

MILITARY HERITAGE MUSEUM, INC.

PUNTA GORDA, FLORIDA

**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016**

DRAFT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Military Heritage Museum, Inc.
Punta Gorda, Florida

We have audited the accompanying financial statements of Military Heritage Museum, Inc. (a Florida nonprofit corporation), which comprise the statement of financial position as of December 31, 2016, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Military Heritage Museum, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

April XX, 2017

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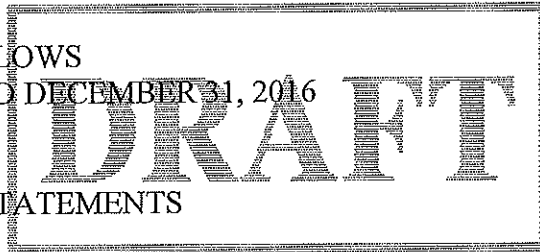
MILITARY HERITAGE MUSEUM, INC.

PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

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MILITARY HERITAGE MUSEUM, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2016

ASSETS

	2016
Current assets:	
Cash and cash equivalents	\$ 15,470
Investments - short-term	17,402
Inventory	3,214
Prepaid insurance	2,961
Total current assets	39,047
Investments - long-term	518,421
Furniture, equipment and leasehold improvements - net \$15,183 accumulated depreciation	33,268
Total assets	\$ 590,736

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 2,103
Accrued expenses	1,453
Total current liabilities	3,556
Total liabilities	3,556
Net assets:	
Temporarily restricted	95,625
Unrestricted	491,555
Total net assets	587,180
Total liabilities and net assets	\$ 590,736

Read independent auditor's report and
 accompanying notes to financial statements.

MILITARY HERITAGE MUSEUM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

CHANGES IN UNRESTRICTED NET ASSETS

	2016
REVENUES	
Grants	\$ 162,663
Donations	74,082
Fundraising events - net of direct costs	31,205
Gift shop sales - net of cost of sales	5,045
Dividends and interest	9,475
Realized gains on sale of investments	6,228
Unrealized gains on investments	16,965
Other income	278
Total unrestricted revenues	305,941
EXPENSES	
Program services	144,083
Management and general	26,939
Resource development	13,249
Total expenses	184,271
INCREASE IN NET ASSETS	121,670
NET ASSETS AT BEGINNING OF FISCAL YEAR	369,885
NET ASSETS AT END OF FISCAL YEAR	\$ 491,555

Read independent auditor's report and
 accompanying notes to financial statements.

MILITARY HERITAGE MUSEUM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	RESOURCE DEVELOPMENT	TOTALS
Salaries and wages	\$ 69,531	\$ 8,691	\$ 8,692	\$ 86,914
Payroll taxes	5,319	665	665	6,649
Total payroll and related expenses	74,850	9,356	9,357	93,563
Advertising	4,894	-	1,224	6,118
Auto and truck expense	95	-	-	95
Bank and credit card charges	800	89	-	889
Displays	926	-	-	926
Dues and subscriptions	520	519	-	1,039
Insurance	298	297	-	595
Investment management	-	3,897	-	3,897
Meals and entertainment	974	-	-	974
Office supplies	5,432	1,164	1,164	7,760
Postage and printing	3,868	683	-	4,551
Professional fees	1,578	316	211	2,105
Rent	35,659	6,293	-	41,952
Repairs and maintenance	2,954	-	-	2,954
Security	1,286	-	-	1,286
Taxes, licenses and fees	-	68	1,293	1,361
Telephone	673	2,692	-	3,365
Travel and meetings	236	-	-	236
Utilities	5,174	1,294	-	6,468
Volunteer shirts	612	-	-	612
Total expenses before depreciation	140,829	26,668	13,249	180,746
Depreciation expense	3,254	271	-	3,525
Total functional expenses	\$ 144,083	\$ 26,939	\$ 13,249	\$ 184,271

Read independent auditor's report and
accompanying notes to financial statements.

MILITARY HERITAGE MUSEUM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
INCREASE IN NET ASSETS	\$ 121,670
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	3,525
(Increase) decrease in operating assets:	
Inventory	3,057
Prepaid insurance	(2,961)
Increase in operating liabilities:	
Accounts payable	2,103
Accrued expenses	356
Net cash provided by operating activities	127,750
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(130,067)
Net cash used in investing activities	(130,067)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net cash provided by (used in) financing activities	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,317)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	17,787
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	\$ 15,470

Read independent auditor's report and
accompanying notes to financial statements.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Activities

The Military Heritage Museum, Inc. (“MHM”) is a private non-profit corporation whose mission is to promote an understanding and respect for the rich military heritage of the United States and the sacrifices made by our country’s veterans, living and dead, emphasizing that freedom is not free. Admission to the Museum is free to the public.

MHM is organized exclusively for charitable and educational purposes, and has been designated a charitable organization exempt from income tax under section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation

MHM’s financial statements are presented in accordance with the provisions of Accounting Standards Codification (ASC) 958-605, *Accounting for Contributions Received and Contributions Made*, and ASC 958-205, *Financial Statements of Not-for-Profit Organizations*.

Under ASC 958-205, net assets and revenue, expenses, gains and losses are classified as temporarily restricted, permanently restricted, or unrestricted based on the existence or absence, respectively, of donor-imposed restrictions. Accordingly, the net assets of MHM and changes therein are classified as follows:

- **Unrestricted net assets** – include amounts earned during the period from operations and amounts received from donors with no specific restrictions as to use, and other assets held with no restrictions as to use. At December 31, 2016, MHM had unrestricted net assets of \$491,555.
- **Temporarily restricted net assets** – include contributions which are limited by donor imposed restrictions that will be satisfied by MHM or expire by the passage of time. As restrictions are fulfilled, the temporarily restricted net assets are transferred to unrestricted net assets. At December 31, 2016, MHM had \$95,625 in temporarily restricted net assets.
- **Permanently restricted net assets** – include funds received by MHM that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be used for designated purposes. At December 31, 2016, MHM had no permanently restricted net assets.

Read independent auditors’ report.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

MHM considers all funds in banks and unrestricted highly liquid investments available for current use, if any, with an initial maturity of three months or less to be cash equivalents.

Museum Inventory

Inventory consist of items for sale in the Museum's gift shop, and is valued at cost.

Museum Artifacts

The Museum's collection of artifacts comprise over 10,000 military artifacts from various wars involving the United States including the Spanish-American War, Civil War, World Wars I and II as well as wars in Korea, Vietnam, Iraq and Afghanistan. These artifacts include weapons, uniforms, books, pictures, and letters among many other military related items. The collections are maintained for public exhibition, education, and research in furtherance of public service, rather than for financial gain. In conformity with accounting policies generally followed by museums, the value of the Museum's collections has been excluded from the statement of financial position, and gifts of artifacts are excluded from revenue in the statement of activities. Therefore, our audit procedures did not include verifying the quantity or value of the Museum's artifacts.

Furniture and Equipment

Furniture and equipment are recorded at cost when purchased or at estimated fair value at the date of donation. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets.

The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss on disposition is reflected in operating activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Read independent auditors' report.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (continued)

Restricted and Unrestricted Revenue and Support

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 restrictions expire 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 restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expense Allocation

Functional expenses, summarized in the statement of activities and the statement of functional expenses, have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

Compensated Absences

No accrual has been made in the financial statements for compensated absences.

Concentrations of Credit Risk

MHM maintains its cash in two accounts at a financial institution in Charlotte County, Florida. Accounts at each commercial banking institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2016, MHM's account balance was fully insured. MHM has not experienced any losses on its account and has not been exposed to any significant risk related to cash and cash equivalents.

Income Taxes

MHM has adopted the provisions of ASC 740, *Income Taxes*, which prescribes a comprehensive model for the recognition, classification and disclosure of uncertain tax positions. Management believes that appropriate support exists for the positions taken on MHM's tax return with the U.S. Internal Revenue Service (IRS). Therefore, no accrual for tax liabilities related to such tax positions has been made. Should interest expense and/or penalties be assessed by this taxing authority, MHM would recognize these costs as operating expenses. During the year ended December 31, 2016, MHM did not incur interest expense and/or penalties related to income taxes. MHM's federal income tax return could generally be subject to examination for three years after the filing date of such tax returns. MHM has not been notified of any tax return examinations.

Read independent auditors' report.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1 - Summary of Significant Accounting Policies (continued)

Date of Management's Review

MHM's management has evaluated events and transactions after December 31, 2016 through April XX, 2017, the date the financial statements were available to be issued, for subsequent events and determined that there were no events to report during that period.

Note 2 - Cash and Cash Equivalents

At December 31, 2016, cash was maintained in checking, savings, and investment accounts.

	2016
Checking account	\$ 1,922
Savings account	5,865
Investments accounts	7,683
	<u>\$ 15,470</u>

Note 3 - Investments

Investments included the following at December 31, 2016:

Short-term CD	\$ 17,402
Total short-term investments	<u>17,402</u>
Long-term bonds	44,127
Long-term investments	474,294
Total long-term investments	<u>518,421</u>
Total investments	<u>\$ 535,823</u>

Read independent auditors' report.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4 – Furniture, Equipment and Leasehold Improvements

At December 31, 2016, furniture, equipment and leasehold improvements consisted of:

	<u>2016</u>
Furniture and equipment	\$ 25,248
Equipment	4,280
Leasehold improvements	18,923
Less: accumulated depreciation	<u>(15,183)</u>
	<u>\$ 33,268</u>

Depreciation of \$3,525 was charged entirely to operations during the year ended December 31, 2016.

Note 5 – Grant Income

MHM was the beneficiary of the Dr. Hugo D. and Ruth D. Spatz Endowment which is managed by the Charlotte Community Foundation. The Endowment states that funds will be provided to MHM yearly equal to the amount of donations raised by MHM during the prior year. MHM will also receive the earnings from the Endowment fund semi-annually. In 2016, the Endowment matched MHM's donations raised in 2015 of \$122,050 and the Endowment fund earned \$25,613 in investment income which was paid to MHM in two installments. As of December 31, 2016, The Endowment fund's market value was \$519,015. This money will be disbursed to MHM over future years in accordance with the Endowment restrictions until the fund is depleted.

MHM also received a \$15,000 unrestricted grant from Charlotte County during the year ended December 31, 2016.

Note 6 – Donation Income

Admission to the Museum is free to the public. There are cash donation boxes in the Museum where patrons may donate when leaving the Museum. Donations from the Museum's cash boxes and other various individual donations totaled \$74,082 for the year ended December 31, 2016.

Note 7 – Fundraising

MHM performed several fund raising events throughout the 2016 calendar year, resulting in revenues of \$40,193 and direct expenses of \$8,988.

Read independent auditors' report.

MILITARY HERITAGE MUSEUM, INC.
PUNTA GORDA, FLORIDA

DECEMBER 31, 2016

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 8 - Facility Lease Commitments

MHM leases a facility under an operating lease agreement expiring November 30, 2017. For the year ended December 31, 2016, lease payments were \$41,952. The base annual rate for the Museum is \$29,952 and for the offices and conference room is \$12,000.

MHM signed a three year contract with Comcast in August 2016 for internet, phone, and cable services. The base rate is \$160 per month. For the year ended December 31, 2016, these costs totaled \$3,365.

Note 8 - Statement of Cash Flows

MHM did not participate in any non-cash investing and financing activities during the year ended December 31, 2016, and no payments relating to interest or income taxes were made.

Note 9 - Related Party Transactions

A member of the Board of Directors married the Executive Director of MHM during 2016. The Board member resigned his position in December 2016.

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