

*Consolidated Financial Report*

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

*June 30, 2019*



THE NATIONAL  
WWII MUSEUM  
NEW ORLEANS

*Consolidated Financial Report*

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and Subsidiaries*

*June 30, 2019*

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June 30, 2019 and 2018

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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, 2019, 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, 2019, 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 19, 2018, 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, 2018, 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) is presented for purposes of additional analysis and is 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 October 31, 2019, 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.

*Bourgeois Bennett, L.L.C.*

New Orleans, Louisiana,  
October 31, 2019.

Certified Public Accountants.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaJune 30, 2019  
(with comparative totals for 2018)

	<b><u>ASSETS</u></b>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 67,463,061	\$ 52,304,314
Investments	30,495,131	20,890,402
Unconditional promises to give:		
Capital Campaign, net of allowances	16,799,122	13,301,268
Endowment, net of allowances	2,285,698	3,446,064
Other, net of allowances	1,676,102	1,638,699
Notes receivable	4,634,670	13,138,530
Gift shop inventory	891,120	834,643
Other assets	6,210,206	7,039,557
Property and equipment, net of accumulated depreciation	246,603,582	194,226,125
Collections	<u>13,106,884</u>	<u>13,062,884</u>
Totals	<u><u>\$390,165,576</u></u>	<u><u>\$319,882,486</u></u>
	<b><u>LIABILITIES</u></b>	
Accounts payable trade	\$ 2,548,078	\$ 2,813,187
Construction projects payable	5,852,137	3,788,423
Accrued expenses	5,829,444	2,959,782
Deferred revenue	4,007,484	6,810,277
Lines of credit	40,242,415	1,908,672
Notes payable	<u>11,977,064</u>	<u>22,341,652</u>
Total liabilities	<u>70,456,622</u>	<u>40,621,993</u>
	<b><u>NET ASSETS</u></b>	
Net assets without donor restrictions		
Designated	43,510,838	29,217,653
Undesignated	<u>230,715,521</u>	<u>210,644,525</u>
Total net assets without donor restrictions	274,226,359	239,862,178
Net assets with donor restrictions	<u>45,482,595</u>	<u>39,398,315</u>
Total net assets	<u>319,708,954</u>	<u>279,260,493</u>
Totals	<u><u>\$390,165,576</u></u>	<u><u>\$319,882,486</u></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, 2019  
(with comparative totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Totals	2018 Totals
<b>Support and Revenues</b>				
Grants	\$ 573,370	\$ 10,390,249	\$ 10,963,619	\$ 4,961,624
Contributions:				
Capital Campaign	-	22,507,649	22,507,649	12,607,609
Endowment	-	2,364,535	2,364,535	3,111,751
Other	5,121,752	37,404	5,159,156	4,305,030
Tax credit incentives	-	-	-	500,000
Memberships	9,903,130	-	9,903,130	10,709,142
Admissions	20,006,821	-	20,006,821	18,309,062
Facilities and property rental	1,926,678	-	1,926,678	1,634,685
Sponsored events and conferences	26,881,095	765,111	27,646,206	13,786,548
Gift shop	4,139,703	-	4,139,703	3,709,640
Investment income	3,412,668	554,508	3,967,176	2,533,238
Sponsorships	206,442	-	206,442	207,280
Miscellaneous	1,153,838	-	1,153,838	1,099,581
Net assets released from restrictions	30,535,176	(30,535,176)	-	-
<b>Total support and revenues</b>	<b>103,860,673</b>	<b>6,084,280</b>	<b>109,944,953</b>	<b>77,475,190</b>
<b>Expenses</b>				
Program	59,415,275	-	59,415,275	49,979,456
General and administrative	5,888,569	-	5,888,569	4,175,620
Fundraising	4,192,648	-	4,192,648	4,283,112
<b>Total expenses</b>	<b>69,496,492</b>	<b>-</b>	<b>69,496,492</b>	<b>58,438,188</b>
<b>Changes in Net Assets</b>	<b>34,364,181</b>	<b>6,084,280</b>	<b>40,448,461</b>	<b>19,037,002</b>
<b>Net Assets</b>				
Beginning of year	239,862,178	39,398,315	279,260,493	260,223,491
End of year	<u>\$274,226,359</u>	<u>\$45,482,595</u>	<u>\$319,708,954</u>	<u>\$279,260,493</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, 2019  
(with comparative totals for 2018)

	2019			Total Expenses	2018 Totals
	Program Expenses	General and Administration	Fundraising		
Advertising	\$ 3,401,848	\$ -	\$ 106,730	\$ 3,508,578	\$ 2,873,740
Capital and bad debt expense	1,223	-	-	1,223	-
Cost of goods sold	2,386,660	-	-	2,386,660	2,299,012
Depreciation	6,932,611	1,223,402	-	8,156,013	8,139,025
Educational travel expense	14,791,860	-	-	14,791,860	6,628,794
Insurance expense	1,402,305	374,361	-	1,776,666	1,375,737
Interest expense	589,340	-	-	589,340	745,577
Marketing expense	1,109,045	-	66,621	1,175,666	909,376
Meeting, events, and conferences expense	1,143,983	38,179	547,400	1,729,562	1,655,291
Office supplies	985,101	73,456	26,593	1,085,150	1,116,035
Other operating expense	2,116,841	210,111	216,213	2,543,165	2,516,368
Other personnel costs	162,153	56,115	15,556	233,824	232,541
Other program expense	1,137,070	-	-	1,137,070	733,307
Payroll taxes and benefits	2,222,121	287,567	231,569	2,741,257	2,638,310
Printing and postage expense	2,704,831	1,323,176	920,935	4,948,942	5,516,415
Professional services	934,606	606,576	278,629	1,819,811	1,855,996
Repair and maintenance	1,107,539	8,142	-	1,115,681	959,613
Salaries	14,091,976	1,387,164	1,581,419	17,060,559	15,701,576
Staff and volunteer expenses	332,909	106,823	67,863	507,595	489,846
Staff travel	763,657	19,015	130,040	912,712	792,272
Telephone expense	135,757	4,560	2,030	142,347	130,605
Utilities	961,839	169,922	1,050	1,132,811	1,128,752
Total expenses	<u>\$ 59,415,275</u>	<u>\$ 5,888,569</u>	<u>\$ 4,192,648</u>	<u>\$ 69,496,492</u>	<u>\$ 58,438,188</u>

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, 2019  
(with comparative totals for 2018)

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 40,448,461	\$ 19,037,002
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,156,013	8,139,025
Amortization of note payable discount	109,338	271,221
Gain on disposal of equipment	-	(200)
Interest on notes receivable	(199,804)	(318,654)
Realized and unrealized gain on investments	(1,321,735)	(1,544,215)
(Increase) decrease in operating assets:		
Other unconditional promises to give, net	(37,403)	(410,023)
Gift shop inventory	(56,477)	(169,602)
Other assets	829,351	(3,110,205)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	2,604,551	2,049,389
Deferred revenue	(2,802,793)	3,791,663
In-kind contributions - collections	(44,000)	-
Revenues restricted for the acquisition of property and equipment:		
State grant	(8,061,868)	(3,022,482)
Capital Campaign contributions, net of expenses	(20,500,946)	(10,916,263)
Decrease in discount on unconditional promises to give:		
Capital Campaign	(240,574)	(14,671)
(Decrease) increase in allowance for uncollectible promises to give:		
Capital Campaign	46,606	(161,819)
Contributions restricted for endowment purposes	(2,364,535)	(2,117,986)
Increase in allowance for uncollectible promises to give - endowment	-	6,235
	<u>16,564,185</u>	<u>11,508,415</u>
Net cash provided by operating activities	<u>16,564,185</u>	<u>11,508,415</u>

**Exhibit D  
(Continued)**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(58,469,754)	(26,304,247)
Purchase of collections	-	(498,325)
Investment purchases	(16,276,741)	(8,762,043)
Proceeds from sales and maturities of investments	<u>7,993,747</u>	<u>9,816,676</u>
Net cash used in investing activities	<u>(66,752,748)</u>	<u>(25,747,939)</u>
<b>Cash Flows From Financing Activities</b>		
Collections of state grant funds restricted for the acquisition of property and equipment	8,061,868	3,022,482
Collections of Endowment gifts	3,524,901	1,055,852
Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,802,971 and \$1,500,263 of campaign expenses in 2019 and 2018, respectively	17,197,060	14,882,300
Notes payable proceeds	143,722	200,000
Repayments of notes payable	(1,913,984)	(255,551)
Borrowings on lines of credit, net	<u>38,333,743</u>	<u>2,796,128</u>
Net cash provided by financing activities	<u>65,347,310</u>	<u>21,701,211</u>
<b>Net Increase In Cash and Cash Equivalents</b>	15,158,747	7,461,687
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>52,304,314</u>	<u>44,842,627</u>
End of year	<u>\$ 67,463,061</u>	<u>\$ 52,304,314</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, 2019 and 2018

**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 new 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.

**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.

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

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

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 now tasked with planning, constructing, and operating a hotel conference center 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 additional exhibit facilities as part of the parent organization's capital expansion. 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 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.

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

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

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.

**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.

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

**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., Flying Tigers Properties L.L.C., 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.

**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.

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

**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 for a purpose restriction 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, 2019 and 2018, the balance of the allowance related to the Capital Campaign was \$244,081 and \$197,475 respectively, the allowance related to the Endowment was \$49,280, for both years, and the allowance for other promises to give was \$10,092, for both years.

**k. Gift Shop Inventory**

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

**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,

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

**l. Property and Equipment (Continued)**

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, 2019 and 2018, 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. 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.

**o. Fundraising Expenses**

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

**p. Allocated Expenses**

The costs of providing the various programs and other activities are summarized in Note 22.

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

**q. 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, 2019, 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, 2016 and later remain subject to examination by the taxing authorities.

**r. Recent Accounting Pronouncements**

**Presentation of Financial Statements for Not-for-Profit Entities**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*", which changes the current guidance for assets classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with donor restrictions and net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profits to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates

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

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

**Presentation of Financial Statements for Not-for-Profit Entities (Continued)**

the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Museum has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the year ended June 30, 2018.

**Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU 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 2014-09, FASB issued several additional ASUs which amended and clarified the guidance and deferred the effective date. The ASU is effective for annual reporting periods beginning after December 15, 2018, with certain early adoption provisions available. The Museum is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

**Statement of Cash Flows**

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows*" (*Topic 230*). ASU 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 statement of cash flows. The amendments in ASU 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. Early adoption is permitted. The Museum is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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

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

**Leases**

In February 2016, the FASB issued ASU 2016-02, "*Leases*" (*Topic 842*). ASU 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 operating in existing lease accounting guidance. As a result, the effect of the leases in the statement of activities and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Museum is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

**s. 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 October 31, 2019, which is the date the consolidated financial statements were available to be issued. See Note 26 in the financial statements.

**t. Reclassifications**

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 consolidated financial statement presentation.

**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, 2019 and 2018 are available for the following purposes or periods:

	2019	2018
Subject to expenditure for a specified purpose:		
Acquisition of property and equipment - Capital Campaign	\$ 16,799,122	\$ 13,301,268
Other restricted purposes	5,473,262	5,179,436
Subject to passage of time:		
Unconditional promises to give Unamortized discount on notes payable (Notes 16 and 17)	1,676,102	1,638,699
	236,458	345,796
Subject to Museum spending policy and appropriation:		
Funds held in perpetuity	21,297,651	18,933,116
	\$ 45,482,595	\$ 39,398,315
Totals		

**Note 4 - GOVERNING BOARD DESIGNATIONS**

Governing Board designations consist of the following as of June 30, 2019 and 2018:

	2019	2018
Endowment purposes	\$ 13,838,067	\$ 11,248,391
Operating reserve	10,024,479	9,000,000
Capital contingency	6,500,000	-
Capital maintenance reserve	6,059,438	5,000,000
New ventures	3,542,310	1,621,000
Higgins debt service fund	1,723,272	1,124,131
Higgins reserve fund	1,723,272	1,124,131
Exhibits	100,000	100,000
	\$ 43,510,838	\$ 29,217,653
Totals		

**Note 5 - INVESTMENTS**

Marketable securities are summarized as follows:

	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>
	June 30, 2018		
	Cost	Market Value	Excess of Market Over Cost
Balance, June 30, 2018	<u>\$ 16,852,004</u>	<u>\$ 20,890,402</u>	\$ 4,038,398
Balance, June 30, 2017	<u>\$ 16,499,021</u>	<u>\$ 20,400,820</u>	3,901,799
Increase in unrealized appreciation			136,599
Realized gain on investments			1,407,616
Interest on cash, cash equivalents, and notes receivable			<u>1,124,908</u>
Total			2,669,123
Less investment expense			<u>(135,885)</u>
Total investment income			<u>\$ 2,533,238</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.

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

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, 2019 and 2018.

- *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.
- *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.

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 as of June 30, 2019 and 2018:

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>

Description	Fair Value As Of June 30, 2018	Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds:				
Pooled investment account	\$ 3,248,478	\$ -	\$ 3,248,478	\$ -
Other	7,253,111	7,253,111	-	-
Common stocks	8,367,292	8,367,292	-	-
Real estate investment trusts	342,967	342,967	-	-
Exchange-traded funds	1,678,554	1,678,554	-	-
Totals	<u>\$ 20,890,402</u>	<u>\$ 17,641,924</u>	<u>\$ 3,248,478</u>	<u>\$ -</u>

As of June 30, 2019 and 2018, 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, 2019:

Financial assets:	
Cash and cash equivalents	\$ 67,463,061
Investments	30,495,131
Promises to give	20,760,922
Notes receivable	<u>4,634,670</u>
Total financial assets as of June 30, 2019	<u>123,353,784</u>
Less amounts unavailable for general expenditures within one year, due to:	
Governing Board designations	(43,510,838)
Donor imposed restrictions:	
Restricted by donors with purpose or time restrictions	<u>(45,482,595)</u>
Total financial assets not available to be used within one year	<u>(88,993,433)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 34,360,351</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 would materially affect the market value of investments held by the Museum.

**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, 2019, cash in excess of the insured limits was approximately \$2,992,000.

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, 2019, cash deposits in excess of the insured limits were approximately \$8,725,000.

**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 temporarily restricted net assets class after discounting projected future cash flows to the present value using the Annual Federal Mid-Term Rate published as of June 30, 2019 and 2018.

Unconditional promises to give as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Unconditional promises to give:		
Capital Campaign	\$ 17,302,548	\$ 13,998,662
Endowment	2,443,884	3,609,015
Other	1,746,303	1,677,009
Gross unconditional promises to give	21,492,735	19,284,686
Less:		
Unamortized discount:		
Capital Campaign	(259,345)	(499,919)
Endowment	(108,906)	(113,671)
Other	(60,109)	(28,218)
Allowance for uncollectible amounts:		
Capital Campaign	(244,081)	(197,475)
Endowment	(49,280)	(49,280)
Other	(10,092)	(10,092)
Net unconditional promises to give	\$ 20,760,922	\$ 18,386,031

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

	2019	2018
Net unconditional promises to give:		
Capital Campaign	\$ 16,799,122	\$ 13,301,268
Endowment	2,285,698	3,446,064
Other	1,676,102	1,638,699
Totals	\$ 20,760,922	\$ 18,386,031
Amounts due in:		
Less than one year	\$ 6,862,431	\$ 7,290,093
One to five years	14,276,373	11,994,593
Greater than five years	353,931	-
Totals	\$ 21,492,735	\$ 19,284,686

Promises to give receivable balances of more than one year are discounted at 1.41% for each of the years ended June 30, 2019 and 2018.

**Note 11 - NOTES RECEIVABLE**

The Museum entered into an agreement on December 20, 2011 to lend COCRF Investor XI, L.L.C. \$3,950,000. The note is secured by certain bank accounts of COCRF Investor XI, L.L.C. Outstanding principal and accrued interest as of June 30, 2018 totaled \$3,950,000 and \$803,664, respectively. Interest accrued at a fixed rate of 3.11%, payable at maturity, with additional interest at 1.27% per year payable quarterly. Interest earned on this note for the years ended June 30, 2019 and 2018 totaled \$86,509 (\$61,509 accrued plus \$25,000 paid) and \$173,019 (\$123,019 accrued plus \$50,000 paid), respectively. The note matured on December 20, 2018, at which time all outstanding principal and interest was paid.

The Museum entered into an agreement on December 20, 2011 to lend Whitney New Markets Investor 11, L.L.C. \$3,950,000. The note is secured by certain bank accounts of Whitney New Markets Investor 11, L.L.C. Outstanding principal and accrued interest as of June 30, 2018 totaled \$3,950,000. Interest accrues at a fixed rate of 1.27% per year and is payable quarterly. Principal began amortizing on December 31, 2018 and was due quarterly beginning March 31, 2019. The note was set to mature on December 20, 2041 but was paid off early on December 20, 2018. Interest earned on this note for both the years ended June 30, 2019 and 2018 totaled \$24,998 and \$49,995, respectively.

**Note 11 - NOTES RECEIVABLE (Continued)**

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. The note is secured by certain bank accounts of Advantage Capital. Outstanding principal and accrued interest as of June 30, 2019 and 2018 totaled \$4,634,670 and \$4,434,866, 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 matures on October 22, 2020. Interest earned on this note for the years ended June 30, 2019 and 2018 totaled \$249,804 (\$199,804 accrued plus \$50,000 paid) and \$245,635 (\$195,635 accrued plus \$50,000 paid), respectively.

**Note 12 - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2019 and 2018 consists of the following:

	2019	2018
Land	\$ 7,676,193	\$ 7,671,230
Buildings	169,697,907	168,762,633
Exhibits	42,471,357	28,095,183
Equipment, video productions, and furniture	41,468,047	34,832,503
Construction in progress	57,121,418	19,202,628
	318,434,922	258,564,177
Less accumulated depreciation	(71,831,340)	(64,338,052)
Totals	\$246,603,582	\$ 194,226,125

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$8,156,013 and \$8,139,025, respectively.

**Note 13 - SPLIT-INTEREST AGREEMENTS**

The Museum established two charitable gift annuities in which assets were transferred to the Museum. The assets donated were valued at \$20,000 and \$121,200 on the dates of donation. The annuities require the Museum to annually pay \$1,830 and \$7,757, respectively, to the donor or his spouse until death. During the year ended June 30, 2015 the Museum established a third charitable gift annuity. The assets donated were valued at \$13,991 and requires the Museum to annually pay \$1,450 to the donor or his spouse until death. During the year ended June 30, 2019, the Museum established a fourth charitable gift annuity. The assets donated were valued at \$1,000,000 and requires the Museum to annually pay \$75,000 to the donor until death. The present value of estimated future payments of \$477,200 and \$32,322 as of June 30, 2019 and 2018, 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 \$270,219 and \$297,869 as of June 30, 2019 and 2018, 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, 2019 and 2018, the Museum recognized revenue under this grant in the amount of \$8,061,868 and \$3,022,482, respectively.

For years ended June 30, 2019 and 2018, the Museum also recognized \$2,901,751 and \$1,939,142, respectively, of grant revenues from private sources and other sources.

**Note 15 - BANK LINES OF CREDIT**

On February 29, 2016, the Museum entered into a loan agreement with the 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, 2020. 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, 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% (5.15%) as of June 30, 2019.

On May 20, 2015, the Museum entered into a construction loan agreement with the Hancock Whitney Bank in New Orleans. The loan agreement provides for a \$4,550,000 non-revolving line of credit loan which is evidenced by a promissory note. On May 29, 2018 the non-revolving line of credit was converted to a term loan. The non-revolving line of credit was established for the construction of a multi-level parking garage with office space on the ground level. The term loan is reported in notes payable as of June 30, 2019.

On December 21, 2017, the Museum entered into a construction loan agreement with Hancock Whitney Bank in New Orleans. The loan agreement provided for a \$26,604,600 non-revolving line of credit loans which was evidenced by a promissory note. The non-revolving line of credit has 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 of the non-revolving line of credit, the non-revolving line of credit loan will automatically convert to a term loan. The term loan is 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 line of credit loan was established for the construction of the Higgins Hotel and Conference Center. As of June 30, 2019, the Museum had an outstanding balance of \$20,121,207. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR + 2.75% (5.15% as of June 30, 2019) through December 21, 2019 and thereafter at one month LIBOR + 2.25%.

On December 21, 2017, the Museum entered into a construction loan agreement with Iberia Bank in New Orleans. The loan agreement provided for a \$26,604,600 non-revolving line of credit loans which was evidenced by a promissory note. The non-revolving line of credit has 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 of the non-revolving line of credit, the non-revolving line of credit loan will automatically convert to a term loan. The term loan is 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 line of credit

**Note 15 - BANK LINES OF CREDIT (Continued)**

loan was established for the construction of the Higgins Hotel and Conference Center. As of June 30, 2019, the Museum had an outstanding balance of \$20,121,208. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR + 2.75% (5.15% as of June 30, 2019) through December 21, 2019 and thereafter at one month LIBOR + 2.25%.

For the years ended June 30, 2019 and 2018, interest expense for the lines of credit totaled \$217,872 and \$157,510, respectively.

**Note 16 - NEW MARKETS TAX CREDIT**

In December 2011, WWII Pavilions, Inc. executed a New Markets Tax Credit Financing Transaction with Capital One Community Renewal Fund, L.L.C. to fund construction costs of the U.S. Freedom Pavilion - Boeing Center. 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.

The transaction loan totals \$5 million toward this \$34 million phase of the expansion. The Museum has sources of funding in place 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 realized a projected benefit in positive cash flow from the federal incentives incorporated into the loan of \$997,500 (unaudited).

In December 2011, WWII Pavilions, Inc. executed a New Markets Tax Credit Financing Transaction with Whitney New Markets Fund to fund construction costs for the U.S. Freedom Pavilion - Boeing Center. 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.

The transaction loan totals \$5 million toward this \$34 million phase of the expansion. The Museum has sources of funding in place 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.

**Note 16 - NEW MARKETS TAX CREDIT (Continued)**

The Museum realized a projected benefit in positive cash flow from the federal incentives incorporated into the loan of \$1,050,000 (unaudited).

In December 2013, World War II Campaigns, Inc. executed a New Markets Tax Credit Financing Transaction with FNBC New Markets Hybrid Fund to fund construction costs for the Campaigns of Courage - 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 \$34 million phase of the expansion. The Museum has sources of funding in place 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 \$1,600,000 (unaudited).

**Note 17 - NOTES PAYABLE**

Notes payable as of June 30, 2019 and 2018 consist of the following:

	2019	2018
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 \$2,872,968 plus unpaid interest on March 4, 2021, cross collateralized by other loans with Hancock Whitney Bank.	\$ 2,986,170	\$ 3,097,528

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

	2019	2018
<p>Notes payable, dated December 20, 2011, to a community development financial institution, Whitney New Markets CDE 3, L.L.C., interest at a fixed rate of 1% per annum due quarterly beginning December 31, 2011, and principal amortizing quarterly beginning December 31, 2018 in installments beginning March 31, 2019. All outstanding principal and interest was due on the maturity date of December 19, 2041. The loan was paid in full during the year ended June 30, 2019. The debt was secured by receivables, deposits held by financial institutions, and assets of the Museum.</p>	-	5,000,000
<p>Notes payable, dated December 20, 2011, to a community development financial institution, COCRF Sub CDE XI, L.L.C., interest at a fixed rate of 1% per annum due quarterly beginning December 31, 2011, and principal was due at maturity December 20, 2018. The loan was paid in full during the year ended June 30, 2019. The debt was secured by receivables, deposits held by financial institutions, and assets of the Museum.</p>	-	5,000,000
<p>Notes 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 is 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.</p>	5,000,000	5,000,000

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

	2019	2018
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 \$4,192,681 plus unpaid interest due on June 15, 2021. The note is secured by Museum property. This was the line of credit converted to a term loan discussed in Note 15.	4,207,345	4,455,040
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 is secured with certain deposits of the Museum.	20,007	134,880
	12,213,522	22,687,448
Less unamortized discount	(236,458)	(345,796)
Totals	\$ 11,977,064	\$ 22,341,652

Interest expense on the notes payable totaled \$371,468 and \$588,067 for the years ended June 30, 2019 and 2018, respectively.

For both the years ended June 30, 2019 and 2018, \$271,221, 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,	
2020	\$ 234,811
2021	11,978,711
Total	\$12,213,522

**Note 18 - DONOR AND BOARD DESIGNATED ENDOWMENT**

*The Endowments.* The Museum's endowments consist of 19 funds established for the purpose of a general endowment, the George Schultz Lecture Series, the Selley Foundation Special Exhibits and Collections Fund, the Raymond E. Mason Jr. Endowed Fund for Distinguished Lectures, the Coleman Endowed Fund, the Samuel Zemurray Stone Senior Director of History, the Ferdinand Levy and Leo Levy Memorial Endowment Education Fund, the BMC Education Endowment, the Mueller Fellows Fund, the Whitman Normandy Scholars Fund, the Jack C. Taylor Education Endowment, the Bob & Dolores Hope Director of Entertainment Endowment, the Bob & Dolores Hope Educational Endowment, Walter D. Ehlers Normandy Scholars Endowment, Noel & Irene McDonald Normandy Scholars Endowment, the Dr. Hal Baumgarten D-Day Commemoration Endowment, the Monuments Men Foundation Restricted Endowment Fund, the Chuck and Amy Newhall Charitable Fund, and the Taube Family Fund for Holocaust Education. The general endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowment. 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 Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 permanently restricted net assets in the accompanying consolidated financial statements:

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

**Note 18 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

- 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, 2019 and 2018 is as follows:

	June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Totals
Donor-restricted endowment funds	\$ -	\$ 23,312,716	\$ 23,312,716
Board-designated funds	13,838,067	-	13,838,067
Total funds	\$13,838,067	\$ 23,312,716	\$ 37,150,783
	June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Totals
Donor-restricted endowment funds	\$ -	\$ 20,949,957	\$ 20,949,957
Board-designated funds	11,248,391	-	11,248,391
Total funds	\$11,248,391	\$ 20,949,957	\$ 32,198,348



**Note 18 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

*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, 2019 and 2018.

*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 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 19 - 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.

**Note 19 - CAPITAL CAMPAIGN (Continued)**

As of June 30, 2019, \$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), \$19,527,032 has been funded/financed through tax incentives, \$217,369,026 has been raised from private sector sources for property acquisitions, campaign expenses, and the Endowment Fund (\$33,928,464), net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$7,551,703 (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, 2019 and 2018 are as follows:

	2019	2018
Promises receivable at beginning of year	\$ 13,998,662	\$ 17,964,699
New promises made during the year	22,303,916	12,416,528
Less:		
Cash received	(19,000,030)	(16,131,541)
Write offs	-	(251,024)
Promises receivable at end of year	17,302,548	13,998,662
Unamortized discount	(259,345)	(499,919)
Allowance for doubtful promises	(244,081)	(197,475)
Totals	\$ 16,799,122	\$ 13,301,268

**Note 19 - CAPITAL CAMPAIGN (Continued)**

The activities of the Capital Campaign funding from private sector sources for property acquisitions and campaign expenses through June 30, 2019 are as follows:

Total Capital Campaign gifts and promises (excluding Endowment)	\$ 180,014,757
Less amounts written off since inception	<u>(1,396,199)</u>
	178,618,558
Discount to net present value at June 30, 2019	(259,345)
Allowance for doubtful promises at June 30, 2019	<u>(244,081)</u>
Gifts and promises, net	<u>178,115,132</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	<u>18,999,006</u>
Total net assets released	<u>161,316,010</u>
Temporarily restricted net assets - Capital Campaign, as of June 30, 2019	<u>\$ 16,799,122</u>

**Note 20 - 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 \$251,813 and \$211,762 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018.

**Note 21 - 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, 2019 and 2018 is \$20,760,922 and \$18,386,031, respectively, are discounted to their net present value, which approximates fair value.

**Notes Receivable** - The carrying value of notes receivable as of June 30, 2019 and 2018 is \$4,634,670 and \$13,138,530, respectively, which approximates fair value.

**Notes Payable to Banks** - The carrying value of notes payable to banks as of June 30, 2019 and 2018 is \$11,977,064 and \$22,341,652, respectively, 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 22 - 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 percentage of income from program revenue and fundraising revenue paid by credit cards. Insurance expenses are allocated using 60% of property insurance premiums and 80% 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 23 - 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, 2019, the total commitment (undiscounted) is \$800,000 for salary and \$75,000 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, 2019, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$15,062,000.

**Note 23 - COMMITMENTS (Continued)**

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, 2019, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$9,809,000.

The Museum entered into contracts related to the construction of the Bollinger Canopy of Peace totaling approximately \$9,670,000. As of June 30, 2019, the Museum has incurred construction in progress related to these contracts totaling approximately \$9,036,000. Museum has also incurred other construction costs on a time and material basis.

The Museum entered into a contract for the design of the Higgins Hotel and Conference Center totaling approximately \$2,113,000. As of June 30, 2019, the Museum has incurred costs related to this architectural design contract totaling approximately \$2,072,000.

The Museum entered into a contract related to the construction of the Higgins Hotel and Conference Center totaling approximately \$47,466,839. As of June 30, 2019, the Museum has incurred construction in progress related to this contract totaling approximately \$41,852,944.

The Museum entered into a contract related to the construction of the Hall of Democracy totaling approximately \$17,479,000. As of June 30, 2019, the Museum has incurred construction in progress related to this project totaling approximately \$15,633,000.

The Museum entered into a contract related to the design of the Liberation Theater totaling approximately \$1,455,000. As of June 30, 2019, the Museum has incurred construction in progress related to this project totaling approximately \$943,000.

During the year ended June 30, 2019, the Museum entered into a contract related to the renovations of the Eisenhower building totaling approximately \$396,000. As of June 30, 2019, the Museum has incurred construction in progress related to this project totaling approximately \$179,000.

During the year ended June 30, 2019, the Museum entered into a contract for the Sound and Light Show totaling approximately \$423,000. As of June 30, 2019, the Museum has incurred construction in progress related to this project totaling approximately \$269,000.

**Note 23 - COMMITMENTS (Continued)**

If there is a breach of the loan agreements between the Museum and Advantage Capital, the Community Development Financial Institution is required to recapture all or part of the New Markets Tax Credit that were claimed. The Museum has agreed to pay to the Community Development Financial Institution an amount equal to the sum of the credits recaptured. The maximum aggregate amount due under the clauses in the agreements governing these possible recaptures is \$1,950,000 (see Notes 16 and 17). Management believes there are no breaches of these agreements.

**Note 24 - 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.

**Note 24 - LEASE AND LICENSING AGREEMENTS (Continued)**

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.

**Note 25 - SUPPLEMENTAL CASH FLOW INFORMATION**

	Year Ended June 30,	
	2019	2018
Cash paid for interest	\$ 509,340	\$ 474,356
Cost of building improvements and equipment acquired	\$ 60,533,468	\$ 28,492,920
Less:		
Construction payable for property and equipment purchases	(2,063,714)	(2,188,673)
Cash payments for property and equipment acquired	\$ 58,469,754	\$ 26,304,247
Line of credit converted to term note payable	\$ -	\$ 4,470,762

**Note 26 - SUBSEQUENT EVENT**

**Higgins Hotel and Conference Center**

In November 2019, the World War II Theatre, Inc. ("WWII Theatre") will open its new 230 room Higgins Hotel and Conference Center (the "Hotel").

WWII Theatre, as owner, entered into a Hotel Management Agreement (the "Agreement") with Hostmark Investors Limited Partnership ("Hostmark"), to manage the Hotel, effective December 19, 2017 and for an initial term of five years. The Agreement provides that Hostmark will direct the operations of the Hotel including the provision of hotel staff as outlined in the Agreement. In return for the management services, WWII Theatre will pay Hostmark 2.5% of adjusted gross revenues, as defined in the Agreement, plus an opportunity for additional incentive payments.

**Note 26 - SUBSEQUENT EVENT (Continued)**

**Higgins Hotel and Conference Center (Continued)**

The capitalizable cost of the Hotel is currently projected as follows:

Land	\$ 1,710,000
Building	47,733,926
Design and consulting fees	3,116,513
Furniture, fixtures, and equipment	10,303,779
Loan origination costs	1,926,585
Other costs	748,415
	\$ 65,539,218
Total	\$ 65,539,218

Preopening expenses are being expensed as incurred.

The development of the Hotel has been funded by two separate construction lines of credit provided by Hancock Whitney Bank of New Orleans and Iberia Bank of New Orleans each in the amount of \$26,604,600 and totaling \$53,209,200, see Note 15.

The projected first year revenues and operating profit of the Hotel operations are \$15.2 million and \$3.6 million, respectively.

**Hall of Democracy**

The Museum's newest pavilion, The Hall of Democracy, opened in October 2019. 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 will make 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 will house 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.

Construction on the Hall of Democracy took place from January 2018 to October 2019. The total project budget is approximately \$26,870,000 and was funded through a combination of private donations and State of Louisiana Capital Outlay funds.

**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, 2019

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

**Purpose**

Salary and bonus	\$ 520,000
Benefits - insurance	11,745
Benefits - deferred compensation - 457(f)	37,500
Benefits - retirement - 401k	6,562
Benefits - other	0
Car allowance	14,400
Gas	0
Vehicle provided by government	0
Per diem	0
Reimbursements	2,891
Travel	0
Registration fees	5,462
Conference travel	0
Continuing professional education fees	695
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	<b>\$ 599,255</b>

**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, 2019, 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 October 31, 2019.

**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.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
October 31, 2019.

## **SCHEDULE OF FINDINGS AND RESPONSES**

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

For the year ended June 30, 2019

#### **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, 2019.

#### **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, 2019.

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

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

#### **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, 2019

#### **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, 2018.

No significant deficiencies were reported during the audit of the consolidated financial statements for the year ended June 30, 2018.

##### **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, 2018.

#### **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, 2018.

#### **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, 2018.

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

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

For the year ended June 30, 2019

#### **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.