

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

December 31, 2019

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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, 2019, and the related statements of revenues and other support, 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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Berger, Toombs, Elam,
Gaines & Frank
Certified Public Accountants PL

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, 2019, 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 14, 2020

UDT-SEAL Museum Association, Inc.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS
December 31, 2019

Assets	
Current Assets	
Cash and equivalents	\$ 2,635,093
Investments	1,210,489
Inventory	<u>254,422</u>
Total Current Assets	<u>4,100,004</u>
Fixed Assets	
Land	261,800
Buildings and improvements	203,825
Plaques, exhibits and displays	4,624,205
Leasehold improvements	2,007,009
Furniture and equipment	278,421
Signage	72,238
Less - accumulated depreciation	<u>(1,284,567)</u>
Total Fixed Assets	<u>6,162,931</u>
Total Assets	<u><u>\$ 10,262,935</u></u>
Liabilities and Net Assets	
Current Liabilities	
Other liabilities	<u>\$ 31,041</u>
Net Assets	
With donor restrictions	360,327
Without donor restrictions - board designated endowment fund	769,500
Without donor restrictions	<u>9,102,067</u>
Total Net Assets	<u>10,231,894</u>
Total Liabilities and Net Assets	<u><u>\$ 10,262,935</u></u>

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

UDT-SEAL Museum Association, Inc.
STATEMENT OF REVENUES AND OTHER SUPPORT, EXPENSES AND
CHANGES IN NET ASSETS – MODIFIED CASH BASIS
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Support			
Contributions	\$ 271,758	\$ 355,715	\$ 627,473
State grant	141,000	-	141,000
Total Support	<u>412,758</u>	<u>355,715</u>	<u>768,473</u>
Revenues			
Fundraising, net of expenses (\$653,513)	1,041,206	-	1,041,206
Admissions	555,217	-	555,217
Ship store, net of expenses (\$261,927)	167,289	-	167,289
Memberships	57,930	-	57,930
Investment income	59,796	-	59,796
Miscellaneous income	11,529	-	11,529
Total Revenues and Support	<u>1,892,967</u>	<u>-</u>	<u>1,892,967</u>
Net assets released from restrictions:	<u>333,043</u>	<u>(333,043)</u>	<u>-</u>
Total Support and Revenues	<u>2,638,768</u>	<u>22,672</u>	<u>2,661,440</u>
Expenses			
Program Services			
Public education	1,409,945	-	1,409,945
Trident House	98,346	-	98,346
Total Program Services	<u>1,508,291</u>	<u>-</u>	<u>1,508,291</u>
Support Services			
General administration	184,801	-	184,801
Fundraising	203,160	-	203,160
Total Supporting Services	<u>387,961</u>	<u>-</u>	<u>387,961</u>
Total Expenses	<u>1,896,252</u>	<u>-</u>	<u>1,896,252</u>
Change in Net Assets	742,516	22,672	765,188
Net Assets - January 1, 2019	<u>9,129,051</u>	<u>337,655</u>	<u>9,466,706</u>
Net Assets - December 31, 2019	<u>\$ 9,871,567</u>	<u>\$ 360,327</u>	<u>\$ 10,231,894</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, 2019

Cash Flows From Operating Activities

Increase in net assets	\$	765,188
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation		236,779
Increase in inventory		(40,589)
Increase in other liabilities		8,503
Net Cash Provided by Operating Activities		<u>969,881</u>

Cash Flows Used by Investing Activities

Purchases of fixed assets		(153,302)
Purchases of marketable securities		(89,765)
Net Cash Used by Investing Activities		<u>(243,067)</u>

Net Increase in Cash		726,814
Cash, January 1, 2019		<u>1,908,279</u>
Cash, December 31, 2019	\$	<u><u>2,635,093</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, 2019

	Program Services			Supporting Services			Total Expenses
	Public Education	Trident House	Total Program Services	General Administration	Fundraising	Total Supporting Services	
Salaries and wages	\$ 605,332	\$ -	\$ 605,332	\$ 129,137	\$ 72,640	\$ 201,777	\$ 807,109
Depreciation	226,356	10,423	236,779	-	-	-	236,779
Family support	104,337	41,706	146,043	-	-	-	146,043
Marketing and promotion	-	2,908	2,908	-	116,774	116,774	119,682
Insurance	67,440	10,166	77,606	20,695	5,173	25,868	103,474
Repairs and maintenance	61,135	17,538	78,673	-	-	-	78,673
Payroll taxes	45,128	-	45,128	9,627	5,416	15,043	60,171
Office	39,585	-	39,585	2,639	1,759	4,398	43,983
Other	26,121	659	26,780	8,927	-	8,927	35,707
Bank charges	33,936	-	33,936	-	-	-	33,936
Utilities	29,831	3,946	33,777	-	-	-	33,777
Supplies	19,568	-	19,568	6,989	1,398	8,387	27,955
San Diego Expansion	27,124	-	27,124	-	-	-	27,124
Artifact maintenance	26,553	-	26,553	-	-	-	26,553
FITH magazine	25,427	-	25,427	-	-	-	25,427
Archival Digitization	19,700	-	19,700	-	-	-	19,700
Recognition	18,118	-	18,118	-	-	-	18,118
Dues and subscriptions	14,790	-	14,790	-	-	-	14,790
Scholarships	-	11,000	11,000	-	-	-	11,000
Telephone	10,035	-	10,035	-	-	-	10,035
Professional fees	2,263	-	2,263	6,787	-	6,787	9,050
Equipment rent	7,166	-	7,166	-	-	-	7,166
Total Expenses	<u>\$ 1,409,945</u>	<u>\$ 98,346</u>	<u>\$ 1,508,291</u>	<u>\$ 184,801</u>	<u>\$ 203,160</u>	<u>\$ 387,961</u>	<u>\$ 1,896,252</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, 2019

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, 2019

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, 2019

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 for 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, 2019

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 \$24,275 for the year ending December 31, 2019.

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 2016, 2017, and 2018 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, 2019

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, 2019, the Museum had deposits at various financial institutions with a carrying value of \$2,633,543, of which \$2,105,896 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, 2019 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Equity securities	<u>\$ 1,210,489</u>	<u>\$ 1,430,629</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, 2019 include \$1,210,489 (cost) in marketable securities

All equity securities are level 1 investments at December 31, 2019.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019 are:

Cash	\$2,635,093
Investments	1,210,489
Inventory	254,422
Less amounts with donor restrictions	(360,327)
Less Board designated amounts	<u>(769,500)</u>
Total financial assets available for general expenditure	<u>\$2,970,117</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 totaling \$499 per month. Equipment rent expense for the year ended December 31, 2019 was \$7,166. Future minimum lease payments by fiscal year are as follow:

Fiscal Year Ending December 31,	Copier
2020	\$ 5,988
2021	<u>3,493</u>
Total minimum lease payments	<u><u>\$ 9,481</u></u>

The Museum leases the land and certain buildings from the State of Florida through a lease with St. Lucie County as the administrator that 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, 2019 the line has not been utilized.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 7 – RELEASE OF RESTRICTIONS

Net assets were released from donor or grant restrictions by incurring expenses satisfying the restricted purpose by donors or grantees as follows:

Released from Restrictions:	
Navy SEAL Monument, VA Beach	\$ 27,709
Obstacle Course Project	102,916
SEAL Support (Trident House)	<u>202,418</u>
Total	<u><u>\$ 333,043</u></u>

NOTE 8 – 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	\$ 124,283
Obstacle Course Project	8,729
SEAL Support (Trident House)	<u>227,315</u>
Total	<u><u>\$ 360,327</u></u>

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 9 – 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, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Type of Endowment Fund			
Board-designated endowment	\$ 769,500	\$ -	\$ 769,500
Total	\$ 769,500	\$ -	\$ 769,500

NOTE 10 – RELATED PARTIES

During the year ended December 31, 2019, the Museum 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 \$1,800.

UDT-SEAL Museum Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 11 – SUBSEQUENT EVENTS

On May 29, 2020, the Museum purchased a new house for their Trident Program.

The Museum is currently under contract to sell the former Trident House, with an anticipated closing in late September 2020. The house is being sold at fair market value to the incoming Executive Director.

Subsequent events have been evaluated through September 14, 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.

NOTE 12 – COVID-19

On January 30, 2020, The World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Museum operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Museum.