012:

Furniture and equipment	$	1,158,490
Ship restoration and improvement		3,638,566
Subtotal capital assets		4,797,056
Accumulated depreciation		(220,424)
Total property and equipment, net	$	4,576,632

Depreciation expense was $220,424 for the year ended December 31, 2012.

(4) Contributions receivable

Amounts recorded as contributions receivable at December 31, 2012, are expected to be received as follows:

Year ending December 31,		
2013	$	500,000
2014		500,000
2015		500,000
Total contributions receivable	$	1,500,000

(5) Capital lease obligations

Following is a summary of equipment held under capital lease at December 31, 2012:

400KW Caterpillar generator	$	106,925
230KW Caterpillar generator		75,000
Ticketing booth		90,648
Forklift		34,063
	$	306,636

Future minimum lease payments under capital lease obligations as of December 31, 2012, are as follows:

Year ending December 31,		
2013	$	185,064
2014		133,275
2015		29,280
2016		29,280
Total future minimum lease payments		376,899
Less amount representing interest		(70,263)
Present value of future minimum lease payments	$	306,636

(Continued)

(6) Notes payable

At December 31, 2012, notes payable consist of $884,834. Included in this amount are three notes due to related parties totaling $809,834. These notes bear interest at rates ranging between 5% and 10%, and are payable on demand. The remaining $75,000 consists of two notes bearing interest rated ranging from 4.0% and 10.0%, with $50,000 due upon demand, and $25,000 due March 31, 2014.

Estimated maturities of notes payable are as follows:

Year ending December 31,		
2013	$	859,834
2014		25,000
Total	$	884,834

(7) Subsequent events

The PBC has evaluated subsequent events from the date of the statement of financial position through July 31, 2013, which is the date the financial statements were issued.

As of December 31, 2012, approximately $1.208 million of accounts payable represented pre-opening amounts, i.e., amounts arising from activities prior to the opening of the USS Iowa to the public. Subsequent to year end, PBC began negotiating settlement of these amounts with various vendors. As of July 31, 2013, these negotiations have resulted in settlement of $694,000 of the outstanding amounts recorded.