

Civil War Trust and Affiliates

Consolidated Financial Report
March 31, 2016

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated balance sheet	3
Consolidated statement of activities	4
Consolidated statement of functional expenses	5
Consolidated statement of cash flows	6
Notes to consolidated financial statements	7-19

Independent Auditor's Report

To the Board of Directors
Civil War Trust
Hagerstown, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Civil War Trust and Affiliates (the Trust) which comprise the consolidated balance sheet as of March 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of March 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2016, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

RSM US LLP

Gaithersburg, Maryland
June 16, 2016

Civil War Trust and Affiliates

Consolidated Balance Sheet March 31, 2016

Assets

Cash and cash equivalents	\$	5,857,025
Grants receivable		604,033
Promises to give, net		1,650,166
Land deposits		1,021,771
Collections		80,346
Prepaid expenses and other		277,258
Deferred compensation investments		565,418
Property and equipment, net		4,937,903
Cash designated for land acquisitions		4,122,027
Restricted land		80,463,781
		<hr/>
	\$	<u>99,579,728</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$	421,696
Deferred revenue		156,635
Deferred rent		239,746
Deferred compensation payable		565,418
Fair value of interest rate swaps		86,135
Long-term debt		4,155,412
		<hr/>
		<u>5,625,042</u>

Commitments and contingencies (Notes 9 and 12)

Net assets:

Unrestricted		<hr/>
		8,870,271
Temporarily restricted:		
Programs		4,620,634
Preserved battlefield land		80,463,781
		<hr/>
		<u>85,084,415</u>
		<hr/>
		93,954,686
		<hr/>
	\$	<u>99,579,728</u>

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Consolidated Statement of Activities Year Ended March 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 5,892,841	\$ 6,032,235	\$ 11,925,076
Grants and awards	765,220	4,978,293	5,743,513
Member contributions	3,347,034	-	3,347,034
Donated land	-	2,214,188	2,214,188
Conference registration fees	171,525	-	171,525
Rental income	149,765	-	149,765
Other income	71,921	-	71,921
Interest income	24,410	-	24,410
Royalty income	23,719	-	23,719
Other contributions	23,570	-	23,570
Donated services	4,575	-	4,575
Net assets released from restriction	12,465,469	(12,465,469)	-
Total support and revenue	22,940,049	759,247	23,699,296
Expenses:			
Program services:			
Preservation	15,949,824	-	15,949,824
Membership	2,498,221	-	2,498,221
Education	1,650,484	-	1,650,484
Total program services	20,098,529	-	20,098,529
Support services:			
Management and general	965,800	-	965,800
Fundraising	2,379,071	-	2,379,071
Total support services	3,344,871	-	3,344,871
Total expenses	23,443,400	-	23,443,400
Change in net assets before other activities	(503,351)	759,247	255,896
Other activities:			
Unrealized gain on fair value of interest rate swaps	3,423	-	3,423
Loss on disposal of property and equipment	(4,284)	-	(4,284)
Change in net assets	(504,212)	759,247	255,035
Net assets:			
Beginning	9,374,483	84,325,168	93,699,651
Ending	\$ 8,870,271	\$ 85,084,415	\$ 93,954,686

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Consolidated Statement of Functional Expenses Year Ended March 31, 2016

	Preservation	Membership	Education	Management and General	Fundraising	Total
Donated land	\$ 9,559,559	\$ -	\$ -	\$ -	\$ -	\$ 9,559,559
Payroll and benefits	1,236,377	680,441	650,620	659,009	704,377	3,930,824
Grants	2,055,300	-	-	-	-	2,055,300
Postage, printing and production	26,391	580,925	17,277	38,540	919,389	1,582,522
Land maintenance	1,490,397	-	500	83	-	1,490,980
Professional fees	381,435	112,191	486,170	86,461	196,934	1,263,191
Membership fulfillment	1,062	583,050	-	7,000	286,649	877,761
Rent	190,566	93,819	124,709	50,560	96,145	555,799
Office	171,647	79,111	55,183	71,721	87,301	464,963
Meetings	23,956	266,709	12,161	7,899	15,580	326,305
Donated items	273,403	-	-	-	-	273,403
Depreciation and amortization	213,573	5,636	9,072	5,957	5,636	239,874
Educational programs	4,384	-	212,836	-	-	217,220
Utilities	61,288	30,831	63,893	17,882	36,962	210,856
Travel and entertainment	81,615	19,877	16,591	21,276	27,773	167,132
Other	53,902	43,804	637	9,140	2,325	109,808
Interest	102,502	640	-	-	-	103,142
Advertising	22,467	1,187	835	-	-	24,489
Bad debt recovery	-	-	-	(9,728)	-	(9,728)
Total expenses	\$ 15,949,824	\$ 2,498,221	\$ 1,650,484	\$ 965,800	\$ 2,379,071	\$ 23,443,400

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Consolidated Statement of Cash Flows Year Ended March 31, 2016

Cash flows from operating activities:	
Change in net assets	\$ 255,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Bad debt recovery	(9,728)
Deferred rent	(13,775)
Depreciation	235,914
Amortization	3,960
Donated land to Trust	(2,214,188)
Donated land from Trust	9,559,559
Donated collections from Trust	273,403
Loss on disposal of property and equipment	4,284
Unrealized gain on fair value of interest rate swaps	(3,423)
Increase in discount in promises to give	16,500
Changes in assets and liabilities:	
(Increase) decrease in:	
Grants receivable	436,967
Promises to give	(1,599,967)
Collections	46,061
Prepaid expenses and other	(59,572)
Increase in:	
Accounts payable and accrued expenses	146,233
Deferred revenue	14,400
Deferred compensation payable	60,000
Net cash provided by operating activities	<u>7,151,663</u>
Cash flows from investing activities:	
Acquisition of restricted land and easements	(7,491,832)
Purchases of property and equipment	(997,021)
Proceeds from sale of land and easements	2,201,120
Land deposits	(272,349)
Purchase of deferred compensation investments	(60,000)
Additions to designated cash	(155,872)
Withdrawals from designated cash for land acquisitions	736,000
Repayments of designated cash	(2,584,102)
Net cash used in investing activities	<u>(8,624,056)</u>
Cash flows from financing activities:	
Principal payment on long-term debt	(300,000)
Net cash used in financing activities	<u>(300,000)</u>
Net decrease in cash and cash equivalents	(1,772,393)
Cash and cash equivalents:	
Beginning	<u>7,629,418</u>
Ending	<u>\$ 5,857,025</u>
Supplemental disclosure of cash flow information:	
Interest paid	<u>\$ 103,142</u>

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Civil War Trust and Affiliates (collectively, the Trust) consists of three entities: Civil War Preservation Trust, operating under the trade name Civil War Trust (CWT), Americans for Battlefield Preservation (AFBP) and Endangered Battlefield Defense Fund (EBDF). CWT, AFBP and EBDF are affiliated through control, common support, activities and/or certain members of the Board of Directors.

CWT is an international nonprofit corporation chartered in Virginia. CWT has classified its organization activities into three separate functions, as follows:

Programs and supporting activities: The programs and supporting activities of CWT consist of the following:

Preservation: The Preservation program represents the personnel available to continue CWT's purpose of preserving Civil War battlefield sites by purchasing sites or obtaining easements. The program also incurs the expenses of maintaining the sites, paying the real estate taxes and other related costs. The Preservation program of the Trust assists other governmental and nonprofit entities in preserving battlefield sites.

Membership: The Membership program of CWT consists of services provided to its members, which include but are not limited to personnel that maintain the list of members, preparation and mailing of membership fulfillment, and communication of events, activities and developments of the Trust. The membership consists of approximately 52,000 members throughout the world.

Education: The purpose is to educate the public and its members related to the events, history and battlefields of the Civil War that occurred in the United States of America from the period 1861 to 1865. CWT provides this service so that future generations can study and reflect on the important events of the Civil War.

Management and general: The management and general function of CWT consists of expenses incurred in the administrative offices, travel expenses, finance and committees. The base used to allocate these expenditures is direct salaries, fringe benefits, overhead assessed and other direct costs.

Fundraising: The purpose is to promote CWT and raise support in the form of pledges, grants, contributions, activities and events to be used for operating, membership and preservation purposes. Expenses include costs for membership development.

AFBP is an international nonprofit corporation chartered in the District of Columbia in November 2005. It was established to advance, foster and promote Civil War battlefield preservation through education, advocacy and research for the benefit of the general public. AFBP seeks to raise awareness among the public of the need to preserve and protect Civil War battlefields, to educate the public on battlefield preservation, to maintain and increase the level of Civil War battlefield preservation through local grassroots networks of Civil War battlefield preservation activists, to assist in the interpretation of battlefield sites, to conduct and disseminate research and to train local preservation activists.

EBDF is a nonprofit corporation chartered in the state of Virginia in September 2009. It was established to assist CWT in the exercise and enforcement of CWT's legal rights and duties, including but not limited to the protection and preservation of all historic property owned by CWT. It also assists in the enforcement of easement rights granted to CWT or to any other charitable or historic entity, including the National Park Service, in its or their efforts to maintain and preserve historical properties related to the United States Civil War. It also assists in the enforcement of CWT's contractual rights and court decrees or judgments in favor of CWT or any other charitable, historic or public entity charged with the preservation of historical property related to the United States Civil War.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

A summary of the Trust's significant accounting policies follows:

Principles of consolidation: The accompanying consolidated financial statements include all of the accounts of CWT, AFBP and EBDF. All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) regarding financial statements of nonprofit organizations. Under these requirements, the Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets: Are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets: Result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Trust pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Preserved battlefield land is temporarily restricted until transferred to another party for permanent preservation.

Permanently restricted net assets: Result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Trust's actions. The Trust held no permanently restricted net assets at March 31, 2016.

Cash and cash equivalents: The Trust considers all money market accounts and unrestricted short-term, highly liquid investments with an original maturity of three months or less at acquisition to be cash and cash equivalents.

Financial risk: The Trust maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Trust has not experienced any losses in such accounts. The Trust believes it is not exposed to any significant financial risk on cash.

Grants receivable: Grants receivable are comprised mainly of allowable costs in excess of amounts collected on federal grants. Such recoverable costs are billable when expenditures are incurred. The allowance for doubtful accounts is based on management's evaluation of the collectability of receivables. There was no allowance for doubtful accounts at March 31, 2016.

Promises to give: Unconditional promises to give are recognized as revenue or gains in the year acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded net of a present value discount, which is based on their estimated future cash flows. Management recorded a discount of \$16,500 as of March 31, 2016, on promises to give expected to be collected in future years. The Trust uses the allowance method to determine uncollectible contributions and promises to give receivables. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance as of March 31, 2016.

Bond issuance costs: Bond issuance costs are being amortized using the straight-line method over the term of the bond, which approximates the effective-interest method. Accumulated amortization expense as of March 31, 2016, was \$137,184. Unamortized bond issuance costs are reported with long-term debt.

Land deposits: Land deposits are escrow payments to sellers on land that the Trust has an agreement to purchase and a deposit is required to commit to the purchase. Land deposits also consist of payments for appraisals, surveys, environmental reports on land with an executed purchase agreement and on future uncommitted land purchases.

Collections: Collections of Civil War artifacts were obtained by the Trust along with land purchased. The Collections are recorded at the fair value of the artifacts at the time of the purchase. Collection items are depreciated over their estimated useful lives unless they have cultural, aesthetic or historical value that is worth preserving perpetually. The Trust is holding the collections at the initially recorded fair value at purchase until the land that it was purchased with is donated to other organizations for permanent preservation maintenance.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value, unrealized gains and losses are reported in the consolidated statement of activities as components of investment income or as an adjustment to deferred compensation payable. Investments consisted of \$466,187 in fixed income mutual funds, \$49,219 in money market mutual funds and \$50,012 in cash at March 31, 2016.

Property and equipment: Property and equipment are stated at cost, or if donated at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The Trust capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Restricted land: Restricted land consists of battlefields purchased for permanent preservation with government funds and contributions received by the Trust specifically designated for such purpose. The intent of the Trust is to maintain the battlefields until they are released to other entities through donation or sale for permanent maintenance as battlefield preserved land. Restricted land was comprised of \$62,104,312 of land and \$18,359,469 of donated land and easements at March 31, 2016.

Valuation of long-lived assets: The Trust accounts reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell. The Trust had no impairments of long-lived assets during the year ended March 31, 2016.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Interest rate swap agreements: The fair value of the interest rate swap agreements is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Grants and awards: The Trust receives a substantial portion of its funding for land acquisitions under various federal and state grants and awards. Generally, the funding under the grants/awards is on a cost-reimbursement basis, because the Trust typically acquires the land prior to receiving the award. The grant/award agreements contain various requirements, including compliance with relevant Office of Management and Budget (OMB) Circulars, matching requirements, as well as reporting and audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Grant support is recognized when the conditions of the grant are substantially met. Any grant funds received in advance are recorded as refundable advances.

Contributions: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. However, if a temporarily restricted contribution's restriction is fulfilled in the same time year in which the contribution is received, the Trust reports the support as unrestricted. Contributions from the Board of Directors were \$5,076,348 during the year ended March 31, 2016.

Member contributions: Membership dues are accounted for as a contribution in the year received.

Non-cash donations: Donated securities, land and property and equipment are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as temporarily restricted support. Restricted land donated to other organizations for permanent preservation maintenance are released from restriction at the book value at the time of donation.

Absent explicit donor stipulations regarding how long those donated assets must be maintained, the Trust reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, at which time temporarily restricted net assets are reclassified to unrestricted net assets. Donated securities are not held as investments but are sold as soon as practicable after donation.

Royalty income: Royalty revenue from publications published by the Trust is recognized as revenue when earned.

Other revenue: Conference registration fees are recognized as revenue when conferences are held. Accordingly, prepaid registration fees are recognized as deferred revenue.

Functional allocation of expenses: Certain costs have been allocated among the programs and supporting services. Allocation of costs by function is based principally on specific identification of costs to either programs, management and general, or fundraising.

Advertising costs: Advertising costs are charged to expense as incurred.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income tax status: CWT and EBDF are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. AFBP is generally exempt from federal income taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code. In addition, CWT and EBDF qualify for the charitable contribution deductions and have been classified as organizations that are not private foundations. Contributions to AFBP are not deductible to donors. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. Neither CWT, AFBP nor EBDF had net unrelated business income for the year ended March 31, 2016.

Management evaluated CWT, AFBP and EBDF's tax positions and concluded that they have taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, CWT, AFBP and EBDF are no longer subject to income tax examinations by the U.S. federal, state or local tax authorities before 2012.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Recent accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Trust is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest— Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Trust adopted this pronouncement during the year ended March 31, 2016.

Subsequent events: The Trust evaluated subsequent events through June 16, 2016, which is the date the consolidated financial statements were available to be issued.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 2. Cash Designated for Land Acquisitions

The Trust has cash designated for land acquisitions (the Fund), established to provide a reliable source of funds to save Civil War battlefields. The objective of the Fund is to have a source of funds available to acquire targeted land, which will subsequently, to the greatest extent practical, be reimbursed by undesignated funds. Property to be purchased through the Fund must be significant battlefield land and subject to appropriate permanent historical and/or conservation restrictions.

The activity of the Fund consisted of the following during the year ended March 31, 2016:

Cash designated for land acquisition, beginning	\$ 2,118,053
Expenditures for acquisitions	(736,000)
Transfers from undesignated cash	2,584,102
Contributions	150,050
Interest income	5,822
Cash designated for land acquisition, ending	<u>\$ 4,122,027</u>

Note 3. Promises to Give

Promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of .98% for current year promises to give. Unconditional promises to give at March 31, 2016, consist of the following:

Due in less than one year	\$ 833,333
Due in one to two years	833,333
Less present value discount	(16,500)
	<u>\$ 1,650,166</u>

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 4. Land Deposits

The Trust has made cash deposits to purchase land on the following properties at March 31, 2016:

Property	Acres	Committed Purchase Price	Deposit
Appomattox Court House	200.0	\$ 850,000	\$ 29,220
Appomattox Court House	1.1	130,000	4,401
Appomattox Court House	1.0	105,000	4,011
Averasboro, NC	27.5	113,000	8,026
Bentonville, NC	9.7	175,000	4,510
Brandy Station, VA	174.0	750,000	29,289
Brandy Station, VA	10.5	430,000	9,602
Brandywine, PA	10.4	850,000	88,769
Champion Hill, MS	315.9	1,263,560	20,585
Chancellorsville, VA	369.5	1,750,000	28,980
Corinth, MS	88.0	330,000	9,988
Corinth, MS	56.8	3,750	15,268
Fort Donelson, TN	1.0	88,000	2,501
Fredericksburg, VA	25.0	1,450,000	113,091
Gaines Mill, VA	11.0	412,500	5,516
Gaines Mill, VA	2.1	224,000	4,502
Gaines Mills, VA	3.6	240,000	3,004
Gettysburg, PA	9.5	949,000	58,978
Gettysburg, PA	6.8	349,000	36,535
Gettysburg, PA	10.2	325,000	14,010
Honey Springs, OK	5.0	88,000	10,634
Kernstown, VA	37.7	600,000	25,171
Manassas, VA	2.6	450,000	15,809
Mill Springs, KY	94.2	1,000,000	19,878
Perryville, KY	57.0	425,000	12,093
Perryville, KY	1.0	150,000	6,408
Port Gibson, MS	21.0	132,500	5,250
Port Hudson, LA	1.0	135,000	5,401
Reams Station, VA	9.4	325,000	33,595
Reams Station, VA	2.6	25,000	2,003
South Mountain, MD	37.3	725,000	23,225
Waxhaws, SC	47.8	302,000	5,048
White Oak Rd, VA	12.3	41,000	4,627
Williamsburg, VA	3.7	192,000	6,694
Williamsport/Falling Waters, MD	3.5	80,000	4,012
		<u>\$ 15,458,310</u>	670,634
Cash deposits on uncommitted property			351,137
			<u>\$ 1,021,771</u>

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment and accumulated depreciation at March 31, 2016, and depreciation expense for the year ended March 31, 2016, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Buildings and building improvements	15 – 40 years	\$ 4,857,037	\$ 487,132	\$ 4,369,905	\$ 183,962
Equipment	5 – 7 years	408,806	300,320	108,486	37,574
Leasehold improvements	15 – 39 years	566,197	106,685	459,512	14,378
		<u>\$ 5,832,040</u>	<u>\$ 894,137</u>	<u>\$ 4,937,903</u>	<u>\$ 235,914</u>

The land, buildings and related improvements are located on restricted land and rented for various purposes until disposed or sold.

Note 6. Long-Term Debt

Long-term debt as of March 31, 2016, consists of the following:

Principal amount	\$ 4,200,000
Less unamortized debt issuance costs	(44,588)
	<u>\$ 4,155,412</u>

Bond payable: In June 2007, the Trust obtained a \$6,000,000 loan through a bank as trustee from proceeds of a bond issuance (Series 2007) by the Economic Development Authority of Spotsylvania County, Virginia. The loan was obtained to help refinance the acquisition of a 205-acre parcel of battlefield in Fredericksburg, Virginia. In connection with the loan, the Trust entered into a corresponding letter of credit agreement for the issuance of an irrevocable letter of credit by the Trust's bank in an amount not to exceed \$6,080,000 (\$6 million plus 40 days interest at 12% per year).

In April 2010, the Trust entered into a bank qualified loan agreement with a bank to refinance the Series 2007 revenue bonds and to replace the outstanding letter of credit. The total remaining principal balance of \$5,400,000 was refinanced through Series 2010 revenue refunding bonds issued by the Economic Development Authority of Spotsylvania County, Virginia. The new bonds accrue interest at a variable interest rate calculated as 67% of the sum of the London InterBank Offered Rate (LIBOR) plus 200 basis points. The bond is due on April 1, 2027, and is collateralized by various battlefield land parcels held by CWT.

The variable portion of the bond's interest rate on March 31, 2016, was 1.64%. The Trust is required to maintain certain financial and non-financial covenants. The bonds shall mature and be subject to prior redemption or the terms and conditions set forth in the indenture agreement. The bonds were subject to mandatory tender for purchase by the owner on April 1, 2018. On April 30, 2015, the bond agreement was modified to move the mandatory tender date to April 1, 2020. Subsequent to year-end, on April 1, 2016, the bond agreement was further modified to amend certain financial and non-financial covenants.

Interest expense related to the bond payable was \$102,502 for the year ended March 31, 2016.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 6. Long-Term Debt (Continued)

Maturities of long-term debt at March 31, 2016, are due in future years as follows:

Years ending March 31:	
2017	\$ 300,000
2018	300,000
2019	300,000
2020	300,000
2021	3,000,000
	<u>\$ 4,200,000</u>

Note 7. Interest Rate Swaps

The Trust has an interest rate swap agreement to reduce the impact of changes in interest rates on its bond payable. At March 31, 2016, the Trust had an outstanding interest swap agreement with a commercial bank, with a notional principal amount of \$2,100,000. This agreement effectively changes the interest rate exposure on \$2,100,000 of its remaining outstanding \$4,200,000 of bonds at a variable rate of 67% of LIBOR to a fixed rate of 1.94%. The interest rate swap agreement maturity is June 1, 2018. At March 31, 2016, the fair value of the interest rate swap was a liability of \$62,757.

During January 2015, the Trust entered into a new interest rate swap agreement to reduce the impact of changes in interest rates on its bond payable effective June 1, 2018. At March 31, 2016, the Trust had an outstanding interest swap agreement with a commercial bank, with a notional principal amount of \$1,650,000. This agreement effectively changes the interest rate exposure on \$1,650,000 of its remaining outstanding \$4,500,000 of bonds at a variable rate of 67% of LIBOR to a fixed rate of 1.6%. The interest rate swap agreement maturity is April 1, 2020. At March 31, 2016 the fair value of the interest rate swap was a liability of \$23,378.

For the year ended March 31, 2016, the Trust recognized a gain of \$3,423, as a result of these hedging agreements.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 8. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during the year ended March 31, 2016, consist of the following:

	Balance March 31, 2015	Additions	Releases	Balance March 31, 2016
Richmond Battlefields	\$ -	\$ 2,583,499	\$ -	\$ 2,583,499
HTR	390,000	375,000	(118,975)	646,025
5th NY Zouaves	500,000	-	-	500,000
Manassas	200,000	-	-	200,000
Education	187,586	117,500	(165,979)	139,107
Gettysburg	133,796	-	-	133,796
Website	-	150,000	(35,000)	115,000
Wilderness	10,000	88,630	-	98,630
Fredericksburg Benchmark Property	-	50,000	-	50,000
Fredericksburg Gaines Mills	-	39,250	-	39,250
Appomattox	-	31,327	-	31,327
Brice's Crossroads	-	27,500	-	27,500
Education Teachers Institute	-	15,000	-	15,000
Education – Airtech Institute	-	10,000	-	10,000
Brandy Station	-	10,000	-	10,000
Perryville	-	6,614	-	6,614
Shiloh	-	5,500	-	5,500
Kernstown	-	4,880	-	4,880
Honey Springs, OK	-	1,000	-	1,000
Miscellaneous Tracts	3,340	2,996	(2,830)	3,506
Campaign 1776	517,756	-	(517,756)	-
Chattanooga	482,000	-	(482,000)	-
Champion Hill	200,000	-	(200,000)	-
Antietam	73,000	-	(73,000)	-
Mega 7 Battlefields	41,250	-	(41,250)	-
Franklin	29,842	-	(29,842)	-
Champion Hill	5,000	-	(5,000)	-
Programs – purpose restricted	2,773,570	3,518,696	(1,671,632)	4,620,634
Preserved Battlefield Land	81,551,598	9,706,020	(10,793,837)	80,463,781
	<u>\$ 84,325,168</u>	<u>\$ 13,224,716</u>	<u>\$ (12,465,469)</u>	<u>\$ 85,084,415</u>

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 9. Operating Leases

The Trust has an agreement to lease office space for its headquarters in Washington, D.C. under a non-cancelable lease agreement through March 2020. The lease provided for free rent during a portion of the initial year of the term and escalating payments. Rent expense is being recognized on a straight-line basis over the term of the lease.

In addition to the headquarters lease, the Trust also leases office space in Hagerstown, Maryland under a non-cancelable lease agreement, expiring on July 31, 2021. The lease has escalating payments with rent expense recognized on a straight-line basis over the term of the lease.

The difference between the expense and the cash payments for both leases of \$239,746 through March 31, 2016, is reported as deferred rent in the accompanying consolidated financial statements.

Rent expense for all office space was \$555,799 for the year ended March 31, 2016.

Future minimum lease payments required under all non-cancelable office leases at March 31, 2016, are as follows:

Years ending March 31:	
2017	\$ 577,174
2018	595,526
2019	567,702
2020	631,779
2021	57,369
Thereafter	19,311
	<u>\$ 2,448,861</u>

Note 10. Grant Expense

The Trust supports other organizations with the same purpose as that of the Trust. Grants are recognized when made unconditionally to the grantee and notification has taken place. Grants awarded for the year ended March 31, 2016, totaled \$2,055,300.

Note 11. Retirement Plan

The Trust sponsors a defined contribution retirement plan covering all employees meeting certain eligibility requirements under Internal Revenue Code Section 403(b). The Trust's annual discretionary contribution to the plan for the year ended March 31, 2016, was \$128,800.

Note 12. Commitments and Contingencies

Employment agreement: The Trust has entered into an employment contract with an officer of the Trust, which, after renewal, expires on January 31, 2019. The contract provides for severance payments for involuntary termination equal to a minimum of one year's salary and existing benefits, based upon the employee's salary at the date of the termination or at the end of the contract. Under the contract, the Trust is obligated to contribute \$43,500 annually to a deferred compensation plan for the officer. A second deferred compensation plan was established during 2011 for the same officer, where the Trust shall credit the maximum allowable amount per law and shall become fully vested immediately. The deferred compensation plan balances are recorded as investments and a corresponding payable on the consolidated balance sheet.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 12. Commitments and Contingencies (Continued)

Federal awards: The Trust participates in a number of federally assisted grant programs, which are subject to financial and compliance audits by federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

Note 13. Fair Value Measurements

The Trust follows FASB authoritative guidance regarding accounting for fair value measurements. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the guidance as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the guidance are described below:

- Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.
- Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, government obligations and over-the-counter derivatives. A significant adjustment to a Level 2 input could result in a reclassification to a Level 3 measurement.
- Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The inputs or methodology used for valuing financial instruments are not necessarily an indication of the risk associated with investing in those investments. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Trust's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 13. Fair Value Measurements (Continued)

The following section describes the valuation techniques used by the Trust:

- Investments in mutual funds traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.
- The deferred compensation liability is based on the fair market value of the deferred compensation plan assets that are observable inputs, but the liability is not publicly traded, and is therefore considered a Level 2 item.
- The Trust's interest rate swap is observable at commonly quoted intervals for the full term of the swap and, therefore, is considered a Level 2 item. For the interest rate swaps in an asset position, the credit standing of the counter party is analyzed and factored into the fair value measurement of the asset. The fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Trust's credit worthiness has also been factored into the fair value measurement for the interest rate swap in a liability position.

The following table presents the Trust's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2016:

	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation investments:				
Fixed income mutual fund:				
Intermediate term-bond	\$ 466,187	\$ 466,187	\$ -	\$ -
Money market funds	49,219	49,219	-	-
	<u>\$ 515,406</u>	<u>\$ 515,406</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation liability	\$ 515,406	\$ -	\$ 515,406	\$ -
Interest rate swap liability	86,135	-	86,135	-
	<u>\$ 601,541</u>	<u>\$ -</u>	<u>\$ 601,541</u>	<u>\$ -</u>

Cash funds and the associated liability totaling \$50,012 at March 31, 2016, are not included in the above table because they are recorded at cost.