

Civil War Trust and Affiliates

Consolidated Financial Report
March 31, 2017

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RSM US LLP

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, 2017, 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, 2017, 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 22, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Trust's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 16, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Gaithersburg, Maryland
June 22, 2017

Civil War Trust and Affiliates

**Consolidated Balance Sheet
March 31, 2017
(With Comparative Totals for 2016)**

	2017	2016
Assets		
Cash and cash equivalents	\$ 6,718,904	\$ 5,857,025
Grants receivable	345,348	604,033
Promises to give, net	1,795,110	1,650,166
Land deposits	950,922	1,021,771
Collections	46,688	80,346
Prepaid expenses and other	257,449	277,258
Deferred compensation investments	630,713	565,418
Property and equipment, net	6,424,978	4,937,903
Cash designated for land acquisitions	1,758,269	4,122,027
Restricted land	94,373,438	80,463,781
	<u>\$ 113,301,819</u>	<u>\$ 99,579,728</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 485,122	\$ 421,696
Deferred revenue	152,115	156,635
Deferred rent	208,191	239,746
Deferred compensation payable	630,713	565,418
Fair value of interest rate swaps	34,432	86,135
Long-term debt	3,859,372	4,155,412
	<u>5,369,945</u>	<u>5,625,042</u>
Commitments and contingencies (Notes 9 and 12)		
Net assets:		
Unrestricted	<u>8,475,968</u>	8,870,271
Temporarily restricted:		
Programs	5,082,468	4,620,634
Preserved battlefield land	94,373,438	80,463,781
	<u>99,455,906</u>	<u>85,084,415</u>
	<u>107,931,874</u>	93,954,686
	<u>\$ 113,301,819</u>	<u>\$ 99,579,728</u>

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Consolidated Statement of Activities Year Ended March 31, 2017 (With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
Support and revenue:				
Contributions	\$ 3,466,300	\$ 9,029,585	\$ 12,495,885	\$ 11,925,076
Grants and awards	1,240,098	9,619,013	10,859,111	5,743,513
Member contributions	3,690,577	-	3,690,577	3,347,034
Donated land	-	3,841,039	3,841,039	2,214,188
Conference registration fees	196,554	-	196,554	171,525
Rental income	183,357	-	183,357	149,765
Other income	620,592	-	620,592	71,921
Interest income	28,001	-	28,001	24,410
Royalty income	73,273	-	73,273	23,719
Other contributions	42,525	-	42,525	23,570
Donated services	13,003	-	13,003	4,575
Net assets released from restriction	8,118,146	(8,118,146)	-	-
Total support and revenue	17,672,426	14,371,491	32,043,917	23,699,296
Expenses:				
Program services:				
Preservation	9,657,629	-	9,657,629	15,949,824
Membership	3,698,059	-	3,698,059	2,498,221
Education	2,105,973	-	2,105,973	1,650,484
Total program services	15,461,661	-	15,461,661	20,098,529
Support services:				
Management and general	736,634	-	736,634	965,800
Fundraising	1,906,227	-	1,906,227	2,379,071
Total support services	2,642,861	-	2,642,861	3,344,871
Total expenses	18,104,522	-	18,104,522	23,443,400
Change in net assets before other activities	(432,096)	14,371,491	13,939,395	255,896
Other activities:				
Unrealized gain on fair value of interest rate swaps	51,703	-	51,703	3,423
Loss on disposal of property and equipment	(13,910)	-	(13,910)	(4,284)
Change in net assets	(394,303)	14,371,491	13,977,188	255,035
Net assets:				
Beginning	8,870,271	85,084,415	93,954,686	93,699,651
Ending	\$ 8,475,968	\$ 99,455,906	\$ 107,931,874	\$ 93,954,686

See notes to consolidated financial statements.

Civil War Trust and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended March 31, 2017
(With Comparative Totals for 2016)**

	Preservation	Membership	Education	Management and General	Fundraising	2017 Total	2016 Total
Donated land	\$ 4,675,275	\$ -	\$ -	\$ -	\$ -	\$ 4,675,275	\$ 9,559,559
Land maintenance	1,609,689	-	-	-	-	1,609,689	1,490,980
Payroll and benefits	1,317,837	701,156	917,847	580,121	756,322	4,273,283	3,930,824
Grants	502,326	-	-	-	-	502,326	2,055,300
Professional fees	495,645	121,530	616,339	12,187	89,300	1,335,001	1,263,191
Depreciation and amortization	246,249	11,002	16,503	5,501	5,501	284,756	239,874
Rent	208,383	102,597	125,362	31,133	87,216	554,691	555,799
Office	168,925	82,079	47,587	52,108	62,742	413,441	464,963
Travel and entertainment	121,996	50,509	24,372	6,043	10,915	213,835	167,132
Interest	107,719	640	-	-	-	108,359	103,142
Utilities	71,209	48,451	74,673	22,786	25,283	242,402	210,856
Advertising	53,957	24,004	22,667	-	-	100,628	24,489
Postage, printing and production	30,314	1,240,339	20,771	9,169	703,606	2,004,199	1,582,522
Meetings	25,845	235,240	6,206	6,459	4,545	278,295	326,305
Membership fulfillment	17,288	1,064,276	-	5,000	160,785	1,247,349	877,761
Other	3,166	16,236	36	6,127	12	25,577	109,808
Educational programs	1,806	-	233,610	-	-	235,416	217,220
Donated items	-	-	-	-	-	-	273,403
Bad debt recovery	-	-	-	-	-	-	(9,728)
Total expenses	\$ 9,657,629	\$ 3,698,059	\$ 2,105,973	\$ 736,634	\$ 1,906,227	\$ 18,104,522	\$ 23,443,400

See notes to consolidated financial statements.

Civil War Trust and Affiliates

Consolidated Statement of Cash Flows Year Ended March 31, 2017 (With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 13,977,188	\$ 255,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt recovery	-	(9,728)
Deferred rent	(31,555)	(13,775)
Depreciation	280,796	235,914
Amortization of debt issuance costs	3,960	3,960
Donated land to Trust	(3,841,039)	(2,214,188)
Donated land from Trust	4,675,275	9,559,559
Donated collections from Trust	33,658	273,403
Loss on disposal of property and equipment	13,910	4,284
Unrealized gain on fair value of interest rate swaps	(51,703)	(3,423)
(Decrease) increase in discount in promises to give	(8,250)	16,500
Changes in assets and liabilities:		
Decrease (increase) in:		
Grants receivable	258,685	436,967
Promises to give	(136,694)	(1,599,967)
Collections	-	46,061
Prepaid expenses and other	19,809	(59,572)
Increase (decrease) in:		
Accounts payable and accrued expenses	63,426	146,233
Deferred revenue	(4,520)	14,400
Deferred compensation payable	61,000	60,000
Net cash provided by operating activities	15,313,946	7,151,663
Cash flows from investing activities:		
Acquisition of restricted land and easements	(16,217,140)	(7,491,832)
Purchases of property and equipment	(1,781,781)	(997,021)
Proceeds from sale of land and easements	1,473,247	2,201,120
Land deposits	70,849	(272,349)
Purchase of deferred compensation investments	(61,000)	(60,000)
Additions to designated cash	(105,502)	(155,872)
Withdrawals from designated cash for land acquisitions	6,274,670	736,000
Repayments of designated cash	(3,805,410)	(2,584,102)
Net cash used in investing activities	(14,152,067)	(8,624,056)
Cash flows from financing activities:		
Principal payment on long-term debt	(300,000)	(300,000)
Net cash used in financing activities	(300,000)	(300,000)
Net increase (decrease) in cash and cash equivalents	861,879	(1,772,393)
Cash and cash equivalents:		
Beginning	5,857,025	7,629,418
Ending	\$ 6,718,904	\$ 5,857,025
Supplemental disclosure of cash flow information:		
Interest paid	\$ 108,359	\$ 103,142

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, 2017.

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, 2017.

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. 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, 2017.

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, 2017, was \$141,144. Unamortized bond issuance costs are reported as an offset to long-term debt.

Land deposits: Land deposits are escrow payments to sellers on land where 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 and 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 \$461,567 in fixed income mutual funds, \$102,570 in money market mutual funds and \$66,576 in cash at March 31, 2017.

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 \$72,172,930 of land and \$22,200,508 of donated land and easements at March 31, 2017.

Valuation of long-lived assets: The Trust reviews long-lived 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, 2017.

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 \$3,062,613 during the year ended March 31, 2017.

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, 2017.

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 2013.

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.

Prior year information: The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's consolidated financial statements for the year ended March 31, 2016, from which the summarized information was derived.

Recent accounting pronouncement: In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017. The Trust is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued 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. The Trust is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States (U.S. GAAP) when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Trust has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

Subsequent events: The Trust evaluated subsequent events through June 22, 2017, which is the date the consolidated financial statements were available to be issued.

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, 2017:

Cash designated for land acquisition, beginning	\$ 4,122,027
Expenditures for acquisitions	(6,274,670)
Transfers from undesignated cash	3,805,410
Contributions	100,000
Interest income	5,502
Cash designated for land acquisition, ending	<u>\$ 1,758,269</u>

Note 3. Promises to Give

Unconditional promises to give at March 31, 2017, consist of promises due in less than one year totaling \$1,795,110.

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, 2017:

Property	Acres	Committed Purchase Price	Deposit
Appomattox Court House	200.0	\$ 850,000	\$ 33,493
Appomattox Court House	60.0	235,000	9,934
Bentonville, NC	71.4	385,000	11,041
Bentonville, NC	4.5	24,000	1,000
Brice's Crossroads, MS	13.3	235,000	9,000
Brice's Crossroads, MS	80.2	250,000	12,300
Cedar Creek, VA	14.5	170,000	3,500
Champion Hill, MS	3.0	81,000	4,655
Cold Harbor, VA	51.1	475,000	17,284
Corinth, MS	88.0	330,000	12,700
Eutaw Springs, SC	2.9	150,000	6,700
Fort Donelson, TN	4.3	103,500	6,000
Fredericksburg, VA	0.3	125,000	8,554
Ft. Ann, NY	160.0	210,000	13,873
Gaines Mill, VA	2.0	302,000	8,151
Gettysburg, PA	35.3	389,500	13,321
Gettysburg, PA	2.1	440,000	11,500
Hanging Rock, SC	15.5	80,000	1,400
Kettle Creek, GA	180.0	385,601	4,760
Manassas, VA	5.9	500,000	25,730
New Market Heights, VA	15.0	60,000	10,948
Parkers Crossroads, TN	18.0	166,500	10,300
Prairie D'Ana, AR	807.9	900,000	12,500
Princeton, NJ	14.9	4,000,000	55,500
Reams Station, VA	9.4	325,000	41,060
Sacket's Harbor, NY	0.3	285,000	13,950
Sacket's Harbor, NY	24.3	800,000	54,573
Shiloh, TN	126.8	300,000	35,285
South Mountain, MD	65.0	715,500	30,000
Trevilian Station, VA	10.2	48,000	17,080
Upperville, VA	12.0	12,000	4,825
Vicksburg, MS	0.6	150,000	3,500
White Oak Rd, VA	12.3	41,000	5,974
		<u>\$ 13,523,601</u>	510,391
Cash deposits on uncommitted property			<u>440,531</u>
			<u>\$ 950,922</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, 2017, and depreciation expense for the year ended March 31, 2017, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Buildings and building improvements	15-40 years	\$ 582,054	\$ 121,265	\$ 460,789	\$ 14,581
Equipment	5-7 years	541,392	318,448	222,944	55,010
Leasehold improvements	15-39 years	6,439,581	698,336	5,741,245	211,205
		<u>\$ 7,563,027</u>	<u>\$ 1,138,049</u>	<u>\$ 6,424,978</u>	<u>\$ 280,796</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, 2017, consists of the following:

Principal amount	\$ 3,900,000
Less unamortized debt issuance costs	(40,628)
	<u>\$ 3,859,372</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, 2017, was 1.86%. 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. 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 \$107,719 for the year ended March 31, 2017.

Civil War Trust and Affiliates

Notes to Consolidated Financial Statements

Note 6. Long-Term Debt (Continued)

Maturities of long-term debt at March 31, 2017, are due in future years as follows:

Years ending March 31:	
2018	\$ 300,000
2019	300,000
2020	300,000
2021	3,000,000
	<u>3,900,000</u>
	<u>\$ 3,900,000</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, 2017, the Trust had an outstanding interest swap agreement with a commercial bank, with a notional principal amount of \$1,950,000. This agreement effectively changes the interest rate exposure on \$1,950,000 of its remaining outstanding \$3,900,000 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, 2017, the fair value of the interest rate swap was a liability of \$25,103.

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, 2017, 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 \$3,900,000 of bonds at a variable rate of .67% of LIBOR to a fixed rate of 1.60%. The interest rate swap agreement maturity is April 1, 2020. At March 31, 2017, the fair value of the interest rate swap was a liability of \$9,329.

For the year ended March 31, 2017, the Trust recognized a gain of \$51,703, 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, 2017, consist of the following:

	Balance March 31, 2016	Additions	Releases	Balance March 31, 2017
Richmond Battlefields	\$ 2,583,499	\$ 100,000	\$ (388,699)	\$ 2,294,800
HTR	646,025	500,000	(749,147)	396,878
5th NY Zouaves	500,000	-	-	500,000
Yeates Tract	200,000	-	(200,000)	-
Education	139,107	75,000	(144,502)	69,605
Gettysburg	133,796	-	(133,796)	-
Website	115,000	-	(115,000)	-
Wilderness	98,630	-	(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	60,000	-	87,500
Education Teachers Institute	15,000	5,600	(15,000)	5,600
Education – Airtech Institute	10,000	-	(10,000)	-
Brandy Station	10,000	-	(10,000)	-
Perryville	6,614	-	(6,614)	-
Shiloh	5,500	12,000	-	17,500
Kernstown	4,880	-	(4,880)	-
Honey Springs, OK	1,000	-	(1,000)	-
Miscellaneous Tracts	3,506	1,189	(3,106)	1,589
Gettysburg - Adams	-	179,768	-	179,768
Mississippi	-	84,500	-	84,500
Cedar Creek	-	57,000	-	57,000
Parkers Crossroads	-	5,000	-	5,000
Campaign 1776	-	1,351,401	-	1,351,401
Programs – purpose restricted	4,620,634	2,431,458	(1,969,624)	5,082,468
Preserved Battlefield Land	80,463,781	20,058,179	(6,148,522)	94,373,438
	\$ 85,084,415	\$ 22,489,637	\$ (8,118,146)	\$ 99,455,906

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 \$208,191 through March 31, 2017, is reported as deferred rent in the accompanying consolidated financial statements.

Rent expense for all office space was \$554,691 for the year ended March 31, 2017.

Future minimum lease payments required under all non-cancelable office leases at March 31, 2017, are as follows:

Years ending March 31:	
2018	\$ 595,526
2019	567,702
2020	631,779
2021	57,369
2022	19,311
	<u>\$ 1,871,687</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, 2017, totaled \$502,326.

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, 2017, was \$154,263.

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 deferred compensation 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 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, 2017:

	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation investments:				
Fixed income mutual fund:				
Intermediate term-bond	\$ 461,567	\$ 461,567	\$ -	\$ -
Money market funds	102,570	102,570	-	-
	<u>\$ 564,137</u>	<u>\$ 564,137</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation liability	\$ 564,137	\$ -	\$ 564,137	\$ -
Interest rate swap liability	34,432	-	34,432	-
	<u>\$ 598,569</u>	<u>\$ -</u>	<u>\$ 598,569</u>	<u>\$ -</u>

Cash funds and the associated liability totaling \$66,576 at March 31, 2017, are not included in the above table because they are recorded at cost.