

**UDT-SEAL Museum Association, Inc.
ANNUAL FINANCIAL REPORT**

December 31, 2018

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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, 2018, 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 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 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, 2018, 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.

Other Matters

As noted in Note 11, UDT-SEAL Museum Association, Inc., has implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. 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 5, 2019

UDT-SEAL Museum Association, Inc.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS
December 31, 2018

Assets	
Current Assets	
Cash and equivalents	\$ 1,908,279
Investments	1,120,724
Inventory	213,833
Total Current Assets	<u>3,242,836</u>
Fixed Assets	
Land	261,800
Construction in progress	66,630
Buildings and improvements	203,825
Plaques, exhibits and displays	4,591,899
Leasehold improvements	1,853,520
Furniture and equipment	244,284
Signage	72,238
Less - accumulated depreciation	<u>(1,047,788)</u>
Total Fixed Assets	<u>6,246,408</u>
Total Assets	<u><u>\$ 9,489,244</u></u>
Liabilities and Net Assets	
Current Liabilities	
Other liabilities	<u>\$ 22,538</u>
Net Assets	
With donor restrictions	337,655
Without donor restrictions - board designated endowment fund	685,962
Without donor restrictions	<u>8,443,089</u>
Total Net Assets	<u>9,466,706</u>
Total Liabilities and Net Assets	<u><u>\$ 9,489,244</u></u>

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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Support			
Contributions	\$ 326,741	\$ 361,725	\$ 688,466
State grant	40,000	-	40,000
Total Support	<u>366,741</u>	<u>361,725</u>	<u>728,466</u>
Revenues			
Fundraising, net of expenses (\$572,689)	855,796	-	855,796
Admissions	527,668	-	527,668
Ship store, net of expenses (\$353,495)	151,089	-	151,089
Memberships	66,255	-	66,255
Investment income	53,370	-	53,370
Miscellaneous income	8,801	-	8,801
Total Revenues and Support	<u>1,662,979</u>	<u>-</u>	<u>1,662,979</u>
Net assets released from restrictions:	<u>180,441</u>	<u>(180,441)</u>	<u>-</u>
Total Support and Revenues	<u>2,210,161</u>	<u>181,284</u>	<u>2,391,445</u>
Expenses			
Program Services			
Public education	1,209,695	-	1,209,695
Trident House	84,548	-	84,548
Total Program Services	<u>1,294,243</u>	<u>-</u>	<u>1,294,243</u>
Support Services			
General administration	178,751	-	178,751
Fundraising	163,319	-	163,319
Total Supporting Services	<u>342,070</u>	<u>-</u>	<u>342,070</u>
Total Expenses	<u>1,636,313</u>	<u>-</u>	<u>1,636,313</u>
Change in Net Assets	573,848	181,284	755,132
Net Assets - January 1, 2018	<u>8,555,203</u>	<u>156,371</u>	<u>8,711,574</u>
Net Assets - December 31, 2018	<u>\$ 9,129,051</u>	<u>\$ 337,655</u>	<u>\$ 9,466,706</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, 2018

Cash Flows From Operating Activities	
Increase in net assets	\$ 755,132
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	224,119
Increase in inventory	(12,905)
Increase in other liabilities	7,163
Decrease in credit cards payable	<u>(13,773)</u>
Net Cash Provided by Operating Activities	<u>959,736</u>
Cash Flows Used by Investing Activities	
Purchases of fixed assets	(254,874)
Purchases of marketable securities	<u>(158,927)</u>
Net Cash Used by Investing Activities	<u>(413,801)</u>
Net Increase in Cash	545,935
Cash, January 1, 2018	<u>1,362,344</u>
Cash, December 31, 2018	<u><u>\$ 1,908,279</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, 2018

	Program Services			Supporting Services			Total Expenses
	Public Education	Trident House	Total Program Services	General Administration	Fundraising	Total Supporting Services	
Salaries and wages	\$ 456,374	\$ -	\$ 456,374	\$ 116,454	\$ 56,653	\$ 173,107	\$ 629,481
Depreciation	213,696	10,423	224,119	-	-	-	224,119
Marketing and promotion	-	2,354	2,354	-	95,236	95,236	97,590
San Diego Expansion	161,045	-	161,045	-	-	-	161,045
Insurance	43,837	9,564	53,401	24,647	4,108	28,755	82,156
Repairs and maintenance	57,334	23,732	81,066	-	-	-	81,066
Expansion Feasibility Project	23,313	-	23,313	-	-	-	23,313
Office	34,492	-	34,492	2,299	1,533	3,832	38,324
Payroll taxes	35,790	-	35,790	9,133	4,442	13,575	49,365
Utilities	31,398	4,025	35,423	-	-	-	35,423
Supplies	17,510	-	17,510	8,081	1,347	9,428	26,938
Family support	-	29,205	29,205	-	-	-	29,205
Bank charges	35,545	-	35,545	-	-	-	35,545
Archival Digitization	14,912	-	14,912	-	-	-	14,912
FITH magazine	21,024	-	21,024	-	-	-	21,024
Artifact maintenance	15,313	-	15,313	-	-	-	15,313
Professional fees	-	-	-	17,570	-	17,570	17,570
Recognition	16,582	-	16,582	-	-	-	16,582
Dues and subscriptions	11,000	-	11,000	-	-	-	11,000
Telephone	11,450	-	11,450	-	-	-	11,450
Equipment rent	7,832	-	7,832	-	-	-	7,832
Scholarships	-	5,000	5,000	-	-	-	5,000
Other	1,248	245	1,493	567	-	567	2,060
Total Expenses	\$ 1,209,695	\$ 84,548	\$ 1,294,243	\$ 178,751	\$ 163,319	\$ 342,070	\$ 1,636,313

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

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 Museum prepares its financial statements using the modified cash basis of accounting and accounting principles generally accepted in the United States of America.

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, 2018

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.

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the Museum, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Museum must continue to use the resources in accordance with the donor's instructions.

The Museum's unspent contributions are included in this class if the donor limited their use, as are its donor restricted endowment funds and its beneficial interest in a perpetual charitable trust held by a bank trustee.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Museum, unless the donor provides more specific directions about the period of its use.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 \$36,628 for the year ending December 31, 2018.

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 2015, 2016, and 2017 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.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Museum reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets to which the Center has access at the measurement date.
- Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Museum measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value.

NOTE 2 – CASH

At December 31, 2018, the Museum had deposits at various financial institutions with a carrying value of \$1,908,279, 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.

NOTE 3 – INVESTMENTS

Investments available-for-sale at December 31, 2018 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Equity securities	<u>\$ 1,120,724</u>	<u>\$ 1,139,989</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, 2018 include \$1,120,724 (cost) in marketable securities

All equity securities are level 1 investments at December 31, 2018.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 are:

Cash	\$1,908,279
Investments	1,120,724
Inventory	213,833
Less amounts with donor restrictions	(337,655)
Less Board designated amounts	<u>(685,962)</u>
Total financial assets available for general expenditure	<u>\$ 2,219,219</u>

NOTE 5 – 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, 2018 was \$7,832. Future minimum lease payments by fiscal year are as follow:

Fiscal Year Ending December 31,	Copier
2019	\$ 6,381
2020	5,988
2021	3,493
Total minimum lease payments	<u>\$ 15,862</u>

The Museum leases the land and certain 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 6 – 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, 2018 the line has not been utilized.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 7 – RESTRICTED NET ASSETS

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

Assets with donor restrictions at year-end consisted of the following:

Purpose Restriction:		
Navy SEAL Monument, VA Beach	\$	149,092
Obstacle Course Project		111,645
SEAL Support (Trident House)		76,918
Total	<u>\$</u>	<u>337,655</u>

NOTE 8 – ENDOWMENT

FASB ASC 958-205 provides guidance on the net asset classification of board-designated endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 also requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to functions supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Organization’s spending and investing policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. To satisfy its long term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places an emphasis on investments to achieve its long-term return for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the purchasing power of the endowment. In making its decisions, the Organization uses reasonable care, skill, and caution in considering the purposes of the Organization, the intent of the donors of the endowment, the terms of applicable instruments, the long-term and short-term needs of the Organization in carrying out its purposes, the general economic conditions, the possible effect of inflation or deflation, or other resources of the Organization, and perpetuation of the endowment.

Endowment net asset composition by type of fund as of December 31, 2018 is as follows:

Type of Endowment Fund	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment	\$ 685,962	\$ -	\$ 685,962
Total	<u>\$ 685,962</u>	<u>\$ -</u>	<u>\$ 685,962</u>

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 9 – RELATED PARTIES

During the year ended December 31, 2018, the Museum contracted 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 \$3,180.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 5, 2019, 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.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES

The Center implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.

The changes have the following effect on net assets at January 1, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Temporarily restricted	\$ 156,371	
Unrestricted	8,025,160	
Unrestricted - designated	530,043	
Net assets with donor restrictions		\$ 156,371
Net assets without donor restrictions		8,025,160
Net assets without donor restrictions - designated		530,043
Total Net Assets	<u>\$ 8,711,574</u>	<u>\$ 8,711,574</u>