

Consolidated Financial Report

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

June 30, 2009



Bourgeois Bennett

Certified Public Accountants | Consultants
A Limited Liability Company

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June 30, 2009

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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, 2009, 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 2008 consolidated financial statements and in our report dated October 28, 2008; we expressed an unqualified opinion on those consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2009, 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, 2009 on our consideration of The National World War II Museum, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of The National World War II Museum, Inc. and Subsidiaries taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
October 28, 2009.

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

June 30, 2009
(with comparative totals for 2008)

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|-----------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 23,397,409 | \$ 40,553,969 |
| Investments | 3,088,141 | 3,755,695 |
| Unconditional promises to give: | | |
| Capital Campaign, net of allowances | 8,328,676 | 3,900,025 |
| Endowment, net of allowances | 1,212,528 | 504,113 |
| Other, net of allowances | 670,386 | 629,535 |
| Grants receivable | 1,736,570 | 1,306,748 |
| Interest receivable | 11,042 | 32,231 |
| Notes receivable | 24,719,480 | 5,239,995 |
| Gift shop inventory | 401,923 | 432,208 |
| Other assets | 246,155 | 313,600 |
| Property and equipment, net of accumulated depreciation | 84,171,611 | 52,312,967 |
| Collections | 5,069,659 | 4,700,654 |
| | <u>\$ 153,053,580</u> | <u>\$ 113,681,740</u> |
| <u>LIABILITIES</u> | | |
| Accounts payable and accrued expenses | \$ 4,248,037 | \$ 4,543,495 |
| Notes payable | 49,474,108 | 34,156,672 |
| Line of credit | 1,500,000 | - |
| | <u>55,222,145</u> | <u>38,700,167</u> |
| <u>NET ASSETS</u> | | |
| Unrestricted: | | |
| Undesignated | 76,255,347 | 57,817,671 |
| Board designated | 736,999 | 331,315 |
| | <u>76,992,346</u> | <u>58,148,986</u> |
| Total unrestricted net assets | 76,992,346 | 58,148,986 |
| Temporarily restricted | 16,367,482 | 13,289,352 |
| Permanently restricted | 4,471,607 | 3,543,235 |
| | <u>97,831,435</u> | <u>74,981,573</u> |
| Total net assets | 97,831,435 | 74,981,573 |
| Totals | <u>\$ 153,053,580</u> | <u>\$ 113,681,740</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, 2009
(with comparative totals for 2008)

| | 2009 | | | Totals | 2008 Totals |
|--|----------------------|---------------------------|---------------------------|----------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | |
| Support and Revenues | | | | | |
| Grants | \$ 219,175 | \$ 18,039,182 | | \$ 18,258,357 | \$ 5,609,256 |
| Contributions: | | | | | |
| Capital Campaign | | 7,735,483 | | 7,735,483 | 3,422,511 |
| Endowment | | | \$ 928,372 | 928,372 | 455,250 |
| Other | 1,064,241 | | | 1,064,241 | 10,269,971 |
| Memberships | 5,368,475 | | | 5,368,475 | 5,204,415 |
| Admissions | 1,409,074 | | | 1,409,074 | 1,226,393 |
| Facilities and property rental | 730,780 | | | 730,780 | 689,260 |
| Sponsored events and conferences | 636,997 | 141,650 | | 778,647 | 1,658,720 |
| Gift shop | 521,567 | | | 521,567 | 634,318 |
| Investment income (loss) | 306,906 | (29,616) | | 277,290 | 317,669 |
| Sponsorships | 163,250 | | | 163,250 | 55,645 |
| Miscellaneous | 4,621 | | | 4,621 | 485,908 |
| Net assets released from restrictions | 22,808,569 | (22,808,569) | | - | - |
| Total support and revenues | <u>33,233,655</u> | <u>3,078,130</u> | <u>928,372</u> | <u>37,240,157</u> | <u>30,029,316</u> |
| Expenses | | | | | |
| Capital Campaign fundraising and other | 1,484,488 | | | 1,484,488 | 1,665,114 |
| Fundraising | 594,183 | | | 594,183 | 1,100,684 |
| General and administrative | 1,373,028 | | | 1,373,028 | 1,625,632 |
| Gift shop merchandise sold | 359,350 | | | 359,350 | 389,455 |
| Loss on abandonment of buildings | - | | | - | 1,055,311 |
| Museum expansion | 734,318 | | | 734,318 | 597,953 |
| Museum operations | 5,726,692 | | | 5,726,692 | 5,554,879 |
| Public programs | 4,118,236 | | | 4,118,236 | 3,747,804 |
| Total expenses | <u>14,390,295</u> | <u>-</u> | <u>-</u> | <u>14,390,295</u> | <u>15,736,832</u> |
| Changes in Net Assets | 18,843,360 | 3,078,130 | 928,372 | 22,849,862 | 14,292,484 |
| Net Assets | | | | | |
| Beginning of year | <u>58,148,986</u> | <u>13,289,352</u> | <u>3,543,235</u> | <u>74,981,573</u> | <u>60,689,089</u> |
| End of year | <u>\$ 76,992,346</u> | <u>\$ 16,367,482</u> | <u>\$ 4,471,607</u> | <u>\$ 97,831,435</u> | <u>\$ 74,981,573</u> |

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, 2009
(with comparative totals for 2008)

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|-------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 22,849,862 | \$ 14,292,484 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,261,361 | 1,481,464 |
| Loss on abandonment of buildings | - | 1,055,311 |
| Interest on notes receivable | (640,022) | (37,251) |
| Donations of property and equipment and collections | (4,031) | (16,315) |
| Unrealized (gain) loss on investments | 667,554 | (6,047) |
| (Increase) decrease in operating assets: | | |
| Other unconditional promises to give, net | (40,851) | 3,311 |
| Grants receivable | 185,081 | (112,562) |
| Interest receivable | 21,189 | (32,231) |
| Gift shop inventory | 30,285 | (47,519) |
| Other assets | 67,445 | (136,705) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (295,458) | 2,736,408 |
| Revenues restricted for the acquisition of property and equipment: | | |
| Federal grant | (1,200,000) | - |
| State grant | (16,755,732) | (4,289,277) |
| Capital Campaign contributions, net of expenses | (6,661,595) | (1,887,896) |
| Increase (decrease) in discount on unconditional promises to give: | | |
| Capital Campaign | 123,532 | (143,931) |
| Increase (decrease) in allowance for uncollectible promises to give: | | |
| Capital Campaign | 90,381 | (43,208) |
| Contributions restricted for endowment purposes | (926,585) | (392,299) |
| Decrease in allowance for uncollectible promises to give - endowment | <u>(1,787)</u> | <u>(62,951)</u> |
| Net cash provided by (used in) operating activities | <u>(1,229,371)</u> | <u>12,360,786</u> |

**Exhibit C
(Continued)**

| | 2009 | 2008 |
|--|---------------|---------------|
| Cash Flows From Investing Activities | | |
| Purchase of property and equipment | (31,814,069) | (12,052,324) |
| Proceeds from sale of equipment | 11,500 | - |
| Purchase of collections | (364,974) | (420,430) |
| Advances on notes receivable | (18,839,463) | (5,202,744) |
| Investments - purchased | - | (1,394,874) |
| | | |
| Net cash used in investing activities | (51,007,006) | (19,070,372) |
| Cash Flows From Financing Activities | | |
| Collections of federal grant funds restricted for the acquisition of property and equipment | 1,049,760 | - |
| Collections of state grant funds restricted for the acquisition of property and equipment | 16,291,069 | 3,344,841 |
| Collections of Endowment gifts | 219,957 | 1,651,315 |
| Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,287,801 and \$1,347,161 of campaign expenses in 2009 and 2008, respectively | 2,019,031 | 4,192,223 |
| New borrowings from bank | 14,000,000 | 30,777,954 |
| Borrowings on line of credit, net | 1,500,000 | - |
| | | |
| Net cash provided by financing activities | 35,079,817 | 39,966,333 |
| Net Increase (Decrease) In Cash and Cash Equivalents | (17,156,560) | 33,256,747 |
| Cash and Cash Equivalents | | |
| Beginning of year | 40,553,969 | 7,297,222 |
| End of year | \$ 23,397,409 | \$ 40,553,969 |

See notes to consolidated financial statements.

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

June 30, 2009

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Basis of Accounting

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

d. Basis of Presentation

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.

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

| | 2009 | 2008 |
|--------------------------|------------|------------|
| Debt service | \$ 667,273 | \$ 37,251 |
| Construction in progress | 69,726 | 294,064 |
| Totals | \$ 736,999 | \$ 331,315 |

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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 years ended June 30, 2009 and 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, 2009, loan proceeds of \$14,000,000 were received to fund construction costs. During the year ended June 30, 2008, loan proceeds of \$40,000,000 (discounted to net present value of future principal payments of \$30,777,954 at inception) were received to fund 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. Investments

Investments in marketable securities and in mutual funds and other investments are generally carried at fair market value. Investments acquired through donations are recorded at fair market value on the date of donation.

h. Promises To Give

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statement of Activities 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. At June 30, 2009 and 2008, the balance of the allowance related to the Capital Campaign was \$169,973 and \$79,592 respectively, the allowance related to the Endowment was \$24,745 and \$26,532, respectively, and the allowance for other promises was \$52,920 and \$94,068, respectively.

k. Gift Shop Inventory

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

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.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Collections

At June 30, 2009 and 2008, 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 feels that the requirements of SFAS No. 116, "Accounting for Contributions Received and Contributions Made" for recording in-kind services have not been satisfied.

o. Fundraising Expenses

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

p. Allocated Expenses

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

q. Reclassifications

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

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Museum has elected to defer the application of the uncertain tax position provisions of FASB Interpretation 48 for the year ended June 30, 2009. The Museum evaluates its uncertain tax positions using the provisions of SFAS No. 5, *Accounting for Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The consolidated financial statements reflect the prospective adoption of SFAS No. 157, *Fair Value Measurements*, as of the beginning of the year ended June 30, 2009 (see Note 6). SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and establishes a single authoritative definition of fair value, sets a framework for measuring value, and requires additional disclosures about fair value measurements. The effect of the adoption of SFAS No. 157 had no impact on the Consolidated Statement of Financial Position and the Consolidated Statement of Activities and Changes in Net Assets.

s. Subsequent Events

Management evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through October 28, 2009, which is the date the consolidated financial statements were available to be issued.