

UDT-SEAL Museum Association, Inc.
ANNUAL FINANCIAL REPORT

December 31, 2017

UDT-SEAL Museum Association, Inc.
ANNUAL FINANCIAL REPORT

Year Ended December 31, 2017

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Report of Independent Auditors

To the Board of Directors
UDT-SEAL Museum Association, Inc.
Fort Pierce, Florida

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of UDT-SEAL Museum Association, Inc. (a nonprofit organization), as of December 31, 2017, and the related statements of support and revenues, expenses and changes in net assets – modified cash basis, changes in cash – modified cash basis and functional expenses – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Fort Pierce / Stuart

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To the Board of Directors
UDT-SEAL Museum Association, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of UDT-SEAL Museum Association, Inc. as of December 31, 2017, and its revenue collected and expenses paid during the year ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Berger Toombs Elam
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

September 19, 2018

UDT-SEAL Museum Association, Inc.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2017

Assets

Current Assets

Cash and equivalents	\$ 1,362,344
Investments	961,797
Inventory	200,928
Total Current Assets	<u>2,525,069</u>

Fixed Assets

Land	261,800
Buildings and improvements	203,825
Plaques, exhibits and displays	4,470,829
Leasehold improvements	1,814,218
Furniture and equipment	216,412
Signage	72,238
Less - accumulated depreciation	<u>(823,669)</u>
Total Fixed Assets	<u>6,215,653</u>

Total Assets	<u><u>\$ 8,740,722</u></u>
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Liabilities and Net Assets

Current Liabilities

Credit card payable	\$ 13,014
Other liabilities	16,134
Total Current Liabilities	<u>29,148</u>

Net Assets

Temporarily restricted	156,371
Unrestricted - board designated endowment fund	530,043
Unrestricted	<u>8,025,160</u>

Total Net Assets	<u>8,711,574</u>
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Total Liabilities and Net Assets	<u><u>\$ 8,740,722</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

UDT-SEAL Museum Association, Inc.
STATEMENT OF SUPPORT AND REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Support			
Contributions	\$ 1,392,250	\$ 156,371	\$ 1,548,621
State grant	25,000	-	25,000
Archival grant	15,965	-	15,965
Total Support	<u>1,433,215</u>	<u>156,371</u>	<u>1,589,586</u>
Revenues			
Fundraising, net of expenses (\$572,689)	899,510	-	899,510
Admissions	475,327	-	475,327
Ship store, net of expenses (\$353,495)	180,242	-	180,242
Memberships	58,090	-	58,090
Investment income	43,363	-	43,363
Miscellaneous income	19,334	-	19,334
Total Revenues	<u>1,675,866</u>	<u>-</u>	<u>1,675,866</u>
Total Support and Revenues	<u>3,109,081</u>	<u>156,371</u>	<u>3,265,452</u>
Expenses			
Program Services			
Public education	1,030,531	-	1,030,531
Trident House	83,643	-	83,643
Total Program Services	<u>1,114,174</u>	<u>-</u>	<u>1,114,174</u>
Support Services			
General administration	160,991	-	160,991
Fundraising	197,444	-	197,444
Total Supporting Services	<u>358,435</u>	<u>-</u>	<u>358,435</u>
Total Expenses	<u>1,472,609</u>	<u>-</u>	<u>1,472,609</u>
Change in Net Assets before Loss	1,636,472	156,371	1,792,843
Loss on securities	<u>(2,271)</u>	<u>-</u>	<u>(2,271)</u>
Change in Net Assets	1,634,201	156,371	1,790,572
Net Assets - January 1, 2017	<u>6,921,002</u>	<u>-</u>	<u>6,921,002</u>
Net Assets - December 31, 2017	<u><u>\$ 8,555,203</u></u>	<u><u>\$ 156,371</u></u>	<u><u>\$ 8,711,574</u></u>

The accompanying notes to financial statements are an integral part of this statement.

UDT-SEAL Museum Association, Inc.
STATEMENT OF CHANGES IN CASH - MODIFIED CASH BASIS
For the Year Ended December 31, 2017

Cash Flows From Operating Activities

Increase in net assets	\$ 1,790,572
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	198,431
Amortization	6,487
Loss on securities	2,271
Increase in inventory	(24,500)
Increase in other liabilities	7,430
Increase in credit cards payable	7,240
Decrease in deferred revenues	<u>(15,965)</u>
Net Cash Provided by Operating Activities	<u>1,971,966</u>

Cash Flows Used by Investing Activities

Purchases of fixed assets	(1,237,786)
Purchases of marketable securities	(78,004)
Sales of marketable securities	<u>5,407</u>
Net Cash Used by Investing Activities	<u>(1,310,383)</u>

Net Increase in Cash	661,583
Cash, January 1, 2017	<u>700,761</u>
Cash, December 31, 2017	<u><u>\$ 1,362,344</u></u>

The accompanying notes to financial statements are an integral part of this statement.

UDT-SEAL Museum Association, Inc.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
For the Year Ended December 31, 2017

	Program Services			Supporting Services			
	Public Education	Trident House	Total Program Services	General Administration	Fundraising	Total Supporting Services	Total Expenses
Salaries and wages	\$ 351,632	\$ -	\$ 351,632	\$ 89,727	\$ 43,651	\$ 133,378	\$ 485,010
Depreciation	188,171	10,260	198,431	-	-	-	198,431
Marketing and promotion	-	2,473	2,473	-	142,573	142,573	145,046
San Diego Expansion	95,748	-	95,748	-	-	-	95,748
Insurance	50,298	9,458	59,756	27,580	4,596	32,176	91,932
Repairs and maintenance	49,371	19,589	68,960	-	-	-	68,960
Expansion Feasibility Project	46,625	-	46,625	-	-	-	46,625
Office	37,428	-	37,428	2,495	1,664	4,159	41,587
Payroll taxes	26,854	-	26,854	6,852	3,334	10,186	37,040
Utilities	30,212	4,214	34,426	-	-	-	34,426
Supplies	21,144	-	21,144	9,759	1,626	11,385	32,529
Family support	-	32,004	32,004	-	-	-	32,004
Bank charges	29,424	-	29,424	-	-	-	29,424
Archival Digitization	24,223	-	24,223	-	-	-	24,223
FITH magazine	18,449	-	18,449	-	-	-	18,449
Navy SEAL Monument Dedication	9,763	-	9,763	5,257	-	5,257	15,020
Artifact maintenance	12,770	-	12,770	-	-	-	12,770
Professional fees	-	-	-	11,889	-	11,889	11,889
Recognition	11,092	-	11,092	-	-	-	11,092
Dues and subscriptions	9,360	-	9,360	-	-	-	9,360
Telephone	9,325	-	9,325	-	-	-	9,325
Equipment rent	6,797	-	6,797	-	-	-	6,797
Amortization	-	-	-	6,487	-	6,487	6,487
Scholarships	-	5,000	5,000	-	-	-	5,000
Other	1,845	645	2,490	945	-	945	3,435
Total Expenses	<u>\$ 1,030,531</u>	<u>\$ 83,643</u>	<u>\$ 1,114,174</u>	<u>\$ 160,991</u>	<u>\$ 197,444</u>	<u>\$ 358,435</u>	<u>\$ 1,472,609</u>

The accompanying notes to financial statements are an integral part of this statement.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

UDT-SEAL Museum Association, Inc. d/b/a National Navy UDT-SEAL Museum (the "Museum") is the only museum dedicated solely to preserving the history and heritage of the Navy SEALs and their predecessors, including Naval Combat Demolition Units, Office of Strategic Services Maritime Units, Amphibious Scouts and Raiders and Underwater Demolition Teams. Located in Fort Pierce, Florida the birthplace of the Navy Frogman, the Museum promotes public education by providing the opportunity to explore the history of Naval Special Warfare. We honor our fallen on the black granite walls of the Navy SEAL Memorial housed on the Museum grounds while caring for our families through the Trident House and Navy SEAL Museum Scholarship Fund.

Accounting Policies

UDT-SEAL Museum Association, Inc.'s policy is to maintain its accounting records and prepare its financial statements on the modified basis of cash receipts and disbursements; consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses and the related liabilities are recognized when paid rather than when the obligations are incurred.

Financial Statement Presentation

The financial statements are presented following the requirements of ASC 958 Financial Statements of Not-for-Profit Organizations. Under ASC 958, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Museum considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets

Property and equipment are recorded at cost if purchased and at fair market value at the date of donation, if donated. Equipment and improvements are capitalized if the cost is \$1,000 or greater and a useful life when acquired of more than one (1) year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed. Depreciation on all assets is computed using the straight line method over the estimated useful lives ranging from five to thirty-nine years.

Historical Treasures

The Museum has elected not to record the value of donated artifacts as the fair market value is not readily determinable. The Museum also displays certain artifacts on loan from the U.S. Government and other entities. All artifacts held by the Museum are inventoried and maintained as necessary. The artifacts held by the Museum relate to the history and heritage of the Navy SEALs and their predecessors, including, but not limited to, weaponry, transportation, and other symbolic objects from history and are integral to the Museum's operations and mission.

Revenue Recognition

In accordance with FASB ASC 958-605-15, *Revenue Recognition – Contributions Received*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Admission Fee

The Museum is open to the general public for historical and educational purposes. A fee is charged for admission to the Museum buildings, but not the grounds of the Museum.

Gifts-in-Kind Contributions

The Museum periodically receives contributions in a form other than cash or investments. If the Museum 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 the gift, provided that the value of the asset and its estimated useful life meet the capitalization policy.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the programs and other activities have been summarized on a functional basis in the statement of support, revenues, expenses and changes in net assets – modified cash basis. Accordingly, the Museum charges cost to programs and supporting services based on direct expenditures incurred. Expenses that are not directly identifiable with any other specific function are allocated based on evaluations of the related benefits.

Advertising

Advertising costs are generally expensed as incurred and totaled \$31,206 for the year ending December 31, 2017.

Tax Status

UDT-SEAL Museum Association, Inc. has qualified as a nonprofit organization, and is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the Museum are tax deductible to donors under Section 170 of the IRC. The Museum is not classified as a private foundation within the meaning of Section 509(a). The Museum's income tax return for the years 2014, 2015, and 2016 remain open to examination by the Internal Revenue Service.

Investments

In accordance with the Museum's policy to maintain its accounting records and prepare its financial statements on the modified cash basis of accounting, investments are presented in the accompanying financial statements at cost rather than fair value.

Inventory

Inventory consists of merchandise available for sale at the Museum Store and on the website. In addition, certain other items not available for sale, but utilized in the fund raising efforts are also inventoried until committed. All inventories are stated at cost using the average cost method of inventory.

NOTE 2 – CASH

At December 31, 2017, the Museum had deposits at various financial institutions with a carrying value of \$1,362,344, of which \$982,508 was not insured by the Federal Deposit Insurance Corporation. The Museum has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 – INVESTMENTS

Investments available-for-sale at December 31, 2017 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Equity securities	<u>\$ 961,797</u>	<u>\$1,069,317</u>

In accordance with the modified cash basis of accounting, investments are presented at cost in the accompanying financial statements. Fair market value was determined by the market price at year end.

Cash and securities held by brokerage institutions are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 and \$500,000 respectively. The asset protection provided by the SIPC is not against losses from fluctuations in the value of the securities, but rather only if the brokerage firm ceases doing business. Investments subject to market risk of fluctuations in value at December 31, 2017 include \$961,797 (cost) in marketable securities.

NOTE 4 – LEASES

The Museum leases a copier and a postage machine under five and three and a half year operating leases expiring in July 2021 and September 2019 totaling \$499 and \$44 per month, respectively. Equipment rent expense for the year ended December 31, 2017 was \$6,797, all of which related directly to the non-cancelable operating leases. Future minimum lease payments by fiscal year are as follow:

Fiscal Year Ending	
December 31,	Copier
2018	\$ 6,512
2019	6,381
2020	5,988
2021	3,493
Total minimum lease payments	<u>\$ 22,374</u>

The Museum leases the land and certain of the buildings from the State of Florida through a lease with St. Lucie County as the administrator and expires October 31, 2044. The lease requires the Museum to maintain the buildings in lieu of rent.

NOTE 5 – LINE OF CREDIT

The Museum renewed its line of credit with TD Bank in the amount of \$500,000 for future construction projects. The Trident land and building is held as collateral. As of December 31, 2017 the line has not been utilized.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 – DEFERRED REVENUE

In 2014, the Museum received \$110,000 for a History & Heritage Archive Program that will be used to fund the preservation and sharing of documents to educate the public about the history of the Navy UDT/SEALS and their operations. Unexpended funds will be returned. As a result of this criteria, the remaining funds are shown as deferred revenue on the statement of assets, liabilities, and net assets – modified cash basis. During the fiscal year ending December 31, 2017, the program was fully expended and the Museum recognized related revenue of \$15,965.

NOTE 7 – RESTRICTED NET ASSETS

Restrictions on assets result from contributions, grants or bequests that have been restricted by the donors.

Temporary restricted net assets at year-end consisted of the following:

Purpose Restriction:

Navy SEAL Monument, VA Beach	\$ 136,121
SEAL Support (Trident House)	<u>20,250</u>
Total	<u><u>\$ 156,371</u></u>

NOTE 8 – RELATED PARTIES

During the year ended December 31, 2017, the Museum contracted with a board member owned entity for the installation of an enhanced security system for \$14,500 and reimbursed employee and board member family members for mileage or other expenses incurred while the individual acted in a volunteer capacity on behalf of the Museum totaling \$4,413.

NOTE 9 – SUBSEQUENT EVENTS

The Museum is currently in the process of planning a possible expansion Museum location in San Diego, California. The Museum is currently in ongoing negotiations to sign a lease for the expansion project with a target date in late 2018.

Subsequent events have been evaluated through September 19, 2018, 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.