

**Friends of the Battleship
North Carolina, Inc.**

Financial Statements
For the Year Ended September 30, 2019
(with Comparative Totals for 2018)



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Friends of the Battleship North Carolina, Inc.

We have audited the accompanying financial statements of Friends of the Battleship North Carolina, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Friends of the Battleship North Carolina, Inc. as of September 30, 2019, 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.

Report on Summarized Comparative Information

We have previously audited the Friends of the Battleship North Carolina, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eamy & Company, L.L.P.

Wilmington, North Carolina
January 15, 2020

Friends of the Battleship North Carolina, Inc.
Statement of Financial Position
As of September 30, 2019

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Total
ASSETS				
Current Assets				
Cash & cash equivalents	\$ 513,767	\$ -	\$ 513,767	\$ 2,134,015
Certificate of deposit	313,554	1,776,715	2,090,269	-
Pledges receivable (Note 4)	-	61,184	61,184	762,865
Other receivables & current assets	2,050	37,754	39,804	11,054
Total Current Assets	<u>829,371</u>	<u>1,875,653</u>	<u>2,705,024</u>	<u>2,907,934</u>
Pledges receivable - non-current, net of \$5,000 allowance for uncollectibles	<u>-</u>	<u>79,800</u>	<u>79,800</u>	<u>111,334</u>
Total Assets	<u>\$ 829,371</u>	<u>\$ 1,955,453</u>	<u>\$ 2,784,824</u>	<u>\$ 3,019,268</u>
LIABILITIES & NET ASSETS				
Current Liabilities				
Accounts payable	\$ 5,224	\$ -	\$ 5,224	\$ 9,292
Battleship payable	23,798	-	23,798	55,458
Unearned revenue (Note 5)	-	134,444	134,444	164,263
Total Current Liabilities/Total Liabilities	<u>29,022</u>	<u>134,444</u>	<u>163,466</u>	<u>229,013</u>
Net Assets				
Without donor restrictions	762,595	-	762,595	727,104
Board-designated	37,754	-	37,754	-
With donor restrictions	<u>-</u>	<u>1,821,009</u>	<u>1,821,009</u>	<u>2,063,151</u>
Total Net Assets	<u>800,349</u>	<u>1,821,009</u>	<u>2,621,358</u>	<u>2,790,255</u>
Total Liabilities & Net Assets	<u>\$ 829,371</u>	<u>\$ 1,955,453</u>	<u>\$ 2,784,824</u>	<u>\$ 3,019,268</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Friends of the Battleship North Carolina, Inc.
Statement of Activities
For the Year Ended September 30, 2019

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Total
SUPPORT & REVENUE				
Contributions	\$ 13,241	\$ 117,898	\$ 131,139	\$ 132,568
Membership dues	55,800	-	55,800	40,885
Grants	-	77,718	77,718	199,537
Interest income	43,667	-	43,667	8,484
Other revenue	10,054	-	10,054	17,868
Net assets released from restriction	437,758	(437,758)	-	-
Total Support & Revenue	<u>560,520</u>	<u>(242,142)</u>	<u>318,378</u>	<u>399,342</u>
OPERATING EXPENSES				
Program	398,863	-	398,863	97,675
Administrative	23,587	-	23,587	22,678
Fundraising	64,825	-	64,825	78,842
Total Operating Expenses	<u>487,275</u>	<u>-</u>	<u>487,275</u>	<u>199,195</u>
Change in Net Assets	73,245	(242,142)	(168,897)	200,147
Net Assets, Beginning	<u>727,104</u>	<u>2,063,151</u>	<u>2,790,255</u>	<u>2,590,108</u>
Net Assets, Ending	<u>\$ 800,349</u>	<u>\$ 1,821,009</u>	<u>\$ 2,621,358</u>	<u>\$ 2,790,255</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Friends of the Battleship North Carolina, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2019

	2019				2018 Comparative Total
	Program	Administrative	Fundraising	Total	
Supplies	\$ 3,285	\$ 3,307	\$ 7,945	\$ 14,537	\$ 8,859
Printing & postage	-	1,723	3,118	4,841	3,082
Professional fees	120	5,291	4,749	10,160	13,985
Travel & lodging	-	-	161	161	-
Membership dues	227	-	-	227	223
Gifts, grants, & donations	48,820	-	-	48,820	58,358
Generations Campaign (Note 1)	346,411	11,050	48,852	406,313	112,875
Bad debt expense	-	600	-	600	-
Bank service charges	-	1,616	-	1,616	1,813
Total Expenses	<u>\$ 398,863</u>	<u>\$ 23,587</u>	<u>\$ 64,825</u>	<u>\$ 487,275</u>	<u>\$ 199,195</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Friends of the Battleship North Carolina, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2019

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Comparative Total
Cash Flows From Operating Activities				
Cash Collections for:				
Contributions	\$ 478,049	\$ 461,254	\$ 939,303	\$ 1,125,772
Other income	53,721	-	53,721	21,352
Less: Cash Payments for:				
Operating expenses	(523,003)	-	(523,003)	(191,368)
Net Cash Provided (Used)				
By Operating Activities	8,767	461,254	470,021	955,756
Cash Flows From Investing Activities				
Net Cash Provided (Used)				
By Investing Activities	(275,800)	(1,814,469)	(2,090,269)	-
Cash Flows From Financing Activities				
Net Cash Provided (Used)				
By Financing Activities	-	-	-	-
Net Increase (Decrease) in Cash	(267,033)	(1,353,215)	(1,620,248)	955,756
Cash & Cash Equivalents, Beginning	780,800	1,353,215	2,134,015	1,178,259
Cash & Cash Equivalents, Ending	<u>\$ 513,767</u>	<u>\$ -</u>	<u>\$ 513,767</u>	<u>\$ 2,134,015</u>
Reconciliation of Change in Net Assets to Cash Provided (Used) By Operating Activities:				
Change in net assets	\$ 73,245	\$ (242,142)	\$ (168,897)	\$ 200,147
Adjustments to Reconcile to Net Cash Provided (Used) By Operating Activities:				
Bad debt	-	600	600	(5,000)
Change in Current Assets & Liabilities (Use) Source:				
Receivables	-	732,615	732,615	778,342
Other receivables & current assets	(28,750)	-	(28,750)	311
Accounts & battleship payables	(35,728)	-	(35,728)	7,516
Unearned revenue	-	(29,819)	(29,819)	(25,560)
Net Cash Provided (Used)				
By Operating Activities	<u>\$ 8,767</u>	<u>\$ 461,254</u>	<u>\$ 470,021</u>	<u>\$ 955,756</u>
Supplemental Disclosure				
Interest paid			<u>\$ -</u>	<u>\$ -</u>
Income taxes paid			<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an Integral Part of these Financial Statements

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

1. ORGANIZATION

Friends of the Battleship North Carolina, Inc. (the "Friends"), a nonprofit corporation organized under the laws of North Carolina, was established for the purpose of promoting and supporting activities of the USS North Carolina Battleship Memorial, including exhibits, interpretation, educational programs, artifact acquisition, and restoration projects. The USS North Carolina Battleship (the "Battleship") is moored in Wilmington, North Carolina where it serves as the state's permanent memorial to the 11,000 North Carolinians who died during World War II.

The USS North Carolina Battleship Commission (the "Commission") was established as an enterprise activity of the state of North Carolina in 1960 to oversee the administration and operation of the Battleship. The Friends is a legally separate nonprofit corporation reported as a discretely presented component unit in the Commission's combined financial statements based on the nature and significance of its relationship to the Commission.

In fiscal year 2010, the Friends initiated a multi-year fundraising project called the Generations Campaign. Gifts to the Generations Campaign will fund hull repairs and upgrades to educational programs enabling the work of memorializing the Battleship and educating all those who come aboard to continue. The Commission has received an appropriation through the North Carolina General Assembly (under the Repair and Restoration Budget) for hull repairs. Funds raised by the Friends will augment the appropriation in a public private partnership to support the hull repair.

Through September 30, 2019, the Friends have transferred \$4,785,617 in funds raised through the Generations Campaign and related grants to the Commission to support construction of the State Employees Credit Union (SECU) Memorial Walkway and a cofferdam. The SECU Memorial Walkway is designed to provide greater public access to the Battleship. The cofferdam will create a dry workspace for completing repairs to the Battleship's hull.

2. SIGNIFICANT ACCOUNTING POLICIES

Change in Accounting Principle

During the year ended September 30, 2019, the Friends adopted Accounting Standards Update ("ASU") 2016-14-Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This accounting standard is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The 2018 financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2019 only as allowed by ASU 2016-14. The retrospective application resulted in unrestricted net assets of \$727,104 being reported as net assets without donor restrictions and restricted net assets of \$2,063,151 being reported as net assets with donor restrictions as of September 30, 2018.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Basis of Presentation

The Friends prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit organizations using the accrual basis of accounting. Accordingly, support and revenue are recognized when earned and expenses are recorded when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of support and revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Friends' management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Net Assets

Net assets, support and revenue, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- or grantor-imposed restrictions. The Board of Directors has designated \$37,754 of net assets for board-designated funds as of September 30, 2019 from net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, which is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The \$1,821,009 balance of net assets with donor restrictions as of September 30, 2019 is available for restoration of the Battleship's hull and other purposes of the Generations Campaign.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts. From time to time during the periods presented, the Friends has had cash balances in financial institutions that have exceeded the federal depository insurance limits. The Friends deposits its cash with high quality institutions, and management believes the Friends is not exposed to significant credit risk on those amounts.

Cash and cash equivalents are as follows as of September 30:

	2019	2018
Checking accounts	\$ 500,934	\$ 561,649
Money market accounts	12,833	1,572,366
Total Cash & Cash Equivalents	<u>\$ 513,767</u>	<u>\$ 2,134,015</u>

Certificate of Deposit

A certificate of deposit that has not yet matured is held at a financial institution. The interest rate on the certificate of deposit approximated year end fair market value; therefore, no market adjustment was required as of September 30, 2019. The book balance of the Friends' certificate of deposit is as follows as of September 30:

	2019	2018
BB&T 2.25% CD 12/13/2019	<u>\$ 2,090,269</u>	\$ -
Total Certificate of Deposit	<u>\$ 2,090,269</u>	<u>\$ -</u>

Pledges Receivable

Pledges receivable are stated at the amount that management expects to collect. Management provides for probable uncollectible amounts through the allowance method. Allowances for uncollectible pledges receivable are based on analysis and aging of pledges receivable.

Unearned Revenue

The Friends receives funds under various grant arrangements, which are earned as obligations are fulfilled to the grantors. Accordingly, amounts collected for these purposes are shown in the statement of financial position as a current liability called unearned revenue.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Support and Revenue Recognition

Support and revenue are recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, such as matching grants, are not recognized until they become unconditional, which is until all conditions on which they depend are substantially met.

Gifts of Long-Lived Assets

The Friends reports gifts of land, buildings, equipment, and in-kind contributions as unrestricted, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Friends reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Gifts-In-Kind Contributions

The Friends periodically receive contributions in a form other than cash or investments. If the Friends receives a contribution of land, buildings, or equipment, the contributed asset is recognized as an asset at its estimated fair value at the date of gift, provided that the value of the asset and its estimated useful life meets the Friends' capitalization policy. Donated supplies are recorded as contributions at the date of gift and as expenses when the donated items are placed into service or distributed.

The Friends benefit from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Friends' program operations and in its fundraising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in the financial statements. GAAP allows recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills. No amounts for donated services were recognized in the financial statements as the criteria for recognition have not been met. However, volunteers donated approximately 4,070 hours of time for the year ended September 30, 2019 and 2,819 hours of time for the year ended September 30, 2018 to the Friends.

Highlights of those efforts include the following:

- Cataloging, organizing, and inventorying the archives, library, and artifact collections.
- Conducting research on the artifact collections to provide interpretation about the Battleship through live programming, tours, and written articles.
- Restoration work on the Battleship's radio transmitter room.
- Providing interpretation to the public in various areas of the Battleship, including the gun house, plotting room, and machinery room.
- Assisting Battleship museum store staff during the annual inventory and with crowd control during high visitation periods (i.e. school groups).

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Expense Recognition and Allocation

The cost of providing the Friends' programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Friends. Administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising and advertising costs are expensed as incurred even though they may result in contributions received in future years. Fundraising activities include publicizing and conducting fundraising campaigns; maintaining donor lists; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Friends' financial statements for the year then ended, from which the summarized information was derived.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Income Taxes

The Friends is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, it is exempt from income tax on related income pursuant to Section 501(a) of the Code and contributions may be deductible to donors. The Friends files Form 990 with the Internal Revenue Service (IRS) annually; those forms are generally subject to examination by the IRS for a period of up to three years after they are filed.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

Subsequent Events

Subsequent events have been evaluated through January 15, 2020, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available to meet general expenditures over the next 12 months are as follows as of September 30:

	<u>2019</u>
Operating Assets at Year End:	
Cash & cash equivalents	\$ 513,767
Certificate of deposit	313,554
Other receivables & current assets	<u>2,050</u>
Total Operating Assets at Year End	<u>829,371</u>
 Plus: Net assets with purpose or time restrictions to be met in less than a year	 <u>61,184</u>
 Financial Assets Available to Meet General Expenditures Over the Next 12 Months	 <u><u>\$ 890,555</u></u>

The Friends operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The accompanying statement of cash flows on page 6 identifies the sources and uses of cash and shows positive cash flow generated by operations for the year ended September 30, 2019. The Friends regularly monitors liquidity required to meet its operating needs and other contractual commitments.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

4. PLEDGES RECEIVABLE

As of September 30, 2019, the Friends have raised approximately \$8,805,599, which exceeds the campaign goal of \$8,000,000. Of the \$8,805,599 raised, \$140,984 remains outstanding and is expected to be collected as follows:

2020	\$ 61,184
2021	37,100
2022	36,600
2023	<u>11,100</u>
Total	145,984
Less: Allowance for uncollectibles	<u>(5,000)</u>
Pledges Receivable, Net	<u><u>\$ 140,984</u></u>

Pledges receivable are stated at the full amount of outstanding pledges made by donors, less a \$5,000 allowance for uncollectibles. Donor pledge balances may be paid in lump-sum billings or received in monthly or quarterly employee payroll deductions. No interest is charged against unpaid balances. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of the pledges that will not be collected. Management evaluated historical write-offs as a percentage of the total pledges received for each campaign year to estimate a general allowance to apply to the current year campaign pledge total. This estimate may be adjusted for management's estimate of any changes in current economic conditions that might give rise to results that differ from past experience and, at times, the amount of the adjustment can be material. Of the total pledges receivable, \$61,184 is due in the subsequent fiscal year and is shown in the statement of financial position as a current asset. The remaining \$84,800, net of a \$5,000 allowance for uncollectibles, is shown as a non-current asset.

Friends of the Battleship North Carolina, Inc.
Notes to Financial Statements
September 30, 2019

5. GRANTS

The Friends receive grants from various organizations to fund Battleship improvement projects. During fiscal year 2018, these projects included safety upgrades, SECU Memorial Walkway and cofferdam construction, education, interpretive displays, and new or enhanced educational displays. Grant funding is deferred and reported as unearned revenue until the purpose of the grant has been met, at which time the funds become grant revenue.

Grant activity consists of the following for the year ended September 30, 2019:

<u>Grants</u>	<u>Unearned Revenue Beginning of Fiscal Year</u>	<u>Grants Received</u>	<u>Fiscal Year 2019 Grant Revenue</u>	<u>Unearned Revenue End of Fiscal Year</u>
<u>Friends</u>				
Other friends	\$ -	\$ 2,375	\$ (2,375)	\$ -
Total	-	2,375	(2,375)	-
<u>Generations Campaign</u>				
Piedmont Natural Gas	32,040	-	(29,819)	2,221
Martin Marietta Materials	132,223	-	-	132,223
Total	164,263	-	(29,819)	134,444
Total Unearned Revenue	<u>\$ 164,263</u>	<u>\$ 2,375</u>	<u>\$ (32,194)</u>	<u>\$ 134,444</u>

6. RISK MANAGEMENT

The majority of the Friends' contributions and grants are received from corporations, foundations, and individuals located in the southeastern North Carolina area. As such, the Friends' ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of North Carolina. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for the Friends' services.