

*Consolidated Financial Report*

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

*June 30, 2008*



**Bourgeois Bennett**

Certified Public Accountants | Consultants  
A Limited Liability Company

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June 30, 2008

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**FINANCIAL SECTION**



Bourgeois Bennett

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of The National World War II Museum, Inc. and Subsidiaries (a nonprofit organization) (the "Museum") as of June 30, 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2007 consolidated financial statements and in our report dated November 19, 2007; we expressed an unqualified opinion on those financial statements.

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 Governmental 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2008 on our consideration of The National World War II Museum, Inc. and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
October 28, 2008.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****The National World War II Museum, Inc. and Subsidiaries**

June 30, 2008  
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 40,553,969	\$ 7,297,222
Investments	3,755,695	2,354,774
Unconditional promises to give:		
Capital Campaign, net of allowances	3,900,025	6,017,213
Endowment, net of allowances	504,113	1,700,178
Other, net of allowances	629,535	632,846
Grants receivable	1,306,748	249,750
Interest receivable	32,231	-
Notes receivable	5,239,995	-
Gift shop inventory	432,208	384,689
Other assets	313,600	176,895
Property and equipment, net of accumulated depreciation	52,312,967	42,138,385
Collections	4,700,654	4,264,224
	<u>\$ 113,681,740</u>	<u>\$ 65,216,176</u>
Totals		
<b><u>LIABILITIES</u></b>		
Accounts payable and accrued expenses	\$ 4,543,495	\$ 1,807,087
Notes payable	34,156,672	2,720,000
	<u>38,700,167</u>	<u>4,527,087</u>
Total liabilities		
<b><u>NET ASSETS</u></b>		
Unrestricted	58,148,986	48,357,095
Temporarily restricted	13,289,352	9,244,009
Permanently restricted	3,543,235	3,087,985
	<u>74,981,573</u>	<u>60,689,089</u>
Total net assets		
Totals	<u>\$ 113,681,740</u>	<u>\$ 65,216,176</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

For the year ended June 30, 2008  
(with comparative totals for 2007)

	2008			Totals	2007 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Support and Revenues</b>					
Grants	\$ 711,784	\$ 4,897,472		\$ 5,609,256	\$ 2,128,877
Contributions:					
Capital Campaign		3,422,511		3,422,511	2,840,038
Endowment			\$ 455,250	455,250	1,006,685
Other	1,047,925	9,222,046		10,269,971	1,018,228
Admissions	1,226,393			1,226,393	940,827
Gift shop	634,318			634,318	555,649
Memberships	5,204,415			5,204,415	4,920,792
Miscellaneous	485,908			485,908	316,459
Sponsored events and conferences	1,526,045	132,675		1,658,720	2,578,258
Sponsorships	55,645			55,645	76,000
Facilities and property rental	689,260			689,260	571,070
Investment income	254,908	62,761		317,669	622,161
Net assets released from restrictions	13,692,122	(13,692,122)		-	-
<b>Total revenues and support</b>	<b>25,528,723</b>	<b>4,045,343</b>	<b>455,250</b>	<b>30,029,316</b>	<b>17,575,044</b>
<b>Expenses</b>					
General and administrative	1,574,761			1,574,761	1,330,250
Fundraising	1,098,908			1,098,908	786,225
Museum operations	5,554,879			5,554,879	5,161,111
Public programs	3,747,804			3,747,804	4,598,408
Museum expansion	597,953			597,953	468,979
Loss on abandonment of buildings	1,055,311			1,055,311	-
Gift shop merchandise sold	389,455			389,455	382,635
Capital Campaign fundraising and other	1,665,114			1,665,114	1,313,880
Professional fundraising and other	1,776			1,776	1,838
Legal, audit and consulting fees - administration	10,130			10,130	4,140
Travel, meeting and conventions	40,741			40,741	18,707
<b>Total expenses</b>	<b>15,736,832</b>	<b>-</b>	<b>-</b>	<b>15,736,832</b>	<b>14,066,173</b>
<b>Changes in Net Assets</b>	<b>9,791,891</b>	<b>4,045,343</b>	<b>455,250</b>	<b>14,292,484</b>	<b>3,508,871</b>
<b>Net Assets</b>					
Beginning of year	48,357,095	9,244,009	3,087,985	60,689,089	57,180,218
End of year	\$ 58,148,986	\$ 13,289,352	\$ 3,543,235	\$ 74,981,573	\$ 60,689,089

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS****The National World War II Museum, Inc. and Subsidiaries**

For the year ended June 30, 2008  
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 14,292,484	\$ 3,508,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,481,464	1,591,744
Loss on disposal of assets	1,055,311	-
Interest on note receivables	(37,251)	-
Donations of property and equipment and collections	(16,315)	(3,376)
Unrealized gain on investments	(6,047)	(267,930)
(Increase) decrease in operating assets:		
Other unconditional promises to give, net	3,311	284,710
Insurance claim receivable	-	500,000
Grant receivable - federal grant	(112,562)	(10,059)
Interest receivable	(32,231)	-
Gift shop inventory	(47,519)	(9,666)
Other assets	(136,705)	126,023
Increase in operating liabilities:		
Accounts payable and accrued expenses	2,736,408	327,604
Revenues restricted for the acquisition of property and equipment:		
State grant	(4,289,277)	(841,096)
Capital Campaign contributions, net of expenses	(1,887,896)	(1,668,546)
Decrease in discount on unconditional promises to give:		
Capital Campaign	(143,931)	(36,089)
Provision for uncollectible promises to give:		
Capital Campaign	(43,208)	(52,212)
Contributions restricted for endowment purposes	(392,299)	(974,791)
Provision for uncollectible promises to give - endowment	(62,951)	(31,894)
	<u>12,360,786</u>	<u>2,443,293</u>
Net cash provided by operating activities	<u>12,360,786</u>	<u>2,443,293</u>



**Exhibit C  
(Continued)**

	<u>2008</u>	<u>2007</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(12,052,324)	(4,839,784)
Purchase of collections	(420,430)	(375,886)
Advances on note receivable	(5,202,744)	-
Investments - purchased	<u>(1,394,874)</u>	<u>(2,086,844)</u>
Net cash used in investing activities	<u>(19,070,372)</u>	<u>(7,302,514)</u>
<b>Cash Flows From Financing Activities</b>		
Collections of state grant funds restricted for the acquisition of property and equipment	3,344,841	1,551,422
Collections of Endowment gifts	1,651,315	297,012
Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,347,161 and \$1,080,786 of campaign expenses in 2008 and 2007, respectively	4,192,223	2,492,619
New borrowings from bank	30,777,954	-
(Payments) borrowings on line of credit, net	<u>-</u>	<u>(1,019,260)</u>
Net cash provided by financing activities	<u>39,966,333</u>	<u>3,321,793</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	33,256,747	(1,537,428)
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>7,297,222</u>	<u>8,834,650</u>
End of year	<u>\$ 40,553,969</u>	<u>\$ 7,297,222</u>

See notes to consolidated financial statements.

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

June 30, 2008

**Note 1 - NATURE OF ACTIVITIES**

The National World War II Museum, Inc. (formerly named The National D-Day Museum Foundation, 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 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. This addition, named Discovery Hall, 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 2008, the Museum broke ground for construction of the 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. This phase of the Museum's expansion also provides space for support services, administration, retail outlets, and central plant services.

**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. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S. 47:121(5).

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 was to acquire and preserve a 1942 C-47 aircraft, gather and preserve the history of the C-47 aircraft, specifically with regard to its role in World War II, and to promote public awareness, appreciation, and education of the historic relevance of the C-47 aircraft. During the year ended June 30, 2007, ownership for the C-47 aircraft was transferred from Chalk #17, Inc. to the Museum.

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 and operate a theater and U.S.O. themed canteen and restaurant adjacent to the existing museum. The corporation is organized on a stock basis. The aggregate number of shares that this corporation shall have authority to issue is 100 shares, and there shall be one shareholder of the corporation who shall be known as the Corporate Shareholder and such Corporate Shareholder shall be The National World War II Museum, Inc.

**b. Use of Estimates**

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

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

**c. Basis of Accounting**

The 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**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-For-Profit Organizations" Under SFAS No. 117, 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.

**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.

**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 combined assets, liabilities, and transactions of the Museum and its subsidiaries, Chalk #17, Inc. and World War II Theatre, Inc (the Subsidiary). As described on the previous page, ownership for the C-47 plane was transferred from Chalk #17, Inc., to the Museum. For the year ended June 30, 2008 Chalk #17, Inc. had no assets or liabilities nor were there any revenue or expenses. The only activities of the Subsidiary relate to the new museum expansion. During the year ended June 30, 2008, loan proceeds of

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

**e. Consolidation (Continued)**

\$40,000,000 (discounted to net present value of future principal payments of \$30,777,954 at inception) were received to fund the construction costs. This debt, investments, and corresponding construction in progress costs were combined with amounts for the Museum and presented in the consolidated financial statements. 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 an original maturity of three months or less when purchased 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. 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.

**h. 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 statement of activities as net assets released from restrictions.

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

**i. 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. At June 30, 2008 and 2007, the balance of the allowance related to the Capital Campaign was \$79,592 and \$122,800 respectively, the allowance related to the Endowment was \$26,532 and \$89,483, respectively, and the allowance for other promises was \$94,068 and \$94,611, respectively.

**j. Gift Shop Inventory**

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

**k. Fixed Assets and Depreciation**

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.

**l. Collections**

At June 30, 2008 and 2007, 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.

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

**m. 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 financial statements for such services as management feels that the requirements of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" for recording in-kind services have not been satisfied.

**n. Fundraising Expenses**

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

**o. Allocated Expenses**

The costs of providing the various programs and other activities are summarized in Note 18. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

**p. Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year.

**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:

	2008	2007
Acquisition of property and equipment - Capital Campaign	\$ 3,900,025	\$ 8,440,494
Other restricted purposes	196,464	170,669
For subsequent periods:		
Unconditional promises to give	629,535	632,846
Unamortized discount on notes payable (see Note 14 and 15)	8,563,328	-
Totals	\$ 13,289,352	\$ 9,244,009

Permanently restricted net assets of \$3,543,235 and \$3,087,985 at June 30, 2008 and 2007, respectively, consist of cash and investments which are restricted for endowment purposes, the earnings from which are available for operations and accordingly are recognized as unrestricted revenue, and unconditional promises to give.

**Note 4 - LIMITED USE ASSETS**

Pursuant to the issuance of the New Markets Tax Credits Financing Commitment (as described in Note 14) between the Museum and Capital One (the "Bank"), the Museum is required to maintain certain funds until disbursements are approved by the Bank. These funds are restricted for the construction of the Theatre/USO/ Restaurant/Canteen and Support Facilities phase of the Museum expansion. The amount of restricted cash at June 30, 2008 totaled \$34,959,934.



**Note 5 - MARKETABLE SECURITIES**

Marketable securities are summarized as follows:

	June 30, 2008		
	Cost	Market Value	Excess of Market Over Cost
Mutual funds at June 30, 2008	\$ 3,481,718	\$ 3,755,695	\$ 273,977
Mutual funds at June 30, 2007	\$ 2,086,844	\$ 2,354,774	267,930
Increase in unrealized appreciation			6,047
Dividends, net of investment expenses			23,674
Interest on cash and cash equivalents			287,948
Total investment income			\$ 317,669
	June 30, 2007		
	Cost	Market Value	Excess of Market Over Cost
Mutual funds at June 30, 2007	\$ 2,086,844	\$ 2,354,774	\$ 267,930
Increase in unrealized appreciation			267,930
Dividends, net of investment expenses			11,842
Interest on cash and cash equivalents			342,389
Total investment income			\$ 622,161

**Note 6 - 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 7 - CONCENTRATION OF CREDIT RISK**

The Museum maintains cash balances at several local financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$100,000 per Bank. At June 30, 2008 and 2007, cash deposits in excess of the insured limits were approximately \$40,172,000 and \$7,407,000, respectively.

**Note 8 - UNCONDITIONAL PROMISES TO GIVE**

Promises of donors to make contributions to the Museum are included in the 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 a discount rate of 5%.

Unconditional promises to give consist of the following:

	2008	2007
Unconditional promises to give:		
Capital Campaign	\$ 4,458,730	\$ 6,763,057
Endowment	590,038	1,988,530
Other	786,481	792,350
Gross unconditional promises to give	5,835,249	9,543,937
Less:		
Unamortized discount:		
Capital Campaign	(479,113)	(623,044)
Endowment	(59,393)	(198,869)
Other	(62,878)	(64,893)
Allowance for uncollectible amounts:		
Capital Campaign	(79,592)	(122,800)
Endowment	(26,532)	(89,483)
Other	(94,068)	(94,611)
Net unconditional promises to give	\$ 5,033,673	\$ 8,350,237
Net unconditional promises to give:		
Capital Campaign	\$ 3,900,025	\$ 6,017,213
Endowment	504,113	1,700,178
Other	629,535	632,846
Totals	\$ 5,033,673	\$ 8,350,237

**Note 8 - UNCONDITIONAL PROMISES TO GIVE (Continued)**

	2008	2007
Amounts due in:		
Less than one year	\$ 3,256,806	\$ 5,771,054
One to five year	2,578,443	3,772,883
Totals	\$ 5,835,249	\$ 9,543,937

**Note 9 - NOTE 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 is secured by certain bank accounts of COCRF Investor I, L.L.C. Outstanding principal at June 30, 2008 totaled \$5,239,995. Interest accrues at a fixed rate of 3.86% and is payable at maturity. Interest earned on this note for the year ended June 30, 2008 was \$37,251, which is included in the note receivable balance. The note matures on December 4, 2014, at which time all outstanding principal and interest will be paid.

**Note 10 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2008	2007
Land	\$ 3,953,125	\$ 3,934,475
Buildings	28,451,315	29,558,557
Exhibits	3,137,473	3,088,518
Equipment	4,026,199	4,000,427
Construction in progress	22,848,209	10,917,153
	62,416,321	51,499,130
Less accumulated depreciation	(10,103,354)	(9,360,745)
Totals	\$ 52,312,967	\$ 42,138,385

Depreciation expense for the year ended June 30, 2008 and 2007 totaled \$1,481,464 and \$1,591,744, respectively.