

Consolidated Financial Report

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

June 30, 2016



THE NATIONAL
WWII MUSEUM
NEW ORLEANS

Consolidated Financial Report

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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, 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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 27, 2015, 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, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Certified Public Accountants.

New Orleans, Louisiana,
November 11, 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**The National World War II Museum, Inc. and Subsidiaries**
New Orleans, LouisianaJune 30, 2016
(with comparative totals for 2015)

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 43,943,273	\$ 41,485,663
Investments	17,518,623	13,145,975
Unconditional promises to give:		
Capital Campaign, net of allowances	13,573,169	12,170,599
Endowment, net of allowances	3,014,575	1,174,885
Other, net of allowances	1,864,536	1,001,125
Grants receivable	423,056	-
Notes receivable	12,524,383	15,220,550
Gift shop inventory	654,596	548,712
Other assets	3,044,713	2,197,685
Property and equipment, net of accumulated depreciation	161,888,353	147,545,581
Collections	<u>12,087,630</u>	<u>9,660,759</u>
Totals	<u>\$ 270,536,907</u>	<u>\$ 244,151,534</u>
	<u>LIABILITIES</u>	
Accounts payable trade	\$ 1,547,797	\$ 1,161,708
Construction projects payable	2,242,865	2,184,708
Accrued expenses	1,870,396	1,099,575
Deferred revenue	1,671,143	953,918
Notes payable	33,363,636	40,972,217
Lines of credit	<u>3,477,807</u>	<u>1,080,219</u>
Total liabilities	<u>44,173,644</u>	<u>47,452,345</u>
	<u>NET ASSETS</u>	
Unrestricted:		
Board designated	3,302,280	2,809,479
Undesignated	<u>187,357,069</u>	<u>165,450,273</u>
Total unrestricted net assets	190,659,349	168,259,752
Temporarily restricted	18,499,009	16,143,347
Permanently restricted	<u>17,204,905</u>	<u>12,296,090</u>
	<u>226,363,263</u>	<u>196,699,189</u>
Totals	<u>\$ 270,536,907</u>	<u>\$ 244,151,534</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, LouisianaFor the year ended June 30, 2016
(with comparative totals for 2015)

	2016			Totals	2015 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenues					
Grants	\$ 950,725	\$ 10,068,266	\$ -	\$ 11,018,991	\$ 2,633,058
Contributions:					
Capital Campaign	-	12,037,194	-	12,037,194	27,403,834
Endowment	-	-	4,908,815	4,908,815	4,783,831
Other	5,356,386	-	-	5,356,386	3,302,577
Tax credit incentives	2,799,000	-	-	2,799,000	500,034
Memberships	9,091,031	-	-	9,091,031	7,122,781
Admissions	14,895,805	-	-	14,895,805	12,878,816
Facilities and property rental	3,287,504	-	-	3,287,504	2,995,992
Sponsored events and conferences	3,231,406	798,098	-	4,029,504	5,176,241
Gift shop	3,467,611	-	-	3,467,611	2,991,867
Investment income (loss)	494,794	37,896	-	532,690	(293,103)
Sponsorships	594,500	-	-	594,500	560,438
Miscellaneous	730,170	-	-	730,170	815,910
Net assets released from restrictions	20,585,792	(20,585,792)	-	-	-
Total support and revenues	65,484,724	2,355,662	4,908,815	72,749,201	70,872,276
Expenses					
Capital Campaign fundraising and other	1,525,641	-	-	1,525,641	1,646,548
Depreciation	6,365,219	-	-	6,365,219	5,575,864
Fundraising	2,750,134	-	-	2,750,134	3,380,715
General and administrative	3,233,938	-	-	3,233,938	3,201,743
Gift shop merchandise sold	1,786,803	-	-	1,786,803	1,512,470
Interest - amortized	271,215	-	-	271,215	929,939
Interest - other	419,109	-	-	419,109	429,503
Museum expansion	1,183,830	-	-	1,183,830	1,123,303
Programs and operations - personnel costs	9,778,728	-	-	9,778,728	8,847,072
Programs and operations - other costs	15,770,510	-	-	15,770,510	12,976,901
Total expenses	43,085,127	-	-	43,085,127	39,624,058
Changes in Net Assets	22,399,597	2,355,662	4,908,815	29,664,074	31,248,218
Net Assets					
Beginning of year	168,259,752	16,143,347	12,296,090	196,699,189	165,450,971
End of year	\$ 190,659,349	\$ 18,499,009	\$ 17,204,905	\$ 226,363,263	\$ 196,699,189

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, 2016
(with comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 29,664,074	\$ 31,248,218
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,365,219	5,575,864
Amortization of note payable discount	271,215	929,939
Loss on disposal of equipment	73,317	4,072
Interest on notes receivable	(413,841)	(110,187)
Realized and unrealized (gain) loss on investments	(486,921)	510,402
(Increase) decrease in operating assets:		
Other unconditional promises to give, net	(863,411)	(234,206)
Gift shop inventory	(105,884)	112,462
Other assets	(410,599)	211,142
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,156,910	(353,829)
Deferred revenue	717,225	(97,795)
In-kind contributions - collections	(2,100,377)	-
Revenues restricted for the acquisition of property and equipment:		
State grant	(8,856,310)	(1,602,340)
Capital Campaign contributions, net of expenses	(10,388,525)	(25,669,795)
Decrease in discount on unconditional promises to give:		
Capital Campaign	(104,964)	(32,169)
Increase in allowance for uncollectible promises to give:		
Capital Campaign	34,368	46,091
Contributions restricted for endowment purposes	(4,948,386)	(4,781,825)
Increase (decrease) in allowance for uncollectible promises to give - endowment	39,571	(2,006)
	<u>9,642,681</u>	<u>5,754,038</u>
Net cash provided by operating activities	<u>9,642,681</u>	<u>5,754,038</u>

**Exhibit C
(Continued)**

	2016	2015
Cash Flows From Investing Activities		
Purchase of property and equipment	(20,723,151)	(9,026,344)
Purchase of collections	(326,494)	(462,017)
Collections of notes receivable	3,110,008	34,000,000
Investment purchases	(9,539,807)	(4,953,219)
Proceeds from sales and maturities of investments	5,654,080	572,019
Net cash (used in) provided by investing activities	(21,825,364)	20,130,439
Cash Flows From Financing Activities		
Collections of state grant funds restricted for the acquisition of property and equipment	8,433,254	1,602,340
Collections of Endowment gifts	2,632,696	4,855,604
Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,578,073 and \$1,450,324 of campaign expenses in 2016 and 2015, respectively	9,056,551	26,749,355
Notes payable proceeds	6,838,078	922,523
Repayments of notes payable	(14,717,874)	(40,083,952)
Borrowings on line of credit, net	2,397,588	-
Repayments on line of credit, net	-	(68,818)
Net cash provided by (used in) financing activities	14,640,293	(6,022,948)
Net Increase In Cash and Cash Equivalents	2,457,610	19,861,529
Cash and Cash Equivalents		
Beginning of year	41,485,663	21,624,134
End of year	\$ 43,943,273	\$ 41,485,663

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, 2016 and 2015

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 houses research services and a 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 new 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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting. Significant accounting policies are summarized below.

a. Organization and Income Taxes

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

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. Organization and Income Taxes (Continued)

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. 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.

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 September 10, 2015, Flying Tigers Properties, L.L.C. was established as a single member LLC for profit entity, with The National World War II Museum, Inc. as its sole member. Flying Tigers Properties, LLC has an independent board and is tasked with planning, constructing, and operating a hotel conference center on property adjacent to the Museum.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. Organization and Income Taxes (Continued)

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.

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:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

The Board has designated unrestricted net assets for the following purposes:

	2016	2015
Endowment purposes	\$ 3,302,280	\$ 2,809,479

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Basis of Presentation (Continued)

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum. The donors of these assets permit the Museum to use all of the income earned on related investments for general or specific purposes.

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., Warehouse District Development Inc., World War II Campaigns, Inc., and Flying Tigers Properties, 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 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. Included in cash and cash equivalents at year end are loan proceeds restricted for construction projects (see Note 4).

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 - 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, temporarily restricted, or permanently 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 temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets 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, 2016 and 2015, the balance of the allowance related to the Capital Campaign was \$349,672 and \$315,304 respectively, the allowance related to the Endowment was \$56,460 and \$16,889, respectively, and the allowance for other promises was \$18,268 and \$853, respectively.

k. Gift Shop Inventory

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Property and Equipment

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

m. Collections

As of June 30, 2016 and 2015, 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. 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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Allocated Expenses

The costs of providing the various programs and other activities are summarized in Note 21. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

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, 2016, 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, 2013 and later remain subject to examination by the taxing authorities.

r. Subsequent Events

Management evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through November 11, 2016, which is the date the consolidated financial statements were available to be issued.

Note 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by the donor for specific purposes or are available for subsequent periods. Cash, investments, and 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 - RESTRICTIONS ON ASSETS (Continued)

Temporarily restricted net assets are available for the following purposes or periods:

	2016	2015
Acquisition of property and equipment - Capital Campaign	\$ 13,573,169	\$ 12,170,599
Other restricted purposes	2,173,066	1,812,170
For subsequent periods:		
Unconditional promises to give	1,864,536	1,001,125
Unamortized discount on notes payable (Notes 15 and 16)	888,238	1,159,453
Totals	\$ 18,499,009	\$ 16,143,347

Permanently restricted net assets of \$16,768,476 and \$12,296,090 as of June 30, 2016 and 2015, respectively, consist of cash, investments, and unconditional promises to give which are restricted for endowment purposes, the earnings from which are available for operations and accordingly are recognized as unrestricted revenue.

Note 4 - LIMITED USE ASSETS

Pursuant to the March 2012 loan to the Museum from the Office of Community Development, Division of Administration of the State of Louisiana, the Museum is required to maintain certain funds until disbursements are approved by the lender. These funds are restricted for the construction of the Campaigns of Courage Pavilion phase of the Museum expansion. The restricted cash balance as of June 30, 2015 was \$375,586. There were no restricted cash balances as of June 30, 2016.

Note 5 - INVESTMENTS

Marketable securities are summarized as follows:

	June 30, 2016		
	Cost	Market Value	Excess of Market Over Cost
Balance, June 30, 2016	<u>\$ 15,970,502</u>	<u>\$ 17,518,623</u>	\$ 1,548,121
Balance, June 30, 2015	<u>\$ 11,596,986</u>	<u>\$ 13,145,975</u>	1,548,989
Decrease in unrealized appreciation			(868)
Realized loss on investments			(486,053)
Interest on cash, cash equivalents, and notes receivable			<u>1,019,611</u>
Total investment income			<u>\$ 532,690</u>
	June 30, 2015		
	Cost	Market Value	Excess of Market Over Cost
Balance, June 30, 2015	<u>\$ 11,596,986</u>	<u>\$ 13,145,975</u>	\$ 1,548,989
Balance, June 30, 2014	<u>\$ 7,215,786</u>	<u>\$ 9,275,177</u>	2,059,391
Decrease in unrealized appreciation			(510,402)
Interest on cash, cash equivalents, and notes receivable			<u>217,299</u>
Total investment loss			<u>\$ (293,103)</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:

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2016 and 2015.

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

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

- *Pooled Investment Account:* Valued at the net asset value (NAV) of the units of the pooled investment account. The NAV, as provided by Bay Resources Partners Offshore Fund, LTD, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the pooled investment account less its liabilities. This practical expedient is not used when it is determined to be probable that the Museum will sell the investment for an amount different than the reported NAV. These are included in Level 2 of the fair value hierarchy.
- *Common Stocks and Preferred 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, 2016 and 2015:

Description	Fair Value As Of June 30, 2016	Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds:				
Pooled investment account	\$ 2,557,511	\$ -	\$ 2,557,511	\$ -
Other	5,426,759	5,426,759	-	-
Common stocks	6,493,523	6,493,523	-	-
Real estate investment trusts	563,370	563,370	-	-
Exchange-traded funds	<u>2,477,460</u>	<u>2,477,460</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 17,518,623</u>	<u>\$ 14,961,112</u>	<u>\$ 2,557,511</u>	<u>\$ -</u>

Description	Fair Value As Of June 30, 2015	Based on		
		Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds:				
Pooled investment account	\$ 2,580,417	\$ -	\$ 2,580,417	\$ -
Other	3,064,079	3,064,079	-	-
Common stocks	6,652,949	6,652,949	-	-
Real estate investment trusts	500,530	500,530	-	-
Preferred stock	40,338	40,338	-	-
Exchange-traded funds	<u>307,662</u>	<u>307,662</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 13,145,975</u>	<u>\$ 10,565,558</u>	<u>\$ 2,580,417</u>	<u>\$ -</u>

As of June 30, 2016 and 2015, there were no assets measured at fair value on a non-recurring basis.

Note 7 - 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 8 - CONCENTRATION OF CREDIT RISK

The Museum maintains a money market account, investments in mutual funds, certificates of deposit, 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, 2016, cash in excess of the insured limits was approximately \$855,000.

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, 2016, cash deposits in excess of the insured limits were approximately \$37,626,000.

Note 9 - 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, 2016 and 2015.

Note 9 - UNCONDITIONAL PROMISES TO GIVE (Continued)

Unconditional promises to give consists of the following:

	2016	2015
Unconditional promises to give:		
Capital Campaign	\$ 14,469,648	\$ 13,137,674
Endowment	3,218,897	1,276,470
Other	1,917,128	1,003,595
Gross unconditional promises to give	19,605,673	15,417,739
Less:		
Unamortized discount:		
Capital Campaign	(546,807)	(651,771)
Endowment	(147,862)	(84,696)
Other	(34,324)	(1,617)
Allowance for uncollectible amounts:		
Capital Campaign	(349,672)	(315,304)
Endowment	(56,460)	(16,889)
Other	(18,268)	(853)
Net unconditional promises to give	\$ 18,452,280	\$ 14,346,609
	2016	2015
Net unconditional promises to give:		
Capital Campaign	\$ 13,573,169	\$ 12,170,599
Endowment	3,014,575	1,174,885
Other	1,864,536	1,001,125
Totals	\$ 18,452,280	\$ 14,346,609
Amounts due in:		
Less than one year	\$ 8,660,019	\$ 6,018,871
One to five years	10,945,654	9,398,868
Totals	\$ 19,605,673	\$ 15,417,739

Promises to give receivable balances of more than one year are discounted at 1.41%.

Note 10 - NOTES RECEIVABLE

The Museum entered into an agreement on December 4, 2007 to lend COCRF Investor I, L.L.C. a maximum aggregate amount of \$27,000,000. The note was secured by certain bank accounts of COCRF Investor I, L.L.C. The note matured on December 4, 2014, at which time all outstanding principal and interest was paid. Interest accrued at a fixed rate of 5.02% per year and was paid at maturity. Interest earned on this note for the year ended June 30, 2015 totaled \$677,700.

The Museum entered into an agreement on October 31, 2008 to lend Whitney New Markets Investor 5, L.L.C. a maximum aggregate amount of \$1,500,000. The note was secured by certain bank accounts of Whitney New Markets Investor 5, L.L.C. The note matured on October 31, 2015, at which time all outstanding principal and interest was paid. Outstanding principal and accrued interest as of June 30, 2015 totaled \$1,503,750. Interest accrued at a fixed rate of 1% per year and was paid at maturity. Interest earned on this note for the years ended June 30, 2016 and 2015 was \$5,056 and \$15,167, respectively.

The Museum entered into an agreement on October 31, 2008 to lend Whitney New Markets Investor 5, L.L.C. a maximum aggregate amount of \$1,610,008. The note was secured by certain bank accounts at Whitney New Markets Investor 5, L.L.C. The note matured on October 31, 2015, at which time all outstanding principal and interest was paid. Outstanding principle and interest as of June 30, 2015 totaled \$1,490,144. Interest accrued at an adjustable rate equal to the one month LIBOR + 1.25% and was paid at maturity. Interest on this note for the years ended June 30, 2016 and 2015 totaled \$7,816 and \$18,399, respectively.

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, 2016 totaled \$3,950,000 and \$557,627, respectively. Outstanding principal and accrued interest as of June 30, 2015 totaled \$3,950,000 and \$434,608, respectively. Interest accrues at a fixed rate of 3.11%, payable upon maturity, with additional interest at 1.27% per year payable quarterly. Interest earned on this note for the years ended June 30, 2016 and 2015 totaled \$173,018 (\$123,018 accrued plus \$50,000 paid) for both years. The note matures on December 20, 2018, at which time all outstanding principal and interest will be paid.

Note 10 - NOTES RECEIVABLE (Continued)

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, 2016 and 2015 totaled \$3,950,000. Interest accrues at a fixed rate of 1.27% per year and is payable quarterly. Principal will begin amortizing on December 31, 2018 and is due quarterly beginning March 31, 2019. The note matures on December 20, 2041. Interest earned on this note for the years ended June 30, 2016 and 2015 totaled \$49,995 and \$57,019, respectively.

The Museum entered into an agreement on December 30, 2013 to lend FNBC NMTC Hybrid Fund, L.L.C. \$3,635,000. The note is secured by certain bank accounts of FNBC NMTC Hybrid Fund, L.L.C. Outstanding principal and accrued interest as of June 30, 2016 and 2015 totaled \$4,066,756 and \$3,892,048, 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, 2016 and 2015 totaled \$224,708 (\$174,708 accrued plus \$50,000 paid) and \$213,866 (\$165,099 accrued plus \$48,800 paid), respectively.

Note 11 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2016	2015
Land	\$ 7,578,938	\$ 7,571,588
Buildings	157,207,107	124,223,799
Exhibits	17,581,891	11,572,053
Equipment, video productions, and furniture	23,871,731	21,524,752
Construction in progress	4,120,296	24,775,999
	210,359,963	189,668,191
Less accumulated depreciation	(48,471,610)	(42,122,610)
Totals	\$ 161,888,353	\$ 147,545,581

Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$6,365,219 and \$5,575,864, respectively.

Note 12 - SPLIT-INTEREST AGREEMENTS

The Museum established two charitable gift annuities in which assets were transferred to the Museum. 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 new 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. The assets donated were valued at \$20,000 and \$121,200 on the dates of donation. The present value of estimated future payments of \$45,638 and \$53,426 as of June 30, 2016 and 2015, respectively, is included in the liabilities section 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 annually payments under 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 \$359,378 and \$384,202 as of June 30, 2016 and 2015, respectively, is included in the unconditional promises to give section in the Museum's Consolidated Statement of Financial Position.

Note 13 - 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 \$33,000,000. 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, 2016 and 2015, the Museum recognized revenue under this grant in the amount of \$8,856,310 and \$1,602,340, respectively.

For years ended June 30, 2016 and 2015, the Museum also recognized \$2,162,681 and \$1,030,718, respectively, of grant revenues from private sources.

Note 14 - BANK LINES OF CREDIT

On February 29, 2016, the Museum entered into a loan agreement with the 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 February 28, 2017. 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, 2016, 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% (3.22%) as of June 30, 2016.

Note 14 - BANK LINES OF CREDIT (Continued)

On May 20, 2015, the Museum entered into a construction loan agreement with the 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. The non-revolving line of credit was extended on August 5, 2016 and matures on February 15, 2017. The non-revolving line of credit was established for the construction of a multi-level parking garage. As of June 30, 2016, the Museum had outstanding balances of \$3,477,807. Interest on the loan is payable monthly at a rate of one month LIBOR + 2.5% (2.97%) as of June 30, 2016.

During the years ended June 30, 2016 and 2015, interest expense totaled \$69,696 (capitalized as construction in progress) and \$34,246, respectively.

Note 15 - NEW MARKETS TAX CREDIT

In October 2008, World War II Theatre, Inc. executed a New Markets Tax Credit Financing Transaction with Whitney New Markets Fund (see Note 16) to fund construction costs for the Solomon Victory Theater / Stage Door Canteen / American Sector Restaurant and Support Facilities. 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 New Markets Tax Credit Program.

The transaction included multiple loans totaling \$14 million toward this \$58 million phase of the expansion. The total loan amount is split between three loans which are referred to as Facility A, Facility B, and Facility C, as described in Note 16.

The Museum realized positive cash flow from the federal incentives incorporated into the exercise of the Facility B loan totaling \$2,799,000, which will be used to fund the expansion.

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 16.

Note 15 - NEW MARKETS TAX CREDIT (Continued)

The Museum will realize 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 16.

The Museum will realize 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 16.

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 16 - NOTES PAYABLE

Notes payable consist of the following:

	2016	2015
<p>Note payable to Whitney Bank, bearing interest at a one month LIBOR + 2.5% (2.965% at June 30, 2016). Interest is due monthly with a balloon payment of all outstanding principal plus unpaid interest on September 30, 2016 (extended to January 31, 2017), secured by a first mortgage on the land.</p>	1,080,420	1,080,420
<p>Notes payable, dated October 31, 2008, to a community development financial institution, Whitney New Markets CDE 7, LLC, (Facility A), interest at 69.29% of the one month LIBOR + .98% (1.1056% at June 30, 2015) due quarterly, principal outstanding was due on the maturity date of the notes and was secured by all receivables and deposits held by financial institutions, and the assignment of certain revenues of the Museum. This note matured on October 31, 2015. (See Note 15.)</p>	-	9,700,000
<p>Notes payable, dated October 31, 2008, to a community development financial institution, Whitney New Markets CDE 7, LLC, (Facility B), bearing interest at 69.29% of the one month LIBOR + .98% (1.1056% at June 30, 2015 with interest due quarterly through maturity) principal outstanding was due at maturity, was secured by all receivables and deposits held by financial institutions, and the assignment of certain revenues of the Museum. This note matured on October 31, 2015. (See Note 15.)</p>	-	2,800,000

Note 16 - NOTES PAYABLE (Continued)

	2016	2015
<p>Notes payable, dated October 31, 2008, to a community development financial institution, Whitney New Markets CDE 7, LLC, (Facility B), interest at 69.29% of the one month LIBOR + .98% (1.1056% at June 30, 2015) due quarterly, principal outstanding was due at maturity, was secured by all receivables and deposits held by financial institutions, and the assignment of certain revenues of the Museum. This note matured on October 31, 2015. (See Note 15.)</p>	-	1,500,000
<p>Note payable, dated March 04, 2016, to Whitney Bank, bearing interest at a one month LIBOR + 2.75% (3.22% at June 30, 2016). Interest is due monthly with a balloon payment of all outstanding principal plus unpaid interest on March 4, 2017, secured by a life insurance policy on a donor and cross collateralized by other loans with Whitney Bank.</p>	3,500,000	-
<p>Note payable, dated March 4, 2016, to Whitney Bank (5.00% interest rate) payable in monthly principal and interest payments of \$22,154, with a balloon payment of \$2,811,486 plus unpaid interest on March 4, 2021, cross collateralized by other loans with Whitney Bank.</p>	3,303,954	-

Note 16 - NOTES PAYABLE (Continued)

	2016	2015
<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 is due on the maturity date of December 19, 2041. The debt is secured by receivables, deposits held by financial institutions, and assets of the Museum.</p>	5,000,000	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 is due at maturity December 20, 2018. The debt is secured by receivables, deposits held by financial institutions, and assets of the Museum.</p>	5,000,000	5,000,000
<p>Note payable with a maximum limit of \$5,000,000, dated March 23, 2012, to the State of Louisiana, Office of Community Development, interest at the rate of 1% per annum fixed, payable quarterly. The unpaid principal and accrued interest is due on March 23, 2016. Upon meeting certain covenants, including completion of the Campaigns Pavilion and creating 25 new jobs, the debt will be forgiven at the sole discretion of the State of Louisiana, Office of Community Development. The note is secured by a first mortgage on the Louisiana Pavilion. This note was subsequently forgiven.</p>	5,000,000	5,000,000

Note 16 - NOTES PAYABLE (Continued)

	2016	2015
<p>Note payable with a maximum limit of \$5,000,000, dated March 23, 2012, to the State of Louisiana, Office of Community Development, no interest unless there is a default after maturity (interest would accrue at 8% in case of default). The unpaid principal and accrued interest, if any, is due on March 23, 2016. Upon meeting certain covenants, including completion of the Campaigns Pavilion and creating 25 new jobs, the debt will be forgiven at the sole discretion of the State of Louisiana, Office of Community Development. The note is secured by a first mortgage on the Louisiana Pavilion. This note was subsequently forgiven.</p>	5,000,000	5,000,000
<p>Note payable dated December 30, 2013, to First NBC Bank, bearing interest at the Wall Street Journal prime rate (3.50% at June 30, 2016). Interest is due quarterly, with the principal due in installments of 25% of principal annually beginning June 30, 2014 through maturity, June 30, 2017. The loan is secured by donor pledges.</p>	1,367,500	2,051,250
<p>Notes payable, dated December 30, 2013, to a community development financial institution, 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
	34,251,874	42,131,670
Less unamortized discount	(888,238)	(1,159,453)
Totals	\$ 33,363,636	\$ 40,972,217

Note 16 - NOTES PAYABLE (Continued)

Interest expense on the notes payable totaled \$690,324 and \$1,325,196 for the years ended June 30, 2016 and 2015, respectively. For the year ended June 30, 2015, \$68,930 of the total was capitalized as construction in progress.

For the years ended June 30, 2016 and 2015, \$271,215 and \$929,939, respectively, was recorded as part of interest expense through amortization of the original issue discount.

Aggregate maturities of long-term debt are as follows:

Year Ended June 30,	
2017	\$ 15,947,920
2018	-
2019	5,000,000
2020	-
2021	8,303,954
2022 and thereafter	<u>5,000,000</u>
Total	<u>\$ 34,251,874</u>

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT

The Endowments. The Museum's endowments consist of 13 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, and the Bob & Dolores Hope Educational Endowment. 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.

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)

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:

- 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, 2016 and 2015 is as follows:

	June 30, 2016			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 438,070	\$ 17,204,905	\$ 17,642,975
Board-designated funds	3,302,280	-	-	3,302,280
Total funds	<u>\$ 3,302,280</u>	<u>\$ 438,070</u>	<u>\$ 17,204,905</u>	<u>\$ 20,945,255</u>

Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)

	June 30, 2015			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 496,670	\$ 12,296,090	\$ 12,792,760
Board-designated funds	<u>2,809,479</u>	<u>-</u>	<u>-</u>	<u>2,809,479</u>
Total funds	<u>\$ 2,809,479</u>	<u>\$ 496,670</u>	<u>\$ 12,296,090</u>	<u>\$ 15,602,239</u>

Changes in endowment net assets for the years ending June 30, 2016 and 2015 are as follows:

	2016			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 2,809,479	\$ 496,670	\$ 12,296,090	\$ 15,602,239
Contributions	410,241	-	4,908,815	5,319,056
Investment return:				
Net appreciation (depreciation), realized and unrealized	(13,936)	37,896	-	23,960
Endowment net assets, reclassified from restriction	<u>96,496</u>	<u>(96,496)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 3,302,280</u>	<u>\$ 438,070</u>	<u>\$ 17,204,905</u>	<u>\$ 20,945,255</u>
	2015			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 2,724,159	\$ 671,929	\$ 7,512,259	\$ 10,908,347
Contributions	163,697	-	4,783,831	4,947,528
Investment return:				
Net appreciation, realized and unrealized	(183,744)	(69,892)	-	(253,636)
Endowment net assets, reclassified from restriction	<u>105,367</u>	<u>(105,367)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,809,479</u>	<u>\$ 496,670</u>	<u>\$ 12,296,090</u>	<u>\$ 15,602,239</u>

Note 17 - 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, 2016 and 2015.

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 to be 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 18 - 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 \$370,000,000, of which \$33,000,000 is targeted from Federal sources, \$76,000,000 from State funding, \$23,000,000 is targeted from tax incentives, and \$238,000,000 from private sector donations. An additional \$65,000,000 from commercial funding sources will be pursued for the hotel and conference center. An additional \$7,000,000 of State funding was secured for construction of the parking garage.

Note 18 - CAPITAL CAMPAIGN (Continued)

As of June 30, 2016, \$32,750,000 has been committed by Federal sources; \$51,000,000 has been appropriated by the State of Louisiana (this excludes \$7 million for the parking garage and \$18,000,000 unfunded priority 5 appropriations), \$19,027,032 has been funded/financed through tax incentives, \$148,184,811 has been raised from private sector sources for property acquisitions, campaign expenses, and the Endowment Fund (\$20,763,433), net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$8,947,521 (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) are as follows:

	2016	2015
Promises receivable at beginning of year	\$ 13,137,674	\$ 14,217,234
New promises made during the year	11,805,951	27,120,119
Less:		
Cash received	(10,347,977)	(28,199,679)
Write offs	(126,000)	-
Promises receivable at end of year	14,469,648	13,137,674
Unamortized discount	(546,807)	(651,711)
Allowance for doubtful promises	(349,672)	(315,304)
Totals	\$ 13,573,169	\$ 12,170,659

Note 18 - CAPITAL CAMPAIGN (Continued)

The activities of the Capital Campaign funding from private sector sources for property acquisitions and campaign expenses through June 30, 2016 are as follows:

Total Capital Campaign gifts and promises (excluding Endowment)	\$ 126,426,926
Less amounts written off since inception	<u>(1,145,175)</u>
	125,281,751
Discount to net present value at June 30, 2016	(546,807)
Allowance for doubtful promises at June 30, 2016	<u>(349,672)</u>
Gifts and promises, net	<u>124,385,272</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	6,994,171
2012	7,732,418
2013	7,976,222
2014	14,351,372
2015	28,199,679
2016	<u>10,347,977</u>
Total net assets released	<u>110,812,103</u>
Temporarily restricted net assets - Capital Campaign	<u>\$ 13,573,169</u>

Note 19 - 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 \$199,039 and \$189,393 for the years ended June 30, 2016 and 2015, 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(b) for the benefit of one highly compensated employee. The Museum's contributions to the plans totaled \$45,000 for each of the years ended June 30, 2016 and 2015.

Note 20 - 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, 2016 and 2015 is \$18,452,280 and \$14,346,609, respectively, are discounted to their net present value, which approximates fair value.

Notes Receivable - The carrying value of notes receivable as of June 30, 2016 and 2015 is \$12,524,383 and \$15,220,550, respectively, which approximates fair value.

Notes Payable to Banks - The carrying value of notes payable to bank as of June 30, 2016 and 2015 is \$33,363,636 and \$40,972,217, 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 21 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been reported on the Statement of Activities and Changes in Net Assets by natural classification. To present expenses by functional classifications, expenses are charged to program services and supporting services (general and administrative expense, Capital Campaign expense, and fundraising expenses) based on management's estimate of periodic time and expense evaluations. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Museum.

Total expenses are allocated as follows:

	2016	2015
Program services	\$ 36,069,158	\$ 31,778,049
Supporting services:		
General and administrative	2,924,440	2,826,274
Fundraising	2,422,281	2,997,906
Fundraising - Capital Campaign	1,669,248	2,021,829
Total expenses	\$ 43,085,127	\$ 39,624,058

Note 22 - COMMITMENTS

The Museum entered into an employment contract with an employee expiring on July 31, 2016, extended on April 28, 2016 through June 30, 2017 which provides for a minimum annual salary, and incentives based on the Museum's attainment of specified levels of financial performance. The contract provides for retention bonuses provided the employee meets certain levels of performance and extends the employment contract by the end of the initial term. As of June 30, 2016, the total commitment (undiscounted) is approximately \$720,000 for salary and \$45,000 for contributions to the deferred compensation plan, (see Note 19), which includes a one year commitment to the 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, 2016, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$12,283,000.

The Museum has entered into a contract for the exhibit design of the Capital Expansion Project totaling approximately \$9,710,000. As of June 30, 2016, the Museum has incurred construction completed or in progress related to this architectural design contract totaling approximately \$9,469,000.

Note 22 - COMMITMENTS (Continued)

The Museum entered into contracts related to the construction of the Road to Berlin exhibit totaling approximately \$2,849,000. As of June 30, 2016, the Museum has incurred construction in progress related to these projects totaling approximately \$2,827,000.

The Museum entered into contracts related to the construction of a parking garage totaling approximately \$9,302,000. As of June 30, 2016, the Museum has incurred construction in progress related to this project totaling approximately \$8,823,000.

The Museum entered into contracts related to the construction of the Road to Tokyo exhibit totaling approximately \$832,000. As of June 30, 2016, the Museum has incurred construction in progress related to this project totaling approximately \$670,000.

During the year ended June 30, 2016, the Museum entered into a contract related to the construction of the Homefront and Arsenal of Democracy Exhibits totaling approximately \$48,000. As of June 30, 2016, the Museum has incurred construction in progress related to this project totaling approximately \$26,000.

During the year ended June 30, 2016, the Museum entered into contracts related to the construction of the Bollinger Canopy of Peace totaling approximately \$7,709,000. As of June 30, 2016, the Museum has incurred construction in progress related to this project totaling approximately \$1,341,000.

During the year ended June 30, 2016, the Museum entered into a contract related to the construction of the Andrew Higgins Plaza totaling approximately \$2,497,000. As of June 30, 2016, the Museum has incurred construction in progress related to this project totaling approximately \$872,000.

During the year ended June 30, 2016, the Museum entered into a contract related to the construction of the Garage Offices, and LA Pavilion 4th floor renovation totaling approximately \$1,577,000. As of June 30, 2016, the Museum incurred construction in progress related to this project totaling approximately \$155,000.

If there is a breach of the loan agreements between the Museum and Capital One and the Museum and Whitney Bank, the Community Development Financial Institutions are required to recapture all or part of the New Markets Tax Credit that they claimed, the Museum has agreed to pay to the Community Development Financial Institutions 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 \$5,350,000 (see Notes 15 and 16). Management believes there are no breaches of these agreements.

Note 23 - 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. The agreements may be terminated by either party by written notice prior to January 30, 2017.

Both the lease and licensing agreements will continue on a continuous seven year cycle beginning on August 1, 2015, provided the Tenant 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.

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.

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 - SUPPLEMENTAL CASH FLOW INFORMATION

	2016	2015
Cash paid for interest	\$ 778,500	\$ 767,619
Cost of building improvements and equipment acquired	\$ 20,781,308	\$ 10,250,837
Less:		
Construction payable for property and equipment purchases	(58,157)	(1,224,493)
Cash payments for property and equipment acquired	\$ 20,723,151	\$ 9,026,344
Long-term debt refinanced through non-revolving line of credit	\$ -	\$ 1,080,219
Contributions of cash value of life insurance policy	\$ 436,429	\$ -

Note 25 - SUBSEQUENT EVENT

On August 5, 2016, the Museum amended its non-revolving line of credit with Whitney Bank. As of June 30, 2016, the Museum had outstanding balances of \$3,477,807. Interest on the loan is payable monthly at a rate of one month LIBOR + 2.5% (2.97%) as of June 30, 2016. The line matures on February 15, 2017.

On September 7, 2016, pursuant to the Forgiveness Conditions in the Loan Agreements, the State of Louisiana Office of Community Development determined to forgive the aggregate principal amount of \$10,000,000, represented as two separate \$5,000,000 notes payable, and release the mortgage on the Louisiana Pavilion.