

*Consolidated Financial Report*

*The National World War II Museum, Inc.  
and Subsidiaries*

*June 30, 2020*



THE NATIONAL  
WWII MUSEUM  
NEW ORLEANS

*Consolidated Financial Report*

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and Subsidiaries*

*June 30, 2020*

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June 30, 2020 and 2019

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**FINANCIAL SECTION**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors,  
The National World War II Museum, Inc. and Subsidiaries,  
New Orleans, Louisiana.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of The National World War II Museum, Inc. and Subsidiaries (a nonprofit organization) (the "Museum"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

The Museum's management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Museum's preparation and fair presentation of the consolidated 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 Museum'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National World War II Museum, Inc. and Subsidiaries as of June 30, 2020, 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.

## Report on Summarized Comparative Information

We have previously audited The National World War II Museum, Inc. and Subsidiaries' consolidated financial statements, and our report dated October 31, 2019, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental information Schedule 1 (Schedule of Compensation, Benefits, and Other Payments to Agency Head or Chief Executive Officer), as required by Louisiana revised Statute 24:513(a)(3) and Schedules 2 through 4 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of The National World War II Museum, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The National World War II Museum, Inc. and Subsidiaries' internal control over financial reporting and compliance.



Certified Public Accountants.

New Orleans, Louisiana,  
November 2, 2020.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaJune 30, 2020  
(with comparative totals for 2019)

	<b><u>ASSETS</u></b>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 61,912,459	\$ 67,463,061
Investments	30,043,121	30,495,131
Unconditional promises to give:		
Capital Campaign, net of allowances	19,146,448	16,799,122
Endowment, net of allowances	2,137,660	2,285,698
Other, net of allowances	1,341,204	1,676,102
Notes receivable	4,834,474	4,634,670
Retail store inventory	1,174,184	891,120
Other assets	4,384,264	6,210,206
Property and equipment, net of accumulated depreciation	264,626,342	246,603,582
Collections	<u>13,153,510</u>	<u>13,106,884</u>
Totals	<u>\$402,753,666</u>	<u>\$390,165,576</u>
	<b><u>LIABILITIES</u></b>	
Accounts payable trade	\$ 962,602	\$ 2,548,078
Construction projects payable	3,330,571	5,852,137
Accrued expenses	2,957,591	5,829,444
Liability on interest rate swap agreement	2,693,140	-
Deferred revenue	3,903,563	4,007,484
Line of credit - construction	51,803,493	40,242,415
Paycheck Protection Act notes payable	4,356,000	-
Hilton development incentive note	1,300,000	-
Notes payable	<u>11,130,058</u>	<u>11,977,064</u>
Total liabilities	<u>82,437,018</u>	<u>70,456,622</u>
	<b><u>NET ASSETS</u></b>	
Net assets without donor restrictions		
Designated	37,175,876	42,519,028
Undesignated	<u>234,075,244</u>	<u>231,707,331</u>
Total net assets without donor restrictions	271,251,120	274,226,359
Net assets with donor restrictions	<u>49,065,528</u>	<u>45,482,595</u>
Total net assets	<u>320,316,648</u>	<u>319,708,954</u>
Totals	<u>\$402,753,666</u>	<u>\$390,165,576</u>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF ACTIVITIES AND  
CHANGES IN NET ASSETS**

**The National World War II Museum, Inc. and Subsidiaries  
New Orleans, Louisiana**

For the year ended June 30, 2020  
(with comparative totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Totals	2019 Totals
<b>Support and Revenues</b>				
Grants	\$ 1,210,772	\$ 6,744,634	\$ 7,955,406	\$ 10,963,619
Contributions:				
Capital Campaign	147,420	11,160,246	11,307,666	22,507,649
Endowment	-	154,434	154,434	2,364,535
Other	3,995,741	334,898	4,330,639	5,159,156
Memberships	11,523,338	-	11,523,338	9,903,130
Admissions	13,137,896	-	13,137,896	20,006,821
Facilities and property rental	1,270,058	-	1,270,058	1,926,678
Hotel operating revenue	5,395,781	-	5,395,781	-
Sponsored events and conferences	7,565,639	723,230	8,288,869	27,646,206
Retail store	3,031,928	-	3,031,928	4,139,703
Investment income (loss)	(671,643)	666,704	(4,939)	3,967,176
Sponsorships	103,466	-	103,466	206,442
Miscellaneous	1,114,088	-	1,114,088	1,153,838
Net assets released from restrictions	16,201,213	(16,201,213)	-	-
<b>Total support and revenues</b>	<b>64,025,697</b>	<b>3,582,933</b>	<b>67,608,630</b>	<b>109,944,953</b>
<b>Expenses</b>				
Program	54,550,799	-	54,550,799	59,415,275
General and administrative	6,459,803	-	6,459,803	5,888,569
Fundraising	3,297,194	-	3,297,194	4,192,648
<b>Total expenses</b>	<b>64,307,796</b>	<b>-</b>	<b>64,307,796</b>	<b>69,496,492</b>
<b>Changes in Net Assets Before Change in Liability on Interest Rate Swap Agreement</b>	<b>(282,099)</b>	<b>3,582,933</b>	<b>3,300,834</b>	<b>40,448,461</b>
Change in liability on interest rate swap agreement (Note 15)	(2,693,140)	-	(2,693,140)	-
<b>Change in Net Assets</b>	<b>(2,975,239)</b>	<b>3,582,933</b>	<b>607,694</b>	<b>40,448,461</b>
<b>Net Assets</b>				
Beginning of year	274,226,359	45,482,595	319,708,954	279,260,493
End of year	<u>\$ 271,251,120</u>	<u>\$ 49,065,528</u>	<u>\$ 320,316,648</u>	<u>\$ 319,708,954</u>

See notes to consolidated financial statements.



**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaFor the year ended June 30, 2020  
(with comparative totals for 2019)

	2020			2019 Totals	
	Program Expenses	General and Administration	Fundraising		Total Expenses
Advertising	\$ 2,060,689	\$ -	\$ 183,767	\$ 2,244,456	\$ 3,508,578
Capital and bad debt expense	143	-	-	143	1,223
Cost of goods sold	1,848,740	-	-	1,848,740	2,386,660
Depreciation	8,425,631	1,486,876	-	9,912,507	8,156,013
Educational travel expense	3,313,559	-	-	3,313,559	14,791,860
Hotel operating expense	6,633,257	-	-	6,633,257	-
Insurance expense	1,628,804	415,061	-	2,043,865	1,776,666
Interest expense	2,005,910	-	-	2,005,910	589,340
Marketing expense	967,280	-	4,250	971,530	1,175,666
Meeting, events, and conferences expense	763,367	20,132	72,825	856,324	1,729,562
Office supplies	1,160,037	78,123	22,605	1,260,765	1,085,150
Other operating expense	1,633,284	206,580	191,876	2,031,740	2,543,165
Other personnel costs	233,372	105,124	1,291	339,787	233,824
Other program expense	780,676	-	-	780,676	1,137,070
Payroll taxes and benefits	2,451,844	359,949	199,588	3,011,381	2,741,257
Printing and postage expense	2,361,674	1,493,191	1,069,134	4,923,999	4,948,942
Professional services	1,482,580	781,834	189,992	2,454,406	1,819,811
Repair and maintenance	1,380,225	7,333	-	1,387,558	1,115,681
Salaries	13,547,797	1,386,847	1,244,755	16,179,399	17,060,559
Staff and volunteer expenses	299,392	99,238	45,444	444,074	507,595
Staff travel	438,342	15,617	67,015	520,974	912,712
Telephone expense	130,178	3,898	4,652	138,728	142,347
Utilities	1,004,018	-	-	1,004,018	1,132,811
<b>Total expenses</b>	<b>\$54,550,799</b>	<b>\$6,459,803</b>	<b>\$3,297,194</b>	<b>\$64,307,796</b>	<b>\$69,496,492</b>

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaFor the year ended June 30, 2020  
(with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 607,694	\$40,448,461
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	9,914,798	8,156,013
Amortization of note payable discount	183,912	109,338
Interest on notes receivable	(199,804)	(199,804)
Realized and unrealized gain (loss) on investments	2,903,428	(1,321,735)
(Increase) decrease in operating assets:		
Other unconditional promises to give, net	334,898	(37,403)
Retail store inventory	(283,064)	(56,477)
Other assets	1,825,942	829,351
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(4,457,329)	2,604,551
Deferred revenue	(103,921)	(2,802,793)
Change in liability on interest rate swap agreement	2,693,140	-
In-kind contributions - collections	(46,626)	(44,000)
Revenues restricted for the acquisition of property and equipment:		
State grant	(6,209,636)	(8,061,868)
Capital Campaign contributions, net of expenses	(10,209,495)	(20,500,946)
(Decrease) increase in discount on unconditional promises to give:		
Capital Campaign	14,187	(240,574)
Increase in allowance for uncollectible promises to give:		
Capital Campaign	131,341	46,606
Contributions restricted for endowment purposes	(154,434)	(2,364,535)
	<u>(3,054,969)</u>	<u>16,564,185</u>
Net cash (used in) provided by operating activities		

**Exhibit D  
(Continued)**

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(30,459,122)	(58,469,754)
Investment purchases	(7,437,991)	(16,276,741)
Proceeds from sales and maturities of investments	4,986,573	7,993,747
	<u>(32,910,540)</u>	<u>(66,752,748)</u>
Net cash used in investing activities		
<b>Cash Flows From Financing Activities</b>		
Collections of state grant funds restricted for the acquisition of property and equipment	6,209,636	8,061,868
Collections of Endowment gifts	302,472	3,524,901
Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,266,099 and \$1,802,971 of campaign expenses in 2020 and 2019, respectively	7,716,641	17,197,060
Notes payable proceeds	5,655,996	143,722
Repayments of notes payable	(1,030,918)	(1,913,984)
Borrowings on lines of credit, net	11,561,080	38,333,743
	<u>30,414,907</u>	<u>65,347,310</u>
Net cash provided by financing activities		
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	(5,550,602)	15,158,747
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>67,463,061</u>	<u>52,304,314</u>
End of year	<u>\$ 61,912,459</u>	<u>\$67,463,061</u>

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, Louisiana

June 30, 2020 and 2019

**Note 1 - NATURE OF ACTIVITIES**

The National World War II Museum, Inc. and Subsidiaries (the "Museum") was established on December 2, 1991, to design, construct, and maintain a public museum located in New Orleans, Louisiana that tells the story of the American Experience in *the war that changed the world* - why it was fought, how it was won, and what it means today - so that all generations will understand the price of freedom and be inspired by what they learn.

The Museum completed its initial phase of construction, the Louisiana Memorial Pavilion and D-Day Planning and Beaches Galleries, and opened in June 2000. An expansion of the Museum devoted to the war in the Pacific Theatre opened in December 2001. During 2003, the Museum was officially designated by Congress as America's National World War II Museum and was reincorporated under its new name with the State of Louisiana. In 2006, the Museum completed construction on the first major component of a new expansion project. The Discovery Hall addition is a 12,000 sq. ft., multi-functional, education facility offering the Museum's first dedicated space to students and teachers providing an exciting, dynamic place to learn. The Museum also completed renovations in 2007 to the Eisenhower Center, a historical structure adjacent to the main building which housed research services and a modest recording studio for oral history and other video production.

During 2009, the Museum hosted the grand opening of the Solomon Victory Theater and Stage Door Canteen complex. This major campus addition is comprised of a multi-sensory theater presenting a signature film experience titled *Beyond All Boundaries*, and a 1940's themed live performance venue with food and beverage service provided by the Museum's American Sector Restaurant. This phase of the Museum's expansion also provides space for support services, administration, ticketing, retail outlets, and central plant services.

**Note 1 - NATURE OF ACTIVITIES (Continued)**

In 2013, the Museum opened The United States Freedom Pavilion - Boeing Center. This 90+ foot high addition is the tallest of the Museum's new pavilions and houses many macro artifacts including the iconic B-17 Flying Fortress, a simulation submarine experience, and galleries highlighting the branches of service and Medal of Honor recipients. This phase included the educational exhibit "What Would You Do?" an expanded central plant, and event services and a new retail outlet.

In December 2014, the Museum opened the Road to Berlin in the Campaigns of Courage Pavilion. The following December, the Road to Tokyo opened in this same Pavilion. All campaigns of the war on land, sea, and air, and every branch of the U.S. military services are explored through immersive gallery exhibits, historical artifacts, and interactive AV presentations. The Campaigns of Courage Pavilion includes The Dog Tag Experience, an engaging museum enhancement built upon a format that includes RFID enabled devices resembling dog tags, together with a website providing a new online Extended Experience permitting visitors to access a vast array of newly available digital content. The Dog Tag Experience introduces visitors to a historical person whose story unfolds over the course of the visitor's journey through the Campaigns of Courage Pavilion galleries; and the online Extended Experience allows visitors to return to the journey from home after their onsite museum visit. The Dog Tag Experience begins at the Train Station, a major renovation of the existing Louisiana Memorial Pavilion which opened in 2013.

In December 2016, the Museum completed Founders Plaza, an impressive entryway to the Museum and a pleasant setting for rest and reflection as part of the visitor experience. The area includes a dedication to the Museum's founders, Stephen Ambrose and Nick Mueller, along with our major donors. In June 2017, the Museum opened The Arsenal of Democracy: The Herman and George Brown Salute to the Home Front. The exhibit literally brings the story of how the war was fought at home, an epic undertaking fueled by stateside industry, ingenuity, and the labor of millions of patriotic Americans. The exhibit creates countless opportunities for visitors to make personal connections with the men and women who helped win the war.

In October 2019, the Museum completed its newest pavilion, The Hall of Democracy. The Hall of Democracy is a 34,800 square-foot pavilion dedicated to the Museum's research, WWII content expertise, and outreach to visitors, educators, students, and scholars around the world. This pavilion makes the Museum's extensive digitized collection of oral histories, photographs, artifacts, and archives more accessible to the public through new on-line and learning initiatives. The pavilion houses a special exhibits gallery; the Institute for the Study of War and Democracy; a WWII Media and Education Center with production studios and broadcast capabilities for the editing, production, and dissemination of the Museum's digital assets and programs; and a library that will support research and public engagement.

**Note 1 - NATURE OF ACTIVITIES (Continued)**

In November 2019, the Museum subsidiary, World War II Theatre, Inc., opened its new 230 room Higgins Hotel and Conference Center (the "Hotel"). The Hotel is branded as a Hilton Curio property.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies are summarized below.

**a. Organization and Income Taxes**

The National World War II Museum, Inc. is a non-profit corporation organized under the laws of the State of Louisiana for charitable purposes, principally the operation and maintenance of a museum dedicated to the history of World War II.

Effective March 21, 2006, Chalk #17, Inc. was formed as a non-profit corporation to be operated exclusively for the benefit of the Museum. The Museum is the sole member and elects the members of the board of directors of Chalk #17, Inc. The purpose of this corporation is to acquire and preserve aircraft and other large artifacts, specifically with regard to their roles in World War II, and to promote public awareness, appreciation, and education of the historic relevance of these artifacts.

On October 22, 2007, World War II Theatre, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct a theater, canteen, and restaurant adjacent to the existing museum. These assets were transferred to the Museum on January 25, 2017. The Theatre is tasked with operating the Hotel on property adjacent to the Museum. The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

On April 2, 2010, WW II Pavilions, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct and operate the U.S. Freedom Pavilion: The Boeing Center adjacent to The National World War II Museum, Inc. The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**a. Organization and Income Taxes (Continued)**

On February 8, 2011, World War II Campaigns, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct and operate the Campaigns Pavilion adjacent to The National World War II Museum, Inc. The organization is organized on a stock basis with the authority to issue 500 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

On February 3, 2011, Warehouse District Development, Inc. was established for the exclusive purposes of serving and/or providing investment capital for "Low-Income Communities" or "Low-Income Persons". The corporation is organized on a stock basis with authority to issue 100 shares. There is one shareholder of the corporation who is known as the Corporate Shareholder and such Corporate Shareholder is The National World War II Museum, Inc.

On November 10, 2016, PT-305 Excursions, L.L.C. was established as a single member LLC to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to operate the PT-305 boat. Chalk #17, Inc. is the sole member of the company. The company is a disregarded entity for federal income tax purposes.

The National World War II Museum, Inc., Chalk #17, Inc., World War II Theatre, Inc., WW II Pavilions, Inc., World War II Campaigns, Inc., and Warehouse District Development, Inc. are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as organizations that are not a private foundation as defined in Section 509(a) of the Code. They are also exempt from Louisiana income tax under the authority of R.S. 47:121(5).

**b. Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**c. Basis of Accounting**

The consolidated financial statements of the Museum are prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

**d. Basis of Presentation**

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

**Net Assets without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations.

**Net Assets with Donor Restrictions** - Net assets subject to donor-imposed stipulations that will be met either by actions of the Museum, and/or the passage of time or net assets subject to donor-imposed restrictions and are to be held in perpetuity.

**e. Consolidation**

The accompanying consolidated financial statements show the consolidated assets, liabilities, and transactions of the Museum and its wholly owned subsidiaries, Chalk #17, Inc., World War II Theatre, Inc., World War II Pavilions, Inc., World War II Campaigns, Inc., Warehouse District Development Inc., and PT-305 Excursions, L.L.C. (the "Subsidiaries").

The activities and resulting balances of the Subsidiaries relate to the new museum expansion. All intercompany transactions and resulting balances have been eliminated in the consolidated financial statements.

**f. Cash and Cash Equivalents**

For purposes of the Consolidated Statement of Cash Flows, the Museum considers all short-term, highly liquid investments (including certificates of deposit) with initial maturity dates of less than one year to be cash equivalents. The Museum considers investments in money market funds to be cash equivalents.



**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**g. Investments**

Investments in marketable securities, including mutual funds, common stocks, real estate investment trusts, exchange-traded funds, certificates of deposit, and other investments are generally carried at fair market value. Investments acquired through donations are recorded at fair market value on the date of donation.

**h. Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are recognized as assets, less an allowance for uncollectible amounts, and revenues.

**i. Contributions and Revenue Recognition**

Contributions received are recorded as unrestricted or restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in donor restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends and/or when the purpose is accomplished), donor restricted net assets are reclassified to net assets without donor restrictions and reported in the Consolidated Statement of Activities and Changes in Net Assets as net assets released from restrictions.

**j. Allowances for Uncollectible Promises to Give**

The Museum provides for estimated uncollectible promises to give based on prior years' experience and management's analysis of specific promises made. As of June 30, 2020 and 2019, the balance of the allowance related to the Capital Campaign was \$275,422 and \$244,081 respectively, the allowance related to the Endowment was \$44,280 and \$49,280 respectively, and the allowance for other promises to give was \$19,316 and \$10,092 respectively.

**k. Retail Store Inventory**

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**l. Property and Equipment**

Assets acquired are stated at cost, net of accumulated depreciation. Assets donated are carried at fair market value on date of donation, net of accumulated depreciation. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized. Depreciation of buildings, exhibits, furnishings, and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis ranging from three years for equipment, ten years for exhibits and forty years for buildings.

**m. Collections**

As of June 30, 2020 and 2019, collections consist of three films commissioned by the Museum, a collection of German, French, and American artifacts acquired from the St. Lo Museum in France in 1995, aircraft, tanks, certain military vehicles, and miscellaneous artifacts. Additionally, the Museum acquired a collection of artifacts from the Monuments Men Foundation during the year ended June 30, 2019. The Museum does not record depreciation on its collections because depreciation is not presently required to be recognized on individual works of art or historical treasures whose economic benefit or service potential is used so slowly that their estimated useful lives are extraordinarily long. It is the Museum's policy to capitalize only those items purchased, not those donated, unless the item's cost is significant and is able to be valued objectively. Donated collection items are not recorded, except in rare circumstances, due to the lack of an objective basis of valuation.

**n. Derivative Instruments**

The Museum has a derivative instrument that is used as a hedge to the variable interest rate loans issued by Hancock Whitney Bank and Iberia Bank (Note 15). The Museum accounts for its derivative instruments under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*. More specifically, FASB ASC 815-20 requires that the fair value of derivatives be recorded as a liability and a related loss or as an asset and a related gain depending on the future net payments forecasted under the derivative.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**o. Donated Services of Volunteers**

A substantial number of volunteers have given extensive amounts of time and services to the Museum. However, no amounts are reflected in the consolidated financial statements for such services as management believes that the requirements for recording in-kind services have not been satisfied.

**p. Fundraising Expenses**

All expenses associated with fundraising activities are expensed as incurred, including those expenses related to fundraising appeals in a subsequent year.

**q. Allocated Expenses**

The costs of providing the various programs and other activities are summarized in Note 24.

**r. Tax Matters**

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2020, management of the Museum believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Tax years June 30, 2017 and later remain subject to examination by the taxing authorities.

**s. Recent Accounting Pronouncements**

**Contributions Received and Made**

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, "*Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*". ASU No. 2018-08 should assist entities in (1) evaluation whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance (2) determining whether a contribution is conditional. This new guidance is effective for fiscal years beginning after December 15, 2018. The Museum has adopted the provisions of ASU No. 2018-08 and has retrospectively applied this standard to the consolidated financial statements as of and for the year ended June 30, 2019.

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**s. Recent Accounting Pronouncements (Continued)**

**Statement of Cash Flows**

In November 2016, the FASB issued ASU No. 2016-18, "*Statement of Cash Flows*" (Topic 230). ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows. The amendments in ASU No. 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for fiscal years beginning after December 15, 2018. The Museum has adopted the provisions of ASU No. 2016-18 and has applied this standard to the consolidated financial statements as of and for the year ended June 30, 2020.

**Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*" (Topic 606), which provides a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most current revenue recognition models. Subsequent to the issuance of ASU No. 2014-09, FASB issued several additional ASUs which amended and clarified the guidance and deferred the effective date. The new revenue standard is now effective for annual reporting periods beginning after December 15, 2020, with certain early adoption provisions available. The Museum is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

**Leases**

In February 2016, the FASB issued ASU No. 2016-02, "*Leases*" (Topic 842). ASU No. 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and

**Note 2 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**s. Recent Accounting Pronouncements (Continued)**

**Leases (Continued)**

operating in existing lease accounting guidance. As a result, the effect of the leases in the Consolidated Statements of Activities and the Consolidated Statements of Cash Flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Museum is currently evaluating the full effect that the adoption of this standard will have on the consolidated financial statements.

**t. Reclassifications**

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the 2020 consolidated financial statement presentation.

**u. Subsequent Events**

Management evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through November 2, 2020, which is the date the consolidated financial statements were available to be issued. See Note 29 in the financial statements.

**Note 3 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for specific purposes, designated subsequent periods, or perpetually. Cash, investments, and unconditional promises to give raised through the Capital Campaign are restricted for the acquisition of property and equipment and campaign expenses. Those restrictions are considered to expire when payments are made. Promises to give received from other donors are time-restricted for subsequent periods.

**Note 3 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Donor restricted net assets as of June 30, 2020 and 2019 are available for the following purposes or periods:

	2020	2019
Subject to expenditure for a specified purpose:		
Acquisition of property and equipment - Capital Campaign	\$ 19,146,448	\$ 16,799,122
Other restricted purposes	7,073,245	5,473,262
Subject to passage of time:		
Unconditional promises to give	1,341,204	1,676,102
Unamortized discount on notes payable (Notes 16 and 17)	52,546	236,458
Total subject to expenditure for a specified purpose	27,613,443	24,184,944
Subject to Museum spending policy and appropriation:		
Funds held in perpetuity	21,452,085	21,297,651
Totals	\$ 49,065,528	\$ 45,482,595

**Note 4 - GOVERNING BOARD DESIGNATIONS**

Governing Board designations consist of the following as of June 30, 2020 and 2019:

	2020	2019
Endowment purposes	\$ 12,715,231	\$ 12,846,257
Operating reserve	10,204,128	10,024,479
Capital contingency	-	6,500,000
Capital maintenance reserve	6,441,395	6,059,438
New ventures	940,172	3,542,310
Higgins debt service fund	3,387,475	1,723,272
Higgins reserve fund	3,387,475	1,723,272
Exhibits	100,000	100,000
Totals	\$ 37,175,876	\$ 42,519,028

**Note 5 - INVESTMENTS**

Marketable securities are summarized as follows:

	June 30, 2020		
	Cost	Market Value	Excess of Market Over Cost
Balance, June 30, 2020	<u>\$ 27,782,806</u>	<u>\$ 30,043,121</u>	\$ 2,260,315
Balance, June 30, 2019	<u>\$ 25,483,828</u>	<u>\$ 30,495,131</u>	5,011,303
Decrease in unrealized appreciation			(2,750,988)
Realized loss on investments			(152,440)
Interest on cash, cash equivalents, and notes receivable			<u>3,029,925</u>
Total			126,497
Less investment expense			<u>(131,436)</u>
Total investment loss			<u>\$ (4,939)</u>
	June 30, 2019		
	Cost	Market Value	Excess of Market Over Cost
Balance, June 30, 2019	<u>\$ 25,483,828</u>	<u>\$ 30,495,131</u>	\$ 5,011,303
Balance, June 30, 2018	<u>\$ 16,852,004</u>	<u>\$ 20,890,402</u>	4,038,398
Increase in unrealized appreciation			972,905
Realized gain on investments			348,830
Interest on cash, cash equivalents, and notes receivable			<u>2,753,771</u>
Total			4,075,506
Less investment expense			<u>(108,330)</u>
Total investment income			<u>\$ 3,967,176</u>

## Note 6 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements, are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2020 and 2019.

- *Mutual Funds*: The Museum uses the market approach for valuing mutual funds which are within Level 1 of the fair value hierarchy. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.



**Note 6 - FAIR VALUE MEASUREMENTS (Continued)**

- *Pooled Investment Account:* Valued at the net asset value (NAV) of the units of the pooled investment account. The NAV, as provided by Bay Resources Partners Offshore Fund, LTD, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the pooled investment account less its liabilities. This practical expedient is not used when it is determined to be probable that the Museum will sell the investment for an amount different than the reported NAV. These are included in Level 2 of the fair value hierarchy.
- *Common Stocks:* Valued at the closing price reported on the active market on which the individual securities are traded. These are included in Level 1 of the fair value hierarchy.
- *Exchange Traded Funds and Real Estate Investment Trusts:* Valued at quoted market prices, which represent the NAV per unit. These are included in Level 1 of the fair value hierarchy.
- *Interest Rate Swap Hedge:* The fair value is reported by the financial institution. It is based on prevailing market data and derived from proprietary models and reasonable estimates about relevant future market conditions.

The methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Note 6 - FAIR VALUE MEASUREMENTS (Continued)**

The following tables set forth by level within the fair value hierarchy the Museum's investments and interest rate swap hedge as of June 30, 2020 and 2019:

Description	Fair Value As Of June 30, 2020	Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds:				
Pooled investment account	\$ 5,368,018	\$ -	\$ 5,368,018	\$ -
Other	14,037,794	14,037,794	-	-
Common stocks	6,752,464	6,752,464	-	-
Real estate investment trusts	1,514,684	1,514,684	-	-
Exchange-traded funds	2,370,161	2,370,161	-	-
Totals	<u>\$30,043,121</u>	<u>\$24,675,103</u>	<u>\$5,368,018</u>	<u>\$-</u>
Interest rate swap hedge market-to-market valuation	<u>\$ (2,693,140)</u>	<u>\$ -</u>	<u>\$ (2,693,140)</u>	<u>\$ -</u>

Description	Fair Value As Of June 30, 2019	Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds:				
Pooled investment account	\$ 6,282,492	\$ -	\$ 6,282,492	\$ -
Other	15,074,024	15,074,024	-	-
Common stocks	5,701,163	5,701,163	-	-
Real estate investment trusts	256,533	256,533	-	-
Exchange-traded funds	3,180,919	3,180,919	-	-
Totals	<u>\$30,495,131</u>	<u>\$24,212,639</u>	<u>\$6,282,492</u>	<u>\$-</u>

As of June 30, 2020 and 2019, there were no assets measured at fair value on a non-recurring basis.

**Note 7 - AVAILABILITY OF FINANCIAL ASSETS**

As part of the Museum's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. In addition, the Museum invests cash in excess of daily requirements in investments. Although the Museum does not intend to spend from its investment funds other than amounts appropriated for general expenditures, amounts from its investment funds could be made available as necessary.

The following table represents financial assets available for general expenditures within one year as of June 30, 2020:

Financial assets:	
Cash and cash equivalents	\$ 61,912,459
Investments	30,043,121
Promises to give	22,625,312
Notes receivable	<u>4,834,474</u>
Total financial assets as of June 30, 2020	<u>119,415,366</u>
Less amounts unavailable for general expenditures within one year, due to:	
Governing Board designations	(37,175,876)
Donor imposed restrictions:	
Restricted by donors with purpose or time restrictions	<u>(49,065,528)</u>
Total financial assets not available to be used within one year	<u>(86,241,404)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 33,173,962</u></u>

**Note 8 - RISKS AND UNCERTAINTIES**

In general, investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investments will occur in the near term and could materially affect the market value of investments held by the Museum.

**Note 8 - RISKS AND UNCERTAINTIES (Continued)**

The Museum is exposed to the impact of interest rate changes primarily through floating-rate borrowings that require it to make interest payments based on LIBOR. Significant increases in interest rates could adversely affect operating margins, results of operations and our ability to service debt. The Museum entered into an interest rate swap to reduce its exposure to market risk from changes in interest rates. The principal objective of this contract is to minimize the risks and costs associated with floating-rate debt.

**Note 9 - CONCENTRATION OF CREDIT RISK**

The Museum maintains money market accounts, investments in mutual funds, certificates of deposit, common stocks, and exchange traded funds in an investment account with a brokerage firm, where they are insured by the Securities Investor Protection Corporation for balances up to \$500,000 (with a limit of \$250,000 for cash). As of June 30, 2020, cash in excess of the insured limits was approximately \$3,500,000.

The Museum maintains cash balances at several local financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of June 30, 2020, cash deposits in excess of the insured limits were approximately \$13,000,000.

**Note 10 - UNCONDITIONAL PROMISES TO GIVE**

Promises of donors to make contributions to the Museum are included in the consolidated financial statements as unconditional promises to give and revenue of the net assets with donor restrictions class after discounting projected future cash flows to the present value using the Annual Federal Mid-Term Rate.

**Note 10 - UNCONDITIONAL PROMISES TO GIVE (Continued)**

Unconditional promises to give as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Unconditional promises to give:		
Capital Campaign	\$ 19,695,402	\$ 17,302,548
Endowment	2,209,475	2,443,884
Other	1,379,703	1,746,303
Gross unconditional promises to give	23,284,580	21,492,735
Less:		
Unamortized discount:		
Capital Campaign	(273,532)	(259,345)
Endowment	(27,535)	(108,906)
Other	(19,183)	(60,109)
Allowance for uncollectible amounts:		
Capital Campaign	(275,422)	(244,081)
Endowment	(44,280)	(49,280)
Other	(19,316)	(10,092)
Net unconditional promises to give	\$ 22,625,312	\$ 20,760,922
	2020	2019
Net unconditional promises to give:		
Capital Campaign	\$ 19,146,448	\$ 16,799,122
Endowment	2,137,660	2,285,698
Other	1,341,204	1,676,102
Totals	\$ 22,625,312	\$ 20,760,922
Amounts due in:		
Less than one year	\$ 3,577,701	\$ 6,862,431
One to five years	17,919,839	14,276,373
Greater than five years	1,787,040	353,931
Totals	\$ 23,284,580	\$ 21,492,735

**Note 10 - UNCONDITIONAL PROMISES TO GIVE (Continued)**

Promises to give receivable balances of more than one year are discounted at 1.41% for each of the years ended June 30, 2020 and 2019.

**Note 11 - NOTES RECEIVABLE**

As part of a New Markets Tax Credit Financing Transaction (see Note 16), the Museum entered into an agreement on December 30, 2013 to lend FNBC NMTC Hybrid Fund, L.L.C. \$3,635,000. During the year ended June 30, 2019, the note was purchased from FNBC NMTC Hybrid Fund L.L.C. by Advantage Capital Management Corporation. The note is secured by certain bank accounts of Advantage Capital Management Corporation. Outstanding principal and accrued interest as of June 30, 2020 and 2019 totaled \$4,834,474 and \$4,634,670, respectively. Interest is paid quarterly at a fixed rate of 1.375516% per year and additional interest accrues and compounds quarterly at 4.31395% per year. Principal and accrued interest shall be paid upon maturity. The note matured on October 22, 2020. Interest earned on this note for both the years ended June 30, 2020 and 2019 totaled \$249,804 (\$199,804 accrued plus \$50,000 paid).

**Note 12 - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2020 and 2019 consists of the following:

	2020	2019
Land	\$ 7,718,040	\$ 7,676,193
Buildings	226,048,525	169,697,907
Exhibits	44,889,570	42,471,357
Equipment, video productions, and furniture	61,394,308	41,468,047
Construction in progress	6,322,036	57,121,418
	346,372,479	318,434,922
Less accumulated depreciation	(81,746,137)	(71,831,340)
Totals	\$264,626,342	\$ 246,603,582

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$9,914,798 and \$8,156,013, respectively.

**Note 13 - SPLIT-INTEREST AGREEMENTS**

The Museum has three charitable gift annuities in place for which assets were transferred to the Museum and, in return, the Museum must make annual payments to the donor or spouse until their death.

	<u>Fiscal Year Established</u>	<u>Asset Value at Date of Donation</u>	<u>Annual Annuity Payment Due</u>
Charitable Gift Annuity No. 1	2007	\$121,200	\$7,757
Charitable Gift Annuity No. 2	2015	\$13,991	\$1,450
Charitable Gift Annuity No. 3	2019	\$ 1,000,000	\$75,000

The present value of estimated future payments of \$416,517 and \$477,200 as of June 30, 2020 and 2019, respectively, is included in accrued expenses in the Museum's Consolidated Statement of Financial Position.

During the year ended June 30, 2013, the Museum was named as a beneficiary of a charitable lead annuity trust. The Museum will receive annual payments from the trust of \$1,187 for the first year, \$36,109 in years two through fourteen, and \$34,921 in years 15 through 27. The present value of estimated future payments of \$234,613 and \$270,219 as of June 30, 2020 and 2019, respectively, is included in the unconditional promises to give section in the Museum's Consolidated Statement of Financial Position.

**Note 14 - GRANTS**

The State of Louisiana provided a capital appropriation through a Cooperative Endeavor Agreement with The National World War II Museum, Inc. in the amount of \$64,000,000. The Museum must use the State award for the planning and construction of buildings needed for the expansion program. For the years ended June 30, 2020 and 2019, the Museum recognized revenue under this grant in the amount of \$6,209,636 and \$8,061,868, respectively.

For years ended June 30, 2020 and 2019, the Museum also recognized \$1,745,770 and \$2,901,751, respectively, of grant revenues from private sources and other sources.

**Note 15 - BANK LINES OF CREDIT AND INTEREST RATE SWAP AGREEMENT**

On February 29, 2016, the Museum entered into a loan agreement with Hancock Whitney Bank (formerly Whitney Bank) in New Orleans. The loan agreement provided for a \$2,500,000 line of credit loan which was evidenced by a promissory note. The line of credit matures on April 12, 2021. The line of credit loan was established for working capital purposes. The line of credit loan is collateralized by the collateral securing other loans with this lender. As of June 30, 2020 and 2019, the Museum had no outstanding balance. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR + 2.75% (2.933% and 5.15%) as of June 30, 2020 and 2019, respectively.

On December 21, 2017, the Museum entered into construction loan agreements with Hancock Whitney Bank and Iberia Bank, both in New Orleans. The loan agreements provided for a \$53,209,200 non-revolving line of credit loan which was evidenced by promissory notes to each financial institution in equal amounts. The non-revolving lines of credit have an original maturity date of December 21, 2020 and may be extended for an additional period of two years, the extended maturity date. On December 21, 2020 or the extended maturity date, the non-revolving lines of credit will automatically convert to a term loan. The term loans are payable in monthly principal payments based on a twenty-five year amortization plus interest, at one-month LIBOR + 2.25% and matures two years after the date of conversion. The non-revolving lines of credit loan were established for the construction of the Hotel. As of June 30, 2020 and 2019, the Museum had an outstanding balance of \$51,803,493 and \$40,242,415, respectively. Interest on the loans are payable monthly at an adjusted rate equal to the one-month LIBOR + 2.75% (2.933% and 5.15% as of June 30, 2020 and 2019, respectively) through December 21, 2019 and thereafter at one-month LIBOR + 2.25%.

In conjunction with the loan agreements for the construction of the Hotel, the Museum entered into an interest rate swap agreement with Iberia Bank whereby the current notional amount (\$42,567,360 as of June 30, 2020) bears interest at a fixed rate of 4.86% minus a variable interest rate based on the USD-LIBOR BBA + 2.25%. The swap agreement is designed to hedge the risk of changes in interest rate payments on the construction loan agreements.

The Museum has recognized an unfavorable position with the counterparty in the amount of \$2,693,140 as a derivative liability on the Consolidated Statement of Financial Position as of June 30, 2020, and recorded an unrealized loss of \$2,693,140 on the Consolidated Statement of Activities for the year ended June 30, 2020.

For the year ended June 30, 2020, interest expense on the lines of credit and swap agreement (including the change in liability on the swap agreement of \$2,693,140) totaled \$4,121,361. Interest on the lines of credit were capitalized during the year ended June 30, 2019.



**Note 16 - NEW MARKETS TAX CREDIT**

In December 2013, World War II Campaigns, Inc. executed a New Markets Tax Credit Financing Transaction with FNBC NMTC Hybrid Fund L.L.C. to fund construction costs for the Campaigns of Courage Pavilion - Road to Berlin. The Museum is a guarantor of the Subsidiary's obligation. The structure will realize benefits from the New Markets Tax Credit Program of the CDFI, a branch of the U.S. Department of Treasury and the State of Louisiana New Markets Job Act.

The transaction loan totals \$5 million toward this \$35 million phase of the expansion. The Museum raised other sources of funding to satisfy the loan from existing donor pledges and contributions as of the date of the transaction closing. The total loan amount is described in Note 17.

The Museum will realize a projected benefit in positive cash flow from the Federal and state incentives incorporated into the loan of approximately \$1,600,000 (unaudited).

**Note 17 - NOTES PAYABLE**

Notes payable as of June 30, 2020 and 2019 consist of the following:

	2020	2019
<p>Note payable, dated March 4, 2016, to Hancock Whitney Bank (5.00% interest rate) payable in monthly principal and interest payments of \$22,154, with a balloon payment of \$2,787,886 plus unpaid interest on March 4, 2021, cross collateralized by other loans with Hancock Whitney Bank.</p>	\$ 2,869,446	\$ 2,986,170
<p>Note payable, dated May 29, 2018, to Hancock Whitney Bank, bearing interest at 5% payable in monthly principal and interest payments of \$26,278 with a balloon payment of \$3,173,059 plus unpaid interest due on June 15, 2021. The note is secured by Museum property.</p>	3,313,158	4,207,345

**Note 17 - NOTES PAYABLE (Continued)**

	2020	2019
<p>Note payable, dated December 30, 2013, to a community development financial institution, Advantage Capital (formerly FNBC Sub-CDE#14, L.L.C.), interest at a fixed rate of 1%, due quarterly beginning March 31, 2014, and principal was due at maturity, October 22, 2020. The note is secured by all receivables, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 29.)</p>	5,000,000	5,000,000
<p>Note payable, dated September 1, 2017, to Tawani Holdings LLC, bearing interest at 4.00%, payable in monthly interest payments of \$667 through December 1, 2017 then monthly principal and interest payments of \$9,877 thereafter, with a final payment due September 1, 2019. The loan was secured with certain deposits of the Museum.</p>	-	20,007
<p style="padding-left: 40px;">Less unamortized discount</p>	<p style="padding-left: 40px;">11,182,604 (52,546)</p>	<p style="padding-left: 40px;">12,213,522 (236,458)</p>
<p style="padding-left: 80px;">Totals</p>	<p style="padding-left: 80px;"><u>\$ 11,130,058</u></p>	<p style="padding-left: 80px;"><u>\$ 11,977,064</u></p>

Interest expense on notes payable totaled \$577,689 and \$589,340 for the years ended June 30, 2020 and 2019, respectively.

For both the years ended June 30, 2020 and 2019, \$183,912 and \$109,338, respectively, was recorded as part of interest expense through amortization of the original issue discount.

Aggregate maturities of long-term debt are as follows:

Year Ended June 30,	
2021	\$ 5,214,804
2022	5,967,800
Total	<u>\$ 11,182,604</u>

**Note 18 - PAYCHECK PROTECTION ACT NOTES PAYABLE**

On April 13, 2020, the Museum received a \$3,162,700 loan from Hancock Whitney under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and implemented by the U.S. Small Business Administration (SBA). Interest on the loan is 1%. Management expects this loan will be repaid within 12 months and that a substantial amount of expenditures paid from the loan proceeds will be approved as eligible for the loan forgiveness under the requirements of the PPP program. Any amounts not forgiven would be amortized over a period of two years.

On April 8, 2020, World War II Theatre, Inc., a subsidiary of the Museum, received a \$1,193,300 loan from Iberia Bank under PPP established by the CARES Act and implemented by the SBA. Interest on the loan is 1%. Management expects this loan will be repaid within 12 months and that a substantial amount of expenditures paid from the loan proceeds will be approved as eligible for the loan forgiveness under the requirements of the PPP program. Any amounts not forgiven would be amortized over a period of two years.

**Note 19 - HILTON DEVELOPMENT INCENTIVE NOTE**

On August 25, 2017, the Museum entered into a development incentive note with Hilton Franchise Holding LLC for the development of the Hotel to be operated as part of the Curio Collection by Hilton. This note bears no interest. On each anniversary of the Hotel's opening date, one-twentieth (1/20<sup>th</sup>) of the original principal amount will be forgiven without payment. The outstanding principal balance of the note payable shall be payable if: (1) a termination of the franchise agreement occurs for any reason; or (2) a transfer occurs and the transferee does not assume the note. As of June 30, 2020, the Museum had an outstanding balance of \$1,300,000.

**Note 20 - DONOR AND BOARD DESIGNATED ENDOWMENT**

*The Endowments.* The Museum has a general endowment consisting of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. In addition to the Museum's general endowment, the Museum has the following named endowments:

George Schultz Lecture Series Endowment  
Selley Foundation Special Exhibits and Collections Fund  
The Raymond E. Mason Jr. Distinguished Lecture Series on WWII  
Samuel Zemurray Stone Senior Director of History & Research  
Mr. and Mrs. Thomas B. Coleman Endowment  
Ferdinand Levy & Leo Levy Memorial Endowment Education Fund  
Baptist Community Ministries - Faith in Wartime Education  
Mueller Fellows Endowment Fund for Normandy Academy Scholarships  
John R. Whitman Normandy Scholars Fund  
The Jack C. Taylor Education Endowment  
Bob & Dolores Hope Director of Entertainment Endowment  
Bob & Dolores Hope Educational Endowment  
Walter D. Ehlers Normandy Scholars Endowment  
Noel & Irene McDonald Normandy Scholars Endowment  
Dr. Hal Baumgarten D-Day Commemoration  
Chuck & Amy Newhall Charitable Fund Education Endowment  
The Taube Family Fund for Holocaust Education  
Monuments Men Restricted Endowment Fund  
Warner Lusardi General Education Endowment  
Jules Vernon Normandy Scholars

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor imposed restrictions.

*Interpretation of Relevant Law.* The Museum is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time or purpose restricted until the Board of Trustees appropriates such amounts for expenditure. The Board of Trustees has interpreted SPMIFA as requiring the preservation of the fair value of an original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies the following amounts as restricted net assets in the accompanying consolidated financial statements:

**Note 20 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

- the original value of gifts donated to the endowment;
- the original value of subsequent gifts to the endowment; and
- accumulations to the endowment, made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and the preservation of the fund;
- the purposes of the Museum and the donor-restricted endowment fund;
- general economic conditions;
- the possible effect of inflation and deflation;
- the expected total return from income and the appreciation of investments;
- other resources of the Museum;
- the investment policies of the Museum.

Endowment net asset composition by type of fund as of June 30, 2020 and 2019 is as follows:

	June 30, 2020		Totals
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 23,853,343	\$ 23,853,343
Board-designated funds	12,715,231	-	12,715,231
Total funds	\$12,715,231	\$ 23,853,343	\$ 36,568,574

**Note 20 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

	June 30, 2019		Totals
	Without Donor Restrictions	With Donor Restrictions	
Donor-restricted endowment funds	\$ -	\$ 24,304,526	\$ 24,304,526
Board-designated funds	12,846,257	-	12,846,257
Total funds	<u>\$12,846,257</u>	<u>\$ 24,304,526</u>	<u>\$ 37,150,783</u>

Changes in endowment net assets for the years ending June 30, 2020 and 2019 are as follows:

	2020		Totals
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets, beginning of year	\$ 12,846,257	\$ 24,304,526	\$ 37,150,783
Contributions	978,567	154,434	1,133,001
Investment return:			
Net (depreciation), realized and unrealized	(329,573)	(494,715)	(824,288)
Endowment expended	(890,922)	-	(890,922)
Endowment net assets, reclassified from restriction	110,902	(110,902)	-
Endowment net assets, end of year	<u>\$ 12,715,231</u>	<u>\$ 23,853,343</u>	<u>\$ 36,568,574</u>

**Note 20 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

	2019		Totals
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets, beginning of year	\$ 11,248,391	\$ 20,949,957	\$ 32,198,348
Contributions	1,594,372	2,364,535	3,958,907
Board designated surplus	266,497	-	266,497
Investment return:			
Net appreciation realized and unrealized	237,930	1,175,642	1,413,572
Endowment expended	(686,541)	-	(686,541)
Endowment net assets, reclassified from restriction	185,608	(185,608)	-
Endowment net assets, end of year	<u>\$ 12,846,257</u>	<u>\$ 24,304,526</u>	<u>\$ 37,150,783</u>

*Funds with Deficiencies.* From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020 and 2019.

*Return Objectives and Risk Parameters.* The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that must be held in perpetuity as well as board designated funds. Under this policy, the Permanent Endowment Fund should be invested primarily to achieve growth of capital and generation of income. Recommendations regarding the investment of the balance in the Permanent Endowment Fund shall be made by the Investment Committee to the Treasurer, President, and Chief Financial Officer. The Committee shall consider an appropriate and balanced portfolio of equity and fixed income investments, and other investments as may be deemed consistent with the investment objectives of the Fund by the Board of Trustees.

*Spending Policy and How Investment Objectives Relate to the Spending Policy.* A projected income from the Permanent Endowment Fund shall be budgeted to the general support of ongoing Museum operations or such other purpose as the Board of Trustees shall deem appropriate. This percentage and the asset base to which it applies shall be determined by the Investment Committee, incorporated in the annual budget determined by the Finance

**Note 20 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

Committee, and ratified by vote of the Board of Trustees. This spending policy shall conform to generally accepted endowment management policies. Spending of the approved funds shall be authorized by the President.

**Note 21 - CAPITAL CAMPAIGN**

In 2004, the Museum began the Capital Campaign to raise funds for the expansion of the Museum facilities, campaign expenses, and the Endowment. The goal of the Capital Campaign is to raise \$400,000,000, of which \$33,000,000 is targeted from Federal sources, \$86,000,000 from State funding, \$23,000,000 is targeted from tax incentives, and \$258,000,000 from private sector donations. An additional \$53,200,000 from commercial funding sources has been obtained for the hotel and conference center. An additional \$7,000,000 of State funding was secured for construction of the parking garage.

As of June 30, 2020, \$32,750,000 has been committed by Federal sources; \$91,000,000 has been appropriated by the State of Louisiana (this excludes \$7,000,000 for the parking garage and \$15,000,000 unfunded priority 5 appropriations), \$19,027,032 has been funded/financed through tax incentives, \$230,177,000 has been raised from private sector sources for property acquisitions, campaign expenses, and the Endowment Fund (\$38,417,545), net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$7,359,010 (unaudited) is reported by the Museum as planned gifts which will be recognized in subsequent periods in accordance with accounting principles generally accepted in the United States of America (for items such as the Museum being named as a beneficiary in a will or life insurance policy).

Promises receivable from private sector sources (excluding Endowment) as of June 30, 2020 and 2019 are as follows:

	2020	2019
Promises receivable at beginning of year	\$ 16,799,122	\$ 13,998,662
New promises made during the year	11,475,594	22,303,916
Less:		
Cash received	(8,982,740)	(19,000,030)
Write offs	(100,000)	-
Promises receivable at end of year	19,695,402	17,302,548
Unamortized discount	(273,532)	(259,345)
Allowance for doubtful promises	(275,422)	(244,081)
Totals	\$ 19,146,448	\$ 16,799,122



**Note 21 - CAPITAL CAMPAIGN (Continued)**

The activities of the Capital Campaign funding from private sector sources for property acquisitions and campaign expenses through June 30, 2020 are as follows:

Total Capital Campaign gifts and promises (excluding Endowment)	\$ 191,467,951
Less amounts written off since inception	<u>(1,496,199)</u>
	189,971,752
Discount to net present value at June 30, 2020	(273,532)
Allowance for doubtful promises at June 30, 2020	<u>(275,422)</u>
Gifts and promises, net	<u>189,422,798</u>
Net assets released from restrictions through acquisition of property or payment of Capital Campaign expenses:	
2004	3,605,658
2005	2,467,099
2006	2,973,040
2007	5,396,033
2008	7,967,652
2009	3,306,833
2010	9,493,949
2011	6,994,170
2012	7,732,418
2013	7,976,221
2014	14,351,372
2015	28,199,679
2016	10,347,977
2017	15,372,339
2018	16,132,564
2019	18,999,006
2020	<u>8,960,340</u>
Total net assets released	<u>170,276,350</u>
Temporarily restricted net assets - Capital Campaign, as of June 30, 2020	<u><u>\$ 19,146,448</u></u>

**Note 22 - RETIREMENT PLANS**

The Museum adopted a defined contribution plan covering all of its employees who are age 18 and over, who have completed three months of service. The plan allows participants to contribute by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The plan allows the Museum to contribute a discretionary amount on a uniform basis to all participants. The Museum's contribution to the plan totaled \$243,762 and \$251,813 for the years ended June 30, 2020 and 2019, respectively.

The Museum sponsors a Section 403(b) salary reduction plan covering substantially all of its employees.

Additionally, the Museum sponsors a deferred compensation plan under IRC sections 457(f) for the benefit of a highly compensated employee. The Museum's contributions to the plans totaled \$37,500, for both years ended June 30, 2020 and 2019.

**Note 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Cash and Cash Equivalents** - The carrying amount approximates fair value because of the short maturity of these instruments.

**Investments** - The carrying amounts of investment securities available for sale and restricted investments are predominately based on directly or indirectly observable inputs other than quoted market prices for the asset, such as quoted market prices for similar assets or liabilities.

**Unconditional Promises to Give** - The carrying value of unconditional promises to give as of June 30, 2020 and 2019 is \$22,625,312 and \$20,760,922, respectively, are discounted to their net present value, which approximates fair value.

**Notes Receivable** - The carrying value of notes receivable as of June 30, 2020 and 2019 is \$4,834,474 and \$4,634,670, respectively, which approximates fair value.

**Notes Payable to Banks** - The carrying value of notes payable to banks as of June 30, 2020 and 2019 is \$11,130,058 and \$11,977,064, respectively, which approximates fair value.

**Line of Credit - Construction** - The carrying value of the Line of Credit - Construction as of June 30, 2020 and 2019 is \$51,803,493 and \$40,242,415, respectively, which approximates fair value.

**Note 23 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**Paycheck Protection Act Note Payable** - The carrying value of the Paycheck Protection Act Note Payable as of June 30, 2020 is \$4,356,000, which approximates fair value.

**Hilton Development Incentive Note** - The carrying value of the Hilton Development Incentive Note as of June 30, 2020 is \$1,300,000, which approximates fair value.

**Limitations** - Fair value estimates are made at a specific point in time, based on relevant market information and information about the consolidated financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Note 24 - FUNCTIONAL ALLOCATION OF EXPENSES**

Most of the expenses can be directly allocated to one of the programs or supporting services. The consolidated financial statements also report certain categories of expenses that are attributable to more than one program or supporting service. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include human resources, credit card fees, insurance expense, president's office, development and donor relations, capital campaign, fundraising events, and membership and direct mail. Most of human resources expenses are considered general and administrative, except meeting expense (60% program, 40% general and administrative, allocated based on estimated meeting content), payroll and benefits (allocated by the percentages used in salaries), and staff meals (40% program, 40% general and administrative, 20% fundraising, allocated based on departments receiving meals). Credit card fees are allocated based on actual income from program revenue and fundraising revenue paid by credit cards. Insurance expenses are allocated using 80% of property insurance premiums and 60% of general liability insurance premiums to program expense and the remainder to general and administrative expense. This allocation is based on estimated insurance coverage by departments. The President's office expenses are allocated evenly between fundraising, administrative and programming, based on estimates of time and effort. Development, fundraising events, and capital campaign salaries, benefits, and travel expenses are allocated based on estimates of time and effort. Membership and direct mail expenses are allocated by expense type except for direct marketing, which is allocated by the percentage of the content in each mailing.

**Note 25 - COMMITMENTS**

During 2017, the Museum entered into an employment contract with an employee effective July 1, 2017 through June 30, 2021, which provides for a minimum annual salary, and bonus at the sole discretion of the Museum Board of Trustees. The contract provides for retention bonuses provided the employee meets certain levels of performance and completes the initial term of the contract. As of June 30, 2020, the total commitment (undiscounted) is \$400,000 for salary and \$37,500 for contributions to the deferred compensation plan, which includes a two year commitment to serve as President and CEO.

On March 1, 2005, the Museum entered into a contract for the architectural design of the Capital Expansion Project. Under the terms of the contract, fees are determined by a lump sum total of \$250,000, 9.9% of the first \$80,170,115, and 6% of costs in excess of \$80,170,115. As of June 30, 2020, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$15,175,000.

The Museum has entered into a contract for the exhibit design of the Capital Expansion Project totaling approximately \$9,988,000. As of June 30, 2020, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$9,900,000.

The Museum entered into contracts related to the construction of the Bollinger Canopy of Peace totaling approximately \$4,800,000. As of June 30, 2020, the Museum has incurred construction in progress related to these contracts totaling approximately \$4,235,000. Museum has also incurred other construction costs on a time and material basis.

The Museum entered into a contract related to the construction of the Hall of Democracy totaling approximately \$17,578,000. As of June 30, 2020, the Museum has incurred construction in progress related to this project totaling approximately \$17,572,000.

The Museum entered into a contract related to the design of the Liberation Theater totaling approximately \$1,455,000. As of June 30, 2020, the Museum has incurred construction in progress related to this project totaling approximately \$1,180,000.

The Museum entered into a contract for the Sound and Light Show totaling approximately \$2,390,000. As of June 30, 2020, the Museum has incurred construction in progress related to this project totaling approximately \$1,425,000.

During the year ended June 30, 2020, the Museum entered into a contract for the Louisiana Pavilion HVAC upgrade totaling approximately \$219,000. As of June 30, 2020, the Museum has not incurred any construction costs related to this project.

**Note 26 - LEASE AND LICENSING AGREEMENTS**

On June 18, 2014, in preparation to enter into agreements to lease its restaurant, the Museum recorded with the Orleans Parish Clerk of Court an executed Declaration of Immobilization for the machinery, appliances, and equipment on its property used for food and beverage and catering activities to be deemed component parts of the buildings.

On June 18, 2014, the Museum entered into agreements to lease its restaurant space and to license certain designations, including design, trademarks, service marks, logographic, symbols, and other indicia of the Museum with Service America Corporation d/b/a Centerplate ("Centerplate"), beginning August 1, 2014.

Both the lease and licensing agreements will continue on a continuous seven year cycle beginning on August 1, 2015, provided Centerplate meets the Museum's visitor needs and expectations. For each contract year this goal is achieved, the lease is extended one year beyond the initial term (set to expire July 31, 2024). If Centerplate fails to meet the Museum's visitor needs and expectations in any two consecutive years, the Museum may terminate the lease.

The license fee is determined as a percentage of gross receipts, 17.5% of the first \$2,000,000 of gross receipts, 20% of the next \$500,000 of gross receipts, and 22.5% greater than \$2,500,000 of gross receipts. The maximum and minimum of each step-scale tier shall be adjusted by the percentage increase or decrease in the Consumer Price Index from the commencement date, August 1, 2014, on the first day of each contract year beginning with the fourth contract year.

Rent is determined as a percentage of gross receipts, 10% of the first \$3,000,000, 12.5% of the next \$500,000, and 15% greater than \$3,500,000. The maximum and minimum of each step-scale tier shall be adjusted by the percentage increase or decrease in the Consumer Price Index from the commencement date, August 1, 2014, on the first day of each contract year beginning with the fourth contract year. As consideration for this lease, Centerplate will invest up to \$750,000 in the premises on worthy food and beverage related projects.

As a result of the impact of COVID-19 on the Museum and its restaurant operations, the Museum and Centerplate entered into an agreement effective September 16, 2020, that provides lower license fees, rents and other payments until such time as the level of business activity for the restaurant returns to 80% of the activity for the twelve months ended July 31, 2019.

**Note 27 - SUPPLEMENTAL CASH FLOW INFORMATION**

	Year Ended June 30,	
	2020	2019
Cash paid for interest	\$ 1,821,999	\$ 480,002
Cost of building improvements and equipment acquired	\$ 27,937,556	\$ 60,533,468
Change in construction payable for property and equipment purchases	2,521,566	(2,063,714)
Cash payments for property and equipment acquired	\$ 30,459,122	\$ 58,469,754

**Note 28 - COVID-19**

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus disease (COVID-19) as a pandemic. Measures to protect public health, such as recommended social distancing and mandatory business closures, have had material adverse impacts on the economy.

On March 13, 2020, following guidance issued by the Governor of the State of Louisiana, the Museum temporarily closed its doors to visitors. On May 25, 2020, the Museum reopened with reduced occupancy levels and other restrictions according to guidelines of the Louisiana Department of Health along with federal and state of Louisiana guidelines as they relate to COVID-19. The pandemic has had a significant unfavorable impact of the Museum's financial condition for the year ended June 30, 2020, but the Museum has taken actions to preserve financial flexibility in this time of uncertainty. In order to provide cash flow assistance during the closure period, the Museum and its WWII Theatre, Inc. subsidiary applied for and received PPP loans in the amount of \$3,162,700 and \$1,193,300, respectively. Given the substantially reduced operations of the Museum, the Museum reduced its workforce by 82 staff positions at the Museum, eliminated an additional 40 vacant positions, reduce 115 staff positions at the Hotel and instituted pay cuts for executive and management positions across the Museum. The Museum is also evaluating all areas of spending to reduce expenses to assist with cash flow.

**Note 29 - SUBSEQUENT EVENTS**

In September 2020, the Museum entered into a \$23,250,000 contract related to the construction of the Liberation Pavilion. As the Museum's final permanent exhibition hall, the Liberation Pavilion will feature three expansive floors exploring the end of the war, the Holocaust, the immediate postwar years, and the war's continuing impact on our own lives. The project is anticipated to begin in late 2020 and be completed in the latter half of 2022. The total project budget is approximately \$46 million and will be funded through a combination of private donations and State of Louisiana Capital Outlay funds.

On October 23, 2020, as part of the New Markets Tax Credit transaction, all outstanding principal and interest on the note receivable from FNBC NMTC Hybrid Fund L.L.C. was collected in full. The loan from Advantage Capital Management Corporation was also paid in full.

**SUPPLEMENTAL INFORMATION**



**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER  
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

**The National World War II Museum, Inc.**  
New Orleans, Louisiana

For the year ended June 30, 2020

**Agency Head Name:** Stephen Watson, President and Chief Executive Officer

**Purpose**

Salary	\$405,833
Benefits - insurance	13,326
Benefits - deferred compensation - 457(f)	37,500
Benefits - retirement - 401k	8,060
Benefits - other	0
Car allowance	14,400
Gas	0
Vehicle provided by government	0
Per diem	0
Reimbursements	0
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	<b><u>\$479,119</u></b>

**CONSOLIDATED SCHEDULE OF FINANCIAL POSITION****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, Louisiana

June 30, 2020

**ASSETS**

	World War II Theatre, Inc., Owner of Higgins Hotel and Conference Center	The National World War II Museum	2020 Totals
Cash and cash equivalents	\$ 3,951,925	\$ 57,960,534	\$ 61,912,459
Investments	-	30,043,121	30,043,121
Unconditional promises to give:			
Capital Campaign, net of allowances	-	19,146,448	19,146,448
Endowment, net of allowances	-	2,137,660	2,137,660
Other, net of allowances	-	1,341,204	1,341,204
Notes receivable	-	4,834,474	4,834,474
Retail store inventory	99,793	1,074,391	1,174,184
Other assets	3,000	4,381,264	4,384,264
Property and equipment, net of accumulated depreciation	65,882,751	198,743,591	264,626,342
Collections	-	13,153,510	13,153,510
	<u>\$ 69,937,469</u>	<u>\$ 332,816,197</u>	<u>\$ 402,753,666</u>

**LIABILITIES**

Accounts payable trade	\$ 261,016	\$ 701,586	\$ 962,602
Construction projects payable	401,835	2,928,736	3,330,571
Accrued expenses	580,311	2,377,280	2,957,591
Liability on interest rate swap agreement	2,693,140	-	2,693,140
Deferred revenue	-	3,903,563	3,903,563
Line of credit - construction	51,803,493	-	51,803,493
Paycheck Protection Act notes payable	1,193,300	3,162,700	4,356,000
Hilton development incentive note	1,300,000	-	1,300,000
Notes payable	-	11,130,058	11,130,058
	<u>58,233,095</u>	<u>24,203,923</u>	<u>82,437,018</u>

**NET ASSETS**

Total net assets	<u>11,704,374</u>	<u>308,612,274</u>	<u>320,316,648</u>
Totals	<u>\$ 69,937,469</u>	<u>\$ 332,816,197</u>	<u>\$ 402,753,666</u>

**CONSOLIDATED SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, Louisiana

For the year ended June 30, 2020

	World War II Theatre, Inc., Owner of Higgins Hotel and Conference Center	The National World War II Museum	2020 Totals
<b>Support and Revenues</b>			
Grants	\$ -	\$ 7,955,406	\$ 7,955,406
Contributions:			
Capital Campaign	-	11,307,666	11,307,666
Endowment	-	154,434	154,434
Other	-	4,330,639	4,330,639
Memberships	-	11,523,338	11,523,338
Admissions	-	13,137,896	13,137,896
Facilities and property rental	-	1,270,058	1,270,058
Hotel operating revenue:			
Room revenue	3,438,272	-	3,438,272
Food and beverage	1,683,946	-	1,683,946
Other operating revenue	195,239	-	195,239
Minor operating revenue	14,233	-	14,233
Hotel miscellaneous	64,091	-	64,091
Sponsored events and conferences	-	8,288,869	8,288,869
Retail store	-	3,031,928	3,031,928
Investment income (loss)	2,804	(7,743)	(4,939)
Sponsorships	-	103,466	103,466
Miscellaneous	11,200	1,102,888	1,114,088
	<u>5,409,785</u>	<u>62,198,845</u>	<u>67,608,630</u>
<b>Expenses</b>	<u>10,829,795</u>	<u>53,478,001</u>	<u>64,307,796</u>
<b>Changes in Net Assets Before Change in Liability on Interest Rate Swap Agreement</b>	(5,420,010)	8,720,844	3,300,834
Change in liability on interest rate swap agreement (Note 15)	<u>(2,693,140)</u>	<u>-</u>	<u>(2,693,140)</u>
<b>Change in Net Assets</b>	(8,113,150)	8,720,844	607,694
<b>Net Assets</b>			
Beginning of year	<u>19,817,524</u>	<u>299,891,430</u>	<u>319,708,954</u>
End of year	<u>\$11,704,374</u>	<u>\$308,612,274</u>	<u>\$320,316,648</u>

**CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, Louisiana

For the year ended June 30, 2020

	World War II Theatre, Inc., Owner of Higgins Hotel and Conference Center	The National World War II Museum	2020 Total Expenses
Advertising	\$ 103,491	\$ 2,140,965	\$ 2,244,456
Capital and bad debt expense	-	143	143
Cost of goods sold	-	1,848,740	1,848,740
Depreciation	1,196,726	8,715,781	9,912,507
Educational travel expense	-	3,313,559	3,313,559
Hotel operating expense:			
Direct cost	3,967,056	-	3,967,056
Indirect cost	2,269,759	-	2,269,759
Fixed cost	261,548	-	261,548
Management fees	134,894	-	134,894
Insurance expense	127,925	1,915,940	2,043,865
Interest expense	1,428,220	577,690	2,005,910
Marketing expense	11,450	960,080	971,530
Meeting, events, and conferences expense	-	856,324	856,324
Office supplies	8,995	1,251,770	1,260,765
Other operating expense	51,231	1,980,509	2,031,740
Other personnel costs	6,633	333,154	339,787
Other program expense	-	780,676	780,676
Payroll taxes and benefits	-	3,011,381	3,011,381
Printing and postage expense	24,054	4,899,945	4,923,999
Professional services	400,107	2,054,299	2,454,406
Repair and maintenance	35,783	1,351,775	1,387,558
Salaries	717,360	15,462,039	16,179,399
Staff and volunteer expenses	29,223	414,851	444,074
Staff travel	55,340	465,634	520,974
Telephone expense	-	138,728	138,728
Utilities	-	1,004,018	1,004,018
	<u>\$10,829,795</u>	<u>\$53,478,001</u>	<u>\$64,307,796</u>

**SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,  
The National World War II Museum, Inc. and Subsidiaries,  
New Orleans, Louisiana.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The National World War II Museum, Inc. and Subsidiaries (a nonprofit organization) (the "Museum"), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon, dated November 2, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Museum's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Museum's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Museum's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Museum's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Bourgeois Bennett, L.L.C.".

Certified Public Accountants.

New Orleans, Louisiana,  
November 2, 2020.

## SCHEDULE OF FINDINGS AND RESPONSES

### The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana

For the year ended June 30, 2020

#### Section I - Summary of Auditor's Report

##### a) Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_ Yes X No
- Significant deficiency(ies) identified that are not considered to be a material weakness? \_\_\_ Yes X None reported

Noncompliance material to consolidated financial statements noted? \_\_\_ Yes X No

##### b) Federal Awards

The Museum did not receive federal awards in excess of \$750,000 during the year ended June 30, 2020.

#### Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

##### Internal Control Over Financial Reporting

No findings were reported during the audit of the consolidated financial statements for the year ended June 30, 2020.

##### Compliance and Other Matters

No findings were reported during the audit of the consolidated financial statements for the year ended June 30, 2020.

#### Section III - Federal Award Findings and Questioned Costs

Not applicable.



**REPORTS BY MANAGEMENT**

## **SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

### **The National World War II Museum, Inc. and Subsidiaries New Orleans, Louisiana**

For the year ended June 30, 2020

#### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

##### **Internal Control Over Financial Reporting**

No material weaknesses were reported during the audit of the consolidated financial statements for the year ended June 30, 2019.

No significant deficiencies were reported during the audit of the consolidated financial statements for the year ended June 30, 2019.

##### **Compliance and Other Matters**

No compliance findings material to the consolidated financial statements were reported during the audit of the consolidated financial statements for the year ended June 30, 2019.

#### **Section II - Internal Control and Compliance Material to Federal Awards**

The Museum did not receive federal awards in excess of \$750,000 during the year ended June 30, 2019.

#### **Section III - Management Letter**

A management letter was not issued in connection with the audit of the consolidated financial statements for the year ended June 30, 2019.

## **MANAGEMENT'S CORRECTIVE ACTION PLAN**

**The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, Louisiana

For the year ended June 30, 2020

### **Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements**

#### **Internal Control Over Financial Reporting**

No material weaknesses were reported during the audit of the consolidated financial statements for the year ended June 30, 2020.

No significant deficiencies were reported during the audit of the consolidated financial statements for the year ended June 30, 2020.

#### **Compliance and Other Matters**

No compliance findings material to the consolidated financial statements were reported during the audit of the consolidated financial statements for the year ended June 30, 2020.

### **Section II - Internal Control and Compliance Material to Federal Awards**

The Museum did not receive federal awards in excess of \$750,000 during the year ended June 30, 2020.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit of the consolidated financial statements for the year ended June 30, 2020.