

*Consolidated Financial Report*

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

*June 30, 2011*

 THE NATIONAL WWII MUSEUM

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and Subsidiaries**  
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**FINANCIAL SECTION**

**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, 2011, 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 2010 consolidated financial statements and in our report dated November 4, 2010; 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. 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, 2011, 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.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
November 4, 2011.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaJune 30, 2011  
(with comparative totals for 2010)

|  | <b><u>ASSETS</u></b>      |                       |
|--|---------------------------|-----------------------|
|  | 2011                      | 2010                  |
| Cash and cash equivalents                                  | \$ 13,020,470             | \$ 14,438,840         |
| Investments  | 9,022,995                 | 3,709,091             |
| Unconditional promises to give:                            |                           |                       |
| Capital Campaign, net of allowances                        | 15,496,118                | 7,385,648             |
| Endowment, net of allowances                               | 35,680                    | 239,407               |
| Other, net of allowances                                   | 966,069                   | 1,439,343             |
| Grants receivable  | 2,000,000                 | 1,446,423             |
| Notes receivable   | 32,336,919                | 30,730,066            |
| Gift shop inventory  | 648,230                   | 656,395               |
| Other assets   | 4,302,495                 | 647,071               |
| Property and equipment,<br>net of accumulated depreciation | 101,559,148               | 99,708,766            |
| Collections  | 6,461,379                 | 5,655,292             |
|  | <b>\$ 185,849,503</b>     | <b>\$ 166,056,342</b> |
|  | <b><u>LIABILITIES</u></b> |                       |
| Accounts payable trade                                     | \$ 760,255                | \$ 1,072,642          |
| Construction projects payable                              | 1,719,476                 | 2,955,623             |
| Accrued expenses   | 1,315,206                 | 1,173,769             |
| Deferred revenue   | 651,504                   | 454,945               |
| Notes payable  | 51,921,480                | 50,641,544            |
| Line of credit   | 319,091                   | -                     |
|  | 56,687,012                | 56,298,523            |
|  | <b><u>NET ASSETS</u></b>  |                       |
| Unrestricted:  |                           |                       |
| Board designated   | 4,604,095                 | 2,562,747             |
| Undesignated   | 98,083,438                | 87,453,739            |
|  | 102,687,533               | 90,016,486            |
| Total unrestricted net assets                              | 102,687,533               | 90,016,486            |
| Temporarily restricted                                     | 21,729,035                | 15,003,908            |
| Permanently restricted                                     | 4,745,923                 | 4,737,425             |
|  | 129,162,491               | 109,757,819           |
|  | <b>\$ 185,849,503</b>     | <b>\$ 166,056,342</b> |

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, 2011  
(with comparative totals for 2010)

|   | 2011                  |                           |                           | Totals                | 2010<br>Totals        |
|---|-----------------------|---------------------------|---------------------------|-----------------------|-----------------------|
|   | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted |                       |                       |
| <b>Support and Revenues</b>               |                       |                           |                           |                       |                       |
| Grants                                    | \$ 1,046,092          | \$ 6,340,992              |                           | \$ 7,387,084          | \$ 7,779,717          |
| Contributions:                            |                       |                           |                           |                       |                       |
| Capital Campaign                          |                       | 15,104,641                |                           | 15,104,641            | 8,925,156             |
| Endowment                                 |                       |                           | \$ 8,498                  | 8,498                 | 265,818               |
| Other                                     | 1,338,847             |                           |                           | 1,338,847             | 1,295,830             |
| Tax credit incentives                     | 3,806,664             |                           |                           | 3,806,664             | 1,943,625             |
| Memberships                               | 5,441,047             |                           |                           | 5,441,047             | 5,529,722             |
| Admissions                                | 5,618,145             |                           |                           | 5,618,145             | 4,237,400             |
| Facilities and property rental            | 592,348               |                           |                           | 592,348               | 488,168               |
| Sponsored events and conferences          | 1,437,437             | 393,142                   |                           | 1,830,579             | 1,188,821             |
| Food and Beverage                         | 4,196,577             |                           |                           | 4,196,577             | 1,987,480             |
| Gift shop                                 | 1,430,755             |                           |                           | 1,430,755             | 1,024,511             |
| Investment income (loss)                  | 2,055,065             | 445,414                   |                           | 2,500,479             | 1,992,107             |
| Sponsorships                              | 39,680                |                           |                           | 39,680                | 89,250                |
| Miscellaneous                             | 46,182                |                           |                           | 46,182                | 5,018                 |
| Net assets released from restrictions     | 15,559,062            | (15,559,062)              |                           | -                     | -                     |
| <b>Total support and revenues</b>         | <b>42,607,901</b>     | <b>6,725,127</b>          | <b>8,498</b>              | <b>49,341,526</b>     | <b>36,752,623</b>     |
| <b>Expenses</b>                           |                       |                           |                           |                       |                       |
| Capital Campaign fundraising and other    | 1,346,735             |                           |                           | 1,346,735             | 1,438,440             |
| Depreciation                              | 5,506,394             |                           |                           | 5,506,394             | 3,963,588             |
| Fundraising                               | 1,351,491             |                           |                           | 1,351,491             | 2,351,066             |
| Food and beverage                         | 1,348,574             |                           |                           | 1,348,574             | 770,763               |
| General and administrative                | 1,970,033             |                           |                           | 1,970,033             | 2,194,480             |
| Gift shop merchandise sold                | 711,518               |                           |                           | 711,518               | 583,933               |
| Interest - amortized                      | 1,656,372             |                           |                           | 1,656,372             | 1,206,228             |
| Interest - other                          | 38,800                |                           |                           | 38,800                | 76,450                |
| Loss on abandonment of property           | 269,460               |                           |                           | 269,460               | 84,147                |
| Museum expansion                          | 851,467               |                           |                           | 851,467               | 839,831               |
| Programs and operations - personnel costs | 6,963,059             |                           |                           | 6,963,059             | 5,037,896             |
| Programs and operations - other costs     | 7,922,951             |                           |                           | 7,922,951             | 6,279,417             |
| <b>Total expenses</b>                     | <b>29,936,854</b>     | <b>-</b>                  | <b>-</b>                  | <b>29,936,854</b>     | <b>24,826,239</b>     |
| <b>Changes in Net Assets</b>              | <b>12,671,047</b>     | <b>6,725,127</b>          | <b>8,498</b>              | <b>19,404,672</b>     | <b>11,926,384</b>     |
| <b>Net Assets</b>                         |                       |                           |                           |                       |                       |
| Beginning of year                         | 90,016,486            | 15,003,908                | 4,737,425                 | 109,757,819           | 97,831,435            |
| End of year                               | <u>\$ 102,687,533</u> | <u>\$ 21,729,035</u>      | <u>\$ 4,745,923</u>       | <u>\$ 129,162,491</u> | <u>\$ 109,757,819</u> |

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS****The National World War II Museum, Inc. and Subsidiaries**  
New Orleans, LouisianaFor the year ended June 30, 2011  
(with comparative totals for 2010)

|   | <u>2011</u>        | <u>2010</u>      |
|---|--------------------|------------------|
| <b>Cash Flows From Operating Activities</b>   |                    |                  |
| Change in net assets  | \$ 19,404,672      | \$ 11,926,384    |
| Adjustments to reconcile change in net assets to net cash used in operating activities: |                    |                  |
| Depreciation  | 5,506,394          | 3,963,588        |
| Amortization of note payable discount   | 1,317,436          | 988,077          |
| Loss on abandonment of buildings  | 269,460            | 84,147           |
| Interest on notes receivable  | (1,357,125)        | (1,328,092)      |
| Donations of property and equipment and collections                                     | (41,048)           | (96,450)         |
| Unrealized gain on investments  | (916,710)          | (620,950)        |
| (Increase) decrease in operating assets:  |                    |                  |
| Other unconditional promises to give, net   | 473,274            | (768,957)        |
| Gift shop inventory   | 8,165              | (254,472)        |
| Other assets  | (3,655,424)        | (389,874)        |
| Increase (decrease) in operating liabilities:   |                    |                  |
| Accounts payable and accrued expenses   | (1,407,097)        | 968,097          |
| Deferred revenue  | 196,559            | 440,845          |
| Revenues restricted for the acquisition of property and equipment:                      |                    |                  |
| Federal grant   | (6,314,519)        | (586,128)        |
| State grant   | (16,473)           | (7,082,581)      |
| Capital Campaign contributions, net of expenses   | (15,557,168)       | (8,561,541)      |
| Increase (decrease) in discount on unconditional promises to give:                      |                    |                  |
| Capital Campaign  | 455,438            | 167,646          |
| Increase in allowance for uncollectible promises to give:                               |                    |                  |
| Capital Campaign  | 594,514            | 481,762          |
| Contributions restricted for endowment purposes   | (4,359)            | (247,037)        |
| Decrease in allowance for uncollectible promises to give - endowment                    | (4,139)            | (19,859)         |
|   | <u>(1,048,150)</u> | <u>(935,395)</u> |
| Net cash used in operating activities   | <u>(1,048,150)</u> | <u>(935,395)</u> |

**Exhibit C  
(Continued)**

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| <b>Cash Flows From Investing Activities</b>   |                      |                      |
| Purchase of property and equipment  | (7,501,891)          | (19,165,826)         |
| Purchase of collections   | (364,384)            | (578,888)            |
| Advances on notes receivable  | (249,728)            | (4,682,494)          |
| Investment purchases  | (7,597,002)          | -                    |
| Proceeds from sale of investments   | 3,199,808            | -                    |
|   | <u>(12,513,197)</u>  | <u>(24,427,208)</u>  |
| <b>Net cash used in<br/>investing activities</b>  |                      |                      |
| <b>Cash Flows From Financing Activities</b>   |                      |                      |
| Collections of federal grant funds restricted<br>for the acquisition of property and equipment  | 4,820,647            | 230,240              |
| Collections of state grant funds restricted<br>for the acquisition of property and equipment  | 956,768              | 7,728,616            |
| Collections of Endowment gifts  | 212,225              | 1,240,017            |
| Collections of Capital Campaign contributions restricted<br>for the acquisition of property and equipment, net of<br>\$597,425 and \$638,788 of campaign expenses in<br>2011 and 2010, respectively | 6,396,746            | 8,855,161            |
| Repayments of notes payable   | (562,500)            | (150,000)            |
| Borrowings (Repayments) on line of credit, net  | 319,091              | (1,500,000)          |
|   | <u>12,142,977</u>    | <u>16,404,034</u>    |
| <b>Net cash provided by<br/>financing activities</b>  |                      |                      |
| <b>Net Decrease In Cash and Cash Equivalents</b>  | (1,418,370)          | (8,958,569)          |
| <b>Cash and Cash Equivalents</b>  |                      |                      |
| Beginning of year   | <u>14,438,840</u>    | <u>23,397,409</u>    |
| End of year   | <u>\$ 13,020,470</u> | <u>\$ 14,438,840</u> |

See notes to consolidated financial statements.

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

June 30, 2011

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

In 2010, the Museum broke ground for The United States Freedom Pavilion - Boeing Center. This 90+ feet high addition will be the tallest of the Museum's new pavilions and will house 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. It is scheduled to open in November 2012.

**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 a theater, and 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.

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

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

On February 2, 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. 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 2, 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.

**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.

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

**d. Basis of Presentation (Continued)**

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

|                          | 2011         | 2010         |
|--------------------------|--------------|--------------|
| Debt service             | \$ 3,319,764 | \$ 1,964,364 |
| Construction in progress | 1,284,331    | 598,383      |
| Totals                   | \$ 4,604,095 | \$ 2,562,747 |

**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 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., and World War II Campaigns, Inc. (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 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).

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**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. As of June 30, 2011 and 2010, the balance of the allowance related to the Capital Campaign was \$360,326 and \$370,235 respectively, the allowance related to the Endowment was \$747 and \$4,886, respectively, and the allowance for other promises was \$10,496 and \$100,061, respectively.

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

**k. Gift Shop and Food and Beverage 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.

**m. Collections**

As of June 30, 2011 and 2010, 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 for recording in-kind services have not been satisfied.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**r. Tax Matters**

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. As of June 30, 2011, 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, 2008 and later remain subject to examination by the taxing authorities.

**s. New Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, ("ASU 2010-06"). ASU 2010-06 clarifies certain existing fair value disclosures and requires entities to disclose additional information regarding the amounts of and reasons for significant transfers between levels of the fair value hierarchy effective for reporting periods beginning after December 15, 2009. Effective for fiscal years beginning after December 15, 2010, it will also require entities to present information regarding changes in Level 3 assets and liabilities on a gross basis. Since ASU 2010-06 affects only fair value measurement disclosures,

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

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

its adoption by the Museum has no effect on the Museum's financial position, changes in net assets, or cash flows.

In accordance with FASB ASC 958-205 and subsections (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), the Museum has determined it is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which requires the Museum to classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets, unless stated otherwise in the gift instrument by the donor. FASB ASC 958-205 is effective for years ending after December 15, 2008.

Originally, the Museum followed guidance provided by the Uniform Management of Institutional Funds Act ("UMIFA") as Louisiana had not yet adopted UPMIFA. Effective July 1, 2010, Louisiana adopted a version of UPMIFA which is now followed by the Museum. The adoption of FASB ASC 958-205 and the subsequent change in guidance from UMIFA to UPMIFA had no material impact on the net asset classification of the Museum.

**t. 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 4, 2011, 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:

|  | 2011          | 2010          |
|--|---------------|---------------|
| Acquisition of property and equipment -                    |               |               |
| Capital Campaign   | \$ 15,496,118 | \$ 7,385,648  |
| Other restricted purposes                                  | 655,827       | 250,461       |
| For subsequent periods:                                    |               |               |
| Unconditional promises to give                             | 966,069       | 1,439,343     |
| Unamortized discount on notes payable (see Note 15 and 16) | 4,611,021     | 5,928,456     |
| Totals   | \$ 21,729,035 | \$ 15,003,908 |

Permanently restricted net assets of \$4,745,923 and \$4,737,425 as of June 30, 2011 and 2010, 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 2007 issuance of the New Markets Tax Credits Financing Commitment (as described in Note 15) between the Museum and Capital One 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 Solomon Victory Theater/Stage Door Canteen/American Sector Restaurant-Bar/and Support Facilities phase of the Museum expansion. There was no restricted cash balance as of June 30, 2011. The amount of restricted cash as of June 30, 2010 totaled \$1,494,506.

Pursuant to the 2008 issuance of the New Markets Tax Credits Financing Commitment (as described in Note 15) between the Museum and Whitney National 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 Solomon Victory Theater / Stage Door Canteen / American Sector Restaurant-Bar/ and Support Facilities phase of the expansion. The amount of restricted cash as of June 30, 2010 totaled \$2,441,349. There was no restricted cash as of June 30, 2011.

Note 5 - INVESTMENTS

Marketable securities are summarized as follows:

|  | June 30, 2011       |                     |   |
|--|---------------------|---------------------|---|
|  | Cost                | Market Value        | Excess of Market Over Cost                    |
| Mutual funds as of June 30, 2011                         | \$ 7,878,912        | \$ 9,022,995        | \$ 1,144,083                                  |
| Mutual funds as of June 30, 2010                         | <u>\$ 3,481,718</u> | <u>\$ 3,709,091</u> | <u>227,373</u>                                |
| Increase in unrealized appreciation                      |                     |                     | 916,710                                       |
| Dividends, net of investment expenses                    |                     |                     | 13,401  |
| Interest on cash, cash equivalents, and notes receivable |                     |                     | <u>1,570,368</u>                              |
| Total investment income                                  |                     |                     | <u>\$ 2,500,479</u>                           |
|  | June 30, 2010       |                     |   |
|  | Cost                | Market Value        | Excess of Market Over Cost (Cost Over Market) |
| Mutual funds as of June 30, 2010                         | \$ 3,481,718        | \$ 3,709,091        | \$ 227,373                                    |
| Mutual funds as of June 30, 2009                         | <u>\$ 3,481,718</u> | <u>\$ 3,088,141</u> | <u>\$ (393,577)</u>                           |
| Increase in unrealized appreciation                      |                     |                     | 620,950                                       |
| Dividends, net of investment expenses                    |                     |                     | 16,962  |
| Interest on cash, cash equivalents, and notes receivable |                     |                     | <u>1,354,195</u>                              |
| Total investment income                                  |                     |                     | <u>\$ 1,992,107</u>                           |

**Note 6 - FAIR VALUE MEASUREMENTS**

Fair value concepts are applied in recording investments. A fair value hierarchy which has three levels based on the reliability of the inputs is used to determine fair value. These levels include: Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as quoted market prices for similar assets or liabilities; and Level 3, unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

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.

The Museum uses the market approach for valuing mutual funds which is within the Level 2 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. Furthermore, while the Museum believes its valuation method is appropriate and consistent with 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.

Assets measured at fair value on a recurring basis as of June 30, 2011 and 2010 are comprised of and determined as follows:

| Description                               | 2011   |  |                                     |      |
|---|--|--|-------------------------------------|------|
|   | Based on   |  |                                     |      |
| Total Assets<br>Measured At<br>Fair Value | Quoted Prices<br>In Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |      |
| Certificates of Deposit                   | \$ 2,852,735                                       | \$ 2,852,735                               | \$ -                                | \$ - |
| Mutual funds:                             |  |  |                                     |      |
| Multi Strategy Equity                     | 4,679,634  | -  | 4,679,634                           | -    |
| Pooled Investments                        | 1,490,626  | -  | 1,490,626                           | -    |
| Totals                                    | \$ 9,022,995                                       | \$ 2,852,735                               | \$ 6,170,260                        | \$ - |

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

| Description           | 2010                                      |  |  |                                     |
|-----------------------|---|--|--|-------------------------------------|
|                       | Based on                                  |  |  |                                     |
|                       | Total Assets<br>Measured At<br>Fair Value | Quoted Prices<br>In Active<br>Markets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| Mutual funds:         |   |  |  |                                     |
| Multi Strategy Equity | \$ 1,856,317                              | \$ -   | \$ 1,856,317                               | \$ -                                |
| Pooled Investments    | 1,852,774                                 |  | 1,852,774                                  |                                     |
| Totals                | <u>\$ 3,709,091</u>                       | <u>\$ -</u>  | <u>\$ 3,709,091</u>                        | <u>\$ -</u>                         |

As of June 30, 2011 and 2010, 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 cash balances at several local financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$250,000 per Bank. As of June 30, 2011, cash deposits in excess of the insured limits were approximately \$11,280,000.

**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, 2011.

**Note 9 - UNCONDITIONAL PROMISES TO GIVE (Continued)**

Unconditional promises to give consist of the following:

|                                      | 2011          | 2010         |
|--------------------------------------|---------------|--------------|
| Unconditional promises to give:      |               |              |
| Capital Campaign                     | \$ 17,082,173 | \$ 8,526,174 |
| Endowment                            | 37,334        | 246,894      |
| Other                                | 1,049,550     | 1,576,284    |
| Gross unconditional promises to give | 18,169,057    | 10,349,352   |
| Less:                                |               |              |
| Unamortized discount:                |               |              |
| Capital Campaign                     | (1,225,729)   | (770,291)    |
| Endowment                            | (907)         | (2,601)      |
| Other                                | (72,985)      | (36,880)     |
| Allowance for uncollectible amounts: |               |              |
| Capital Campaign                     | (360,326)     | (370,235)    |
| Endowment                            | (747)         | (4,886)      |
| Other                                | (10,496)      | (100,061)    |
| Net unconditional promises to give   | \$ 16,497,867 | \$ 9,064,398 |
| Net unconditional promises to give:  |               |              |
| Capital Campaign                     | \$ 15,496,118 | \$ 7,385,648 |
| Endowment                            | 35,680        | 239,407      |
| Other                                | 966,069       | 1,439,343    |
| Totals                               | \$ 16,497,867 | \$ 9,064,398 |

**Note 9 - UNCONDITIONAL PROMISES TO GIVE (Continued)**

|                    | 2011          | 2010          |
|--------------------|---------------|---------------|
| Amounts due in:    |               |               |
| Less than one year | \$ 5,933,597  | \$ 5,510,232  |
| One to five years  | 12,235,460    | 4,839,120     |
| Totals             | \$ 18,169,057 | \$ 10,349,352 |

Promises to give receivable in more than one year are discounted at 2.22%.

**Note 10 - NOTES RECEIVABLE**

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 is secured by certain bank accounts of Whitney New Markets Investor 5, L.L.C. Outstanding principal and accrued interest as of June 30, 2011 and 2010 totaled \$1,505,475 and \$1,503,750, respectively. Interest accrues at a fixed rate of 1% per year and is payable quarterly. Interest earned on this note for the year ended June 30, 2011 and 2010 was \$15,167 and \$13,787, respectively. The note matures on October 31, 2015, at which time all outstanding principal and interest will be paid.

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 is secured by certain bank accounts at Whitney New Markets Investor 5, L.L.C. Outstanding principle and interest as of June 30, 2011 and 2010 totaled \$481,680 and \$261,952 respectively. Interest accrues at an adjustable rate equal to the one month LIBOR + 1.25% (1.44% as of June 30, 2011) and is payable quarterly. Interest on this note for the year ended July 01, 2010 and 2009 was \$4,667 and \$2,500, respectively. The note matures on October 31, 2015, at which time all outstanding principal and interest will be paid.

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 and accrued interest as of June 30, 2011 and 2010 totaled \$30,319,764 and \$28,964,364, respectively. Interest accrues at a fixed rate of 5.02% per year and is payable at maturity. Interest earned on this note for the year ended June 30, 2011 and 2010 was \$1,355,400 and \$1,297,092, respectively, which is included in the note receivable balances. The note matures on December 4, 2014, at which time all outstanding principal and interest will be paid.

**Note 11 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|  | 2011           | 2010          |
|--|----------------|---------------|
| Land   | \$ 7,568,831   | \$ 7,170,911  |
| Buildings                                      | 84,142,955     | 77,741,068    |
| Exhibits                                       | 3,180,870      | 3,165,937     |
| Equipment, video productions,<br>and furniture | 18,336,043     | 17,651,613    |
| Construction in progress                       | 8,867,964      | 9,082,192     |
|  | 122,096,663    | 114,811,721   |
| Less accumulated depreciation                  | (20,537,515)   | (15,102,955)  |
| Totals   | \$ 101,559,148 | \$ 99,708,766 |

Depreciation expense for the year ended June 30, 2011 and 2010 totaled \$5,506,394 and \$3,963,588, respectively.

**Note 12 - SPLIT-INTEREST AGREEMENT**

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. The assets donated were valued at \$20,000 and \$121,200 on the dates of donation. The present value of estimated future payments of \$67,882 and \$74,768 as of June 30, 2011 and 2010, respectively, is included in the liabilities 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. and The World War II Theatre, 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. During the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$16,473 and \$5,049,866, respectively.

**Note 13 - GRANTS (Continued)**

The U.S. Department of Commerce, Economic Development Administration awarded a grant totaling \$2,000,000 to the Museum toward the renovation of the Restoration Pavilion, a historic restoration workshop and workforce training center, on March 9, 2010. For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$1,859,992 and \$140,008, respectively.

The U.S. Department of Defense awarded a grant totaling \$19,670,450 to the Museum toward the construction of the United States Freedom Pavilion - Land, Sea & Air on July 1, 2010. The grant allows for pre-award fund spending starting April 1, 2010. Consequently, for the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$4,253,579 and \$366,121, respectively.

The Institute of Museum and Library Services awarded a grant totaling \$150,000 to the Museum to develop entertainment programming for the Stage Door Canteen over a 3 year period on July 10, 2009. For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$50,000 and \$45,000, respectively.

The Institute of Museum and Library Services awarded a grant totaling \$334,000 to the Museum for a project titled "Bringing Oral Histories to Life - Unlocking the Power of the Spoken Word", a collection digitization project on October 1, 2009. For the years ended June 30, 2011 and 2010, the Museum recognized revenue under this grant of \$150,948 and \$35,000, respectively.

For years ended June 30, 2011 and 2010 the Museum also recognized \$1,056,092 and \$2,143,722 of grant revenues from private sources.

**Note 14 - BANK LINE OF CREDIT**

On March 18, 2005, the Museum entered into a loan agreement with the Whitney Bank in New Orleans. The loan agreement provides for a \$2,350,000 line of credit loan which is evidenced by a promissory note and has been extended to May 3, 2012. The line of credit loan was established to purchase property for expansion and refinance a mortgage loan. The line of credit loan is secured by a first mortgage on the property acquired, the assignment of rents and leases, and all property and deposits held by the financial institution. As of June 30, 2011, the Museum had an outstanding balance of \$319,091. The Museum had no borrowings outstanding as of June 30, 2010. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR + 1.5% (1.69% and 1.76% as of June 30, 2011 and 2010, respectively).

**Note 14 - BANK LINE OF CREDIT (Continued)**

During the years ended June 30, 2011 and 2010, interest expense totaled \$555 and 20,334, respectively.

**Note 15 - NEW MARKET TAX CREDITS**

In December 2007, World War II Theatre, Inc. executed a New Markets Tax Credits Financing Transaction with Capital One Bank (see Note 16) to fund construction costs for the Solomon Victory Theater/ Stage Door Canteen/ American Sector Restaurant-Bar/ and Support Facilities (the "Project"). The Museum is a guarantor of the Subsidiary's obligation. The structure will realize benefits from the New Market Tax Credit Program of the Community Development Financial Institution Fund (CDFI), a branch of the U.S. Department of Treasury, and from the State of Louisiana New Markets Tax Credits Program.

The transaction includes multiple loans totaling \$40 million toward this \$58 million phase of the expansion. The Museum has sources of funding in place to satisfy a significant portion of the loans, including over \$25,000,000 in State capital outlay, and over \$6,700,000 in existing donor pledges and contributions as of the date of the transaction closing.

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 will realize a projected benefit in positive cash flow from the federal and state incentives totaling \$9,560,000 (unaudited), which will be used to fund the expansion.

In October 2008, World War II Theatre, Inc. executed a New Markets Tax Credits 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-Bar/ and Support Facilities (the "Project"). The Museum is a guarantor of the Subsidiary's obligation. The structure will realize benefits from the New Market Tax Credit Program of the Community Development Financial Institution Fund (CDFI), a branch of the U.S. Department of Treasury New Markets Tax Credits Program.

The transaction includes 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.

**Note 15 - NEW MARKET TAX CREDITS (Continued)**

The Museum may realize a projected benefit in positive cash flow from the federal incentives incorporated into the exercise of the Facility B totaling \$2,800,000 (unaudited), which will be used to fund the expansion.

**Note 16 - NOTES PAYABLE**

Notes payable consist of the following:

|   | 2011         | 2010         |
|---|--------------|--------------|
| Note payable to Whitney Bank, bearing interest at a one month LIBOR + 1.5% (1.69% at June 30, 2011). Interest is due monthly with a balloon payment of \$2,232,500 due May 3, 2012, secured by a first mortgage on the buildings.   | \$ 2,232,500 | \$ 2,645,000 |
| Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility A), bearing interest at 5.20% per year with interest due quarterly through December 4, 2014 (maturity), principal payments are to be made quarterly beginning January 5, 2010 at .62% of the amount funded on the note through October 2013 and 2.5% of the amount funded on the note quarterly to maturity date, secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 15). | 5,775,000    | 5,925,000    |

**Note 16 - NOTES PAYABLE (Continued)**

|   | 2011       | 2010       |
|---|------------|------------|
| <p>Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility B), bearing no interest (discount is based on imputed interest rates between 4.39% and 4.64% per year), principal outstanding is due on the maturity date of the note (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum.</p>        | 27,000,000 | 27,000,000 |
| <p>Notes payable, dated December 4, 2007, to four community development financial institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility C), bearing no interest (discount is based on imputed interest rates between 4.39% and 4.64%), principal outstanding is due on the maturity date of the notes (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 15).</p> | 7,000,000  | 7,000,000  |

**Note 16 - NOTES PAYABLE (Continued)**

|  | 2011      | 2010      |
|--|-----------|-----------|
| <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% (1.17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2015) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 15).</p>   | 9,700,000 | 9,700,000 |
| <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% (1.17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2038) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. This loan may be prepaid without penalty after October 31, 2015. In addition, beginning October 31, 2015, the lender has the right to require the Museum to purchase the loan for a put price of \$1,000. (See Note 15).</p> | 2,800,000 | 2,800,000 |

Note 16 - NOTES PAYABLE (Continued)

|   | 2011          | 2010          |
|---|---------------|---------------|
| Notes payable to a Community Development Financial Institution, Whitney New Markets CDE 7, LLC, (Facility C), interest at 69.29% of the one month LIBOR + .98% (1.17% at June 30, 2011) due quarterly, principal outstanding is due on the maturity date of the notes (October 31, 2015) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. | 1,500,000     | 1,500,000     |
| Non-interest bearing note payable to The Vought Aircraft Heritage Foundation, due in three annual installments of \$175,000 through the maturity date, December 31, 2013, secured by the Corsair aircraft.  | 525,000       | -             |
|   | 56,532,500    | 56,570,000    |
| Less unamortized discount   | (4,611,020)   | (5,928,456)   |
| Totals  | \$ 51,921,480 | \$ 50,641,544 |

Interest expense on the note payable to Whitney Bank totaled \$38,677 and \$56,116 for the years ended June 30, 2011 and 2010, respectively. Interest recognized on the notes payable to the five Community Development Financial Institutions, totaled \$1,656,372 and \$1,206,228 for the years ended June 30, 2011 and 2010, respectively (for the year ended June 30, 2010, \$396,524 of the total was capitalized as construction in progress).

**Note 16 - NOTES PAYABLE (Continued)**

| Year Ended<br>June 30, |               |
|------------------------|---------------|
| 2012                   | \$ 2,557,500  |
| 2013                   | 325,000       |
| 2014                   | 775,000       |
| 2015                   | 38,875,000    |
| 2016                   | 11,200,000    |
| 2017 and thereafter    | 2,800,000     |
| Total                  | \$ 56,532,500 |

**Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT**

*The Endowments.* The Museum’s endowments consist of four funds established for the purpose of a general endowment, the George Schultz Lecture Series, the Selley Foundation Special Exhibits and Collections Fund, and the Raymond E. Mason Jr. Endowed Fund for Distinguished Lectures. 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 generally accepted accounting principles, net assets associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor imposed restrictions.

*Interpretation of Relevant Law.* The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of an original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies the following amounts as permanently restricted net assets in the accompanying consolidated financial statements:

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

**Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

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, 2011 and 2010 is as follows:

|                        |    | June 30, 2011 |                           |                           |              |
|------------------------|----|---------------|---------------------------|---------------------------|--------------|
|                        |    | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
| Donor-restricted       |    |               |                           |                           |              |
| endowment funds        | \$ |               | \$ 658,886                | \$ 4,745,923              | \$ 5,404,809 |
| Board-designated funds |    | 1,284,331     |                           |                           | 1,284,331    |
| Total funds            | \$ | 1,284,331     | \$ 658,886                | \$ 4,745,923              | \$ 6,689,140 |
|                        |    | June 30, 2010 |                           |                           |              |
|                        |    | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
| endowment funds        | \$ |               | \$ 237,636                | \$ 4,737,425              | \$ 4,975,061 |
| Board-designated funds |    | 598,383       | -                         |                           | 598,383      |
| Total funds            | \$ | 598,383       | \$ 237,636                | \$ 4,737,425              | \$ 5,573,444 |

**Note 17 - DONOR AND BOARD DESIGNATED ENDOWMENT (Continued)**

Changes in endowment net assets for the year ending June 30, 2011 and 2010 are as follows:

|   | 2011                |                        |                        | Total               |
|---|---------------------|------------------------|------------------------|---------------------|
|   | Unrestricted        | Temporarily Restricted | Permanently Restricted |                     |
| Endowment net assets, beginning of year             | \$ 598,383          | \$ 237,636             | \$ 4,737,425           | \$ 5,573,444        |
| Contributions                                       | 85,307              |                        | 8,498                  | 93,805              |
| Investment return:                                  |                     |                        |                        |                     |
| Investment income                                   | 7,505               | 5,897                  | -                      | 13,402              |
| Net appreciation, realized and unrealized           | 568,181             | 440,308                | -                      | 1,008,489           |
| Endowment net assets, reclassified from restriction | 24,955              | (24,955)               | -                      | -                   |
| Endowment net assets, end of year                   | <u>\$ 1,284,331</u> | <u>\$ 658,886</u>      | <u>\$ 4,745,923</u>    | <u>\$ 6,689,140</u> |
|   |                     |                        |                        |                     |
|   | 2010                |                        |                        | Total               |
|   | Unrestricted        | Temporarily Restricted | Permanently Restricted |                     |
| Endowment net assets, beginning of year             | \$ 69,726           | \$ -                   | \$ 4,471,607           | \$ 4,541,333        |
| Contributions                                       | 138,022             | -                      | 265,818                | 403,840             |
| Investment return:                                  |                     |                        |                        |                     |
| Investment income                                   | 9,522               | 7,440                  | -                      | 16,962              |
| Net depreciation, realized and unrealized           | 337,581             | 273,728                | -                      | 611,309             |
| Endowment net assets, reclassified from restriction | 43,532              | (43,532)               | -                      | -                   |
| Endowment net assets, end of year                   | <u>\$ 598,383</u>   | <u>\$ 237,636</u>      | <u>\$ 4,737,425</u>    | <u>\$ 5,573,444</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, 2011 and 2010.

*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 to be approved 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 and campaign expenses. The goal of the Capital Campaign is to raise \$300,000,000, of which \$60,000,000 is targeted from Federal sources, \$60,000,000 from State funding, and \$180,000,000 from private sector donations. An additional \$60,000,000 from commercial funding sources will be pursued for the hotel and conference center, should that segment of the expansion prove to be feasible.

**Note 18 - CAPITAL CAMPAIGN (Continued)**

As of June 30, 2011, \$32,750,000 has been committed by Federal sources; \$43,000,000 has been appropriated by the State of Louisiana, \$60,798,000 has been raised from private sector sources for property acquisitions and campaign expenses and \$4,947,000 has been raised from private sector sources for the Endowment Fund, net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$2,819,176 (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:

|  | <u>2011</u>          | <u>2010</u>         |
|--|----------------------|---------------------|
| Promises receivable at beginning of year | \$ 8,526,174         | \$ 9,101,294        |
| New promises made during the year        | 16,154,593           | 9,200,329           |
| Less:                                    |                      |                     |
| Cash received                            | (6,994,171)          | (9,493,949)         |
| Write offs                               | <u>(604,423)</u>     | <u>(281,500)</u>    |
| Promises receivable at end of year       | 17,082,173           | 8,526,174           |
| Unamortized discount                     | (1,225,729)          | (770,291)           |
| Allowance for doubtful promises          | <u>(360,326)</u>     | <u>(370,235)</u>    |
| Totals                                   | <u>\$ 15,496,118</u> | <u>\$ 7,385,648</u> |

**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, 2011 are as follows:

|  |                      |
|--|----------------------|
| Total Capital Campaign gifts and promises<br>(excluding Endowment)   | \$ 60,272,531        |
| Less amounts written off since inception   | <u>(985,923)</u>     |
|  | 59,286,608           |
| Discount to net present value at June 30, 2011   | (1,225,729)          |
| Allowance for doubtful promises at June 30, 2011   | <u>(360,326)</u>     |
| Gifts and promises, net  | <u>57,700,553</u>    |
| Net assets released from restrictions through<br>acquisition of property or payment of<br>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   | <u>6,994,171</u>     |
| Total net assets released  | <u>42,204,435</u>    |
| Temporarily restricted net assets -<br>Capital Campaign  | <u>\$ 15,496,118</u> |

**Note 19 - RETIREMENT PLANS**

The Museum adopted a defined contribution plan covering all of its employees who are age eighteen 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 \$105,768 and \$77,109 for the years ended June 30, 2011 and 2010, respectively.

**Note 19 - RETIREMENT PLANS (Continued)**

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

The Museum sponsors deferred compensation plans pursuant to Sections 457(b) and (f) of the Internal Revenue Code for the benefit of an employee. The Museum's contributions to the plans totaled \$45,000 for each of the years ended June 30, 2011 and 2010. These funds are transferred to separate trusts outside the control of the Museum with the employees as the beneficiaries.

**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, 2011 and 2010 is \$16,497,867 and \$9,064,398, respectively are discounted to their net present value, which approximates fair value.

**Grants Receivable** - The carrying value of grants receivable as of June 30, 2011 and 2010 is \$2,000,000 and \$1,446,423, respectively, which approximates fair value.

**Notes Receivable** - The carrying value of notes receivable as of June 30, 2011 and 2010 is \$32,336,919 and \$30,730,066, respectively, which approximates fair value.

**Notes Payable To Banks** - The carrying value of note payable to bank as of June 30, 2011 and 2010 is \$51,921,480 and \$50,641,544, 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:

|                                | 2011          | 2010          |
|--------------------------------|---------------|---------------|
| Program services               | \$ 24,306,589 | \$ 18,028,570 |
| Supporting services:           |               |               |
| General and administrative     | 3,052,858     | 3,229,956     |
| Fundraising                    | 1,364,550     | 1,482,103     |
| Fundraising - Capital Campaign | 1,212,857     | 2,085,610     |
| Total expenses                 | \$ 29,936,854 | \$ 24,826,239 |

**Note 22 - COMMITMENTS**

The Museum entered into employment contracts with two employees expiring on various dates through July 31, 2015, which provides for a minimum annual salary for each, and incentives based on the Museum's attainment of specified levels of financial performance for one employee. The contracts provide for retention bonuses provided the employees meet certain levels of performance and extend their employment contracts by the end of the initial terms. As of June 30, 2011, the total commitment (undiscounted) is \$1,395,396 for salaries and \$45,000 for contributions to the deferred compensation plans, which includes a four year commitment to the Senior Vice President of Capital Projects and a one year commitment to the Chief Executive Officer.

**Note 22 - COMMITMENTS (Continued)**

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, 2011, the Museum has incurred construction in progress related to this architectural design contract totaling approximately \$7,200,000.

The Museum has entered into a contract for the exhibit design of the Capital Expansion Project totaling approximately \$7,790,000. As of June 30, 2011, the Museum has incurred construction in progress related to this architectural design contract totaling approximately \$3,475,000.

During the year ended June 30, 2011, the Museum entered into several contracts related to the restoration of two aircraft and the construction associated with the Capital Expansion Project totaling approximately \$2,350,000. As of June 30, 2011, the Museum has incurred construction in progress related to these projects totaling approximately \$646,500.

The Museum has entered into a contract for Soda Shop renovations totaling approximately \$360,811. As of June 30, 2011, the Museum has incurred construction in progress related to this project totaling approximately \$329,556.

The Museum has entered into a contract for various construction related to the Land, Sea & Air Pavilion totaling approximately \$20,472,000. As of June 30, 2011, the Museum has incurred construction in progress related to this project totaling approximately \$1,486,871.

If there is a breach of the loan agreements between the Museum and Capital One and the Museum and Whitney National Bank and the Community Development Financial Institutions are required to recapture all or part of the New Market Tax Credits 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 agreement governing these possible recaptures is \$27,560,000 (see Notes 15 and 16). Management believes there are no breaches of these agreements.

Note 23 - SUPPLEMENTAL CASH FLOW INFORMATION

|  | 2011         | 2010          |
|--|--------------|---------------|
| Cash paid for interest                               | \$ 377,736   | \$ 361,766    |
| Cost of building improvements and equipment acquired | \$ 7,501,891 | \$ 19,587,920 |
| Less:  |              |               |
| Amortization of note payable discount                | -            | (329,359)     |
| Donated equipment (non-cash)                         | -            | (92,735)      |
| Cash payments for property and equipment acquired    | \$ 7,501,891 | \$ 19,165,826 |
|  | 2011         | 2010          |
| Cost of collections acquired                         | \$ 930,432   | \$ 582,603    |
| Less:  |              |               |
| Collections acquired through note payable            | (525,000)    | -             |
| Donated collections (non-cash)                       | (41,048)     | (3,715)       |
| Cash payments for collections acquired               | \$ 364,384   | \$ 578,888    |

Non-cash financing and investing activities include the increase in the cost of building improvements of \$329,359 for the year ended June 30, 2010 for capitalized interest through the amortization of the discount on the below market rate notes payable.