

UDT-SEAL Museum Association, Inc.

Financial Statements

December 31, 2015

INDEX

| | |
|---|---|
| Independent Auditor's Report | 1 |
| Financial statements: | |
| Statement of Assets, Liabilities and Net Assets - Modified Cash Basis | 3 |
| Statement of Support, Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis | 4 |
| Statement of Functional Expenses - Modified Cash Basis | 5 |
| Statement of Cash Flows - Modified Cash Basis | 6 |
| Notes to Financial Statements | 7 |

McAlpin Cavalcanti & Lewis

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of UDT-SEAL Museum Association, Inc. ("the Museum"), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2015, and the related statement of support, revenues, expenses, and changes in net assets - modified cash basis, functional expenses - modified cash basis, and cash flows - 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 as described in Note A; 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 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 assets, liabilities, and net assets of UDT-SEAL Museum Association, Inc. as of December 31, 2015, and its support, revenues, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A 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.

A handwritten signature in blue ink that reads "McAlpin Cavalcanti & Lewis". The signature is written in a cursive, flowing style.

McAlpin Cavalcanti & Lewis, CPAs
October 26, 2016
Fort Pierce, Florida

UDT-SEAL Museum Association, Inc.
Statement of Assets, Liabilities and Net Assets - Modified Cash Basis
December 31, 2015

| ASSETS | |
|-----------------------------------|----------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 906,907 |
| Investments | 446,587 |
| Inventory | <u>110,162</u> |
| Total current assets | <u>1,463,656</u> |
| Property and Equipment | |
| Land | 261,800 |
| Buildings and improvements | 198,531 |
| Plaques, exhibits & displays | 2,855,908 |
| Leasehold improvements | 1,723,505 |
| Furniture and equipment | <u>119,509</u> |
| | 5,159,253 |
| Less accumulated depreciation | <u>(458,858)</u> |
| Net property and equipment | <u>4,700,395</u> |
| Other assets | |
| Loan costs, net of amortization | <u>7,372</u> |
| Total assets | <u><u>\$ 6,171,423</u></u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Credit card liabilities | \$ 6,756 |
| Other liabilities | 2,124 |
| Deferred revenue | <u>55,608</u> |
| Total liabilities | <u>64,488</u> |
| Net Assets | |
| Unrestricted | |
| Undesignated | 5,815,790 |
| Board designated endowment fund | <u>291,145</u> |
| Total net assets | <u>6,106,935</u> |
| Total liabilities and net assets | <u><u>\$ 6,171,423</u></u> |

UDT-SEAL Museum Association, Inc.

Statement of Support, Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis
Year ended December 31, 2015

PUBLIC SUPPORT AND REVENUES

| | <u>Total</u> |
|--------------------------------------|----------------------|
| Fundraising, net direct costs | \$ 1,110,578 |
| Contributions | 437,926 |
| Admissions | 428,856 |
| Ship store, net direct costs | 198,077 |
| Archival grant | 44,392 |
| Memberships | 27,525 |
| Interest and dividend income | 13,489 |
| Other | 5,732 |
| Loss on investments | <u>(52,090)</u> |
| Total public support and revenue | <u>2,214,485</u> |

EXPENSES

| | |
|-----------------------------------|-------------------------|
| Program Services | |
| Operations | 819,484 |
| Supporting Services | |
| General and administrative | 136,649 |
| Fundraising | <u>151,430</u> |
| Total expenses | <u>1,107,563</u> |
| Change in net assets | 1,106,922 |
| Net assets, beginning of year | <u>5,000,013</u> |
| Net assets, end of year | <u>\$ 6,106,935</u> |

UDT-SEAL Museum Association, Inc.
Statement of Functional Expenses - Modified Cash Basis
Year ended December 31, 2015

| | Program Services | Supporting Services | | Total |
|------------------------------------|---------------------|-----------------------------|-------------------|---------------------|
| | | General & Administrative | Fundraising | |
| Salaries and wages | \$ 302,931 | \$ 97,690 | \$ 45,000 | \$ 445,621 |
| Marketing and promotion | - | - | 97,494 | 97,494 |
| Repairs and maintenance | 56,552 | - | - | 56,552 |
| Scholarships | 48,000 | - | - | 48,000 |
| Insurance | 26,306 | 16,259 | 2,450 | 45,015 |
| Archival digitization | 44,392 | - | - | 44,392 |
| Office | 34,955 | 2,330 | 1,554 | 38,839 |
| Payroll taxes | 24,176 | 8,792 | 4,050 | 37,018 |
| Family support | 27,326 | - | - | 27,326 |
| FITH magazine | 22,309 | - | - | 22,309 |
| Bank charges | 21,032 | - | - | 21,032 |
| Utilities | 19,986 | - | - | 19,986 |
| Recognition | 19,663 | - | - | 19,663 |
| Artifact maintenance | 14,971 | - | - | 14,971 |
| Supplies | 5,289 | 2,646 | 882 | 8,817 |
| Other | 4,728 | 1,947 | - | 6,675 |
| Telephone | 6,392 | - | - | 6,392 |
| Professional fees | - | 6,100 | - | 6,100 |
| Equipment rent | 5,652 | - | - | 5,652 |
| Dues and subscriptions | 5,007 | - | - | 5,007 |
| Amortization | - | 885 | - | 885 |
| Total expenses before depreciation | <u>689,667</u> | <u>136,649</u> | <u>151,430</u> | <u>977,746</u> |
| Depreciation | <u>129,817</u> | <u>-</u> | <u>-</u> | <u>129,817</u> |
| Total expenses | <u>\$ 819,484</u> | <u>\$ 136,649</u> | <u>\$ 151,430</u> | <u>\$ 1,107,563</u> |

UDT - SEAL Museum Association, Inc.

Statement of Cash Flows - Modified Cash Basis

Year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Increase in net assets | \$ 1,106,922 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 129,817 |
| Amortization | 885 |
| Changes in assets and liabilities: | |
| Increase in inventory | (8,989) |
| Loss on investments | 52,090 |
| Decrease in deferred revenue | (44,392) |
| Decrease in credit card liabilities | (8,932) |
| Increase in current liabilities | 370 |
| | <hr/> |
| Net cash provided by operating activities | <u>1,227,771</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|--------------------|
| Stock purchases | (360,024) |
| Property and equipment | (907,592) |
| | <hr/> |
| Net cash used in investing activities | <u>(1,267,616)</u> |

DECREASE IN CASH AND CASH EQUIVALENTS (39,845)

CASH AND CASH EQUIVALENTS, beginning of year 946,752

CASH AND CASH EQUIVALENTS, end of year \$ 906,907

UDT- SEAL Museum Association, Inc.

Notes to Financial Statements

December 31, 2015

NOTE A - Organization and Summary of Significant Accounting Policies

Organization and Nature of Activities

The 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.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis differ from generally accepted accounting principles primarily because the Museum has not recognized receivables for dues and other revenues, accounts payable to vendors, and their related effects on the change in net assets.

Cash Flows

The Museum presents its cash flows using the indirect method. Cash consists of cash and cash equivalents held at financial institutions. The Museum considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Donated Services

A substantial number of volunteers as well as board members donate a significant amount of their time to the Museum for program services. No amounts for these services have been recognized in the statement of support, revenues, expenses and changes in net assets – modified cash basis because the criteria for recognition have not been met.

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.

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 valued at the lower of first-in, first-out cost or market.

UDT- SEAL Museum Association, Inc.
Notes to Financial Statements
December 31, 2015

Income Taxes

The Museum is a non-profit entity exempt from federal and state income tax under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income tax is made in these financial statements. The Museum is not classified as a private foundation.

Property and Equipment

Property and equipment are recorded at cost or at their estimated fair value at time of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets loaned to the Museum are not recorded in the financial statements. Property and equipment greater than \$1,000 are depreciated using the straight-line method, over useful lives ranging from three to thirty nine years. Expenditures for repairs and maintenance are charged to expense as incurred.

Investments

The Museum's investments consist of common stocks that have a readily determinable fair value. Realized and unrealized gains and losses are reported in the statement of support, revenues, expenses and changes in net assets – Modified cash basis.

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, certain costs have been allocated among the programs and supporting services benefitted.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - Concentration of Credit Risk

The Museum maintains cash balances in two financial institutions and one investment institution located in Florida. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000, and during the year, the balances may fluctuate above and below this amount. At December 31, 2015, the Museum had an uninsured cash balance of \$520,283. Management believes that the Museum is not exposed to any significant credit risk related to these accounts.

UDT- SEAL Museum Association, Inc.

Notes to Financial Statements

December 31, 2015

NOTE C – Leases

The Museum leases a copier and a postage machine under five and three and a half year operating leases expiring in July 2016 and February 2016 totaling \$406 and \$44 per month, respectively.

The minimum annual lease payments are as follows at December 31, 2015:

| | |
|------|----------|
| 2016 | \$ 2,930 |
|------|----------|

Rent expense under these leases totaled \$5,444.

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 D – 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, 2015 the line has not been utilized.

NOTE E – 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. Due to this criteria the remaining funds are shown on the statement of assets, liabilities and net assets – modified cash as deferred revenue. During the fiscal year \$44,392 was expended for the project.

NOTE F - Contingencies

The Museum may be subject to various claims, legal proceedings and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management all such matters are adequately covered in insurance, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect of the financial position or results of operation of the Museum if disposed of unfavorably. As of the date of these statements there were no known contingencies.

UDT- SEAL Museum Association, Inc.
Notes to Financial Statements
December 31, 2015

NOTE G – Investments

The Museum's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC 820, Fair Value Measurement. The established framework gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy as follows:

Level 1: Observable inputs based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible to the Museum at the market date.

Level 2: Observable inputs, other than those included in Level 1, based on quoted prices for similar assets or liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets.

Level 3: Unobservable inputs that reflect the Museum's own assumptions about what inputs a market participant would use in pricing the asset or liability based on the best information available in the circumstances. Valuation is based on unobservable inputs that are supported by little or no market

Cost and fair value of marketable securities at December 31, 2015 are as follows:

| | Cost | Gross Unrealized Gain (Loss) | Fair Value |
|-----------------------------------|------------|------------------------------------|------------|
| Equity Securities - Domestic | \$ 388,276 | \$ (23,635) | \$ 364,641 |
| Equity Securities - International | 110,402 | (28,455) | 81,946 |
| | \$ 498,678 | \$ (52,090) | \$ 446,587 |

NOTE H – Fair Value of Investments

The Museum groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

UDT- SEAL Museum Association, Inc.
Notes to Financial Statements
December 31, 2015

NOTE H - Fair Value of Investments (continued)

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair Value of Financial Instruments Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are as follows:

| | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|----------------------------|------------|-------------------|-------------------|-------------------|
| Corporations | \$446,587 | \$446,587 | \$ - | \$ - |
| Total assets at fair value | \$446,587 | \$446,587 | \$ - | \$ - |

UDT- SEAL Museum Association, Inc.
Notes to Financial Statements
December 31, 2015

NOTE I - Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through October 26, 2016, the date on which the financial statements were available to be issued.