

# **Civil War Trust And Affiliates**

Consolidated Financial Report  
December 31, 2012

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## **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 balance sheet of Civil War Trust and its affiliates as of December 31, 2012, 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Civil War Trust and its affiliates as of December 31, 2012, 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.

## **Report on Summarized Comparative Information**

We have previously audited the Civil War Trust's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued a report, dated March 12, 2013, on our consideration of the Civil War 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 compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards in considering the Civil War Trust's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "McGladrey LLP".

Gaithersburg, Maryland  
March 12, 2013

# Civil War Trust And Affiliates

## Consolidated Balance Sheet December 31, 2012 (With Comparative Totals For 2011)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash And Cash Equivalents		
Undesignated cash	\$ 7,062,756	\$ 7,003,017
Cash restricted for land acquisitions	1,397,503	2,469,170
Grant Receivable	840,000	185,575
Promises To Give, net	340,786	26,226
Land Deposits	358,439	259,295
Prepaid Expenses And Other	173,600	166,111
Deferred Compensation Investments	323,676	237,700
Unamortized Bond Issuance Costs, net	57,458	61,418
Property And Equipment, net	4,845,733	3,335,930
Restricted Land	72,639,980	63,761,496
	<b>\$ 88,039,931</b>	<b>\$ 77,505,938</b>

## Liabilities And Net Assets

<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 270,251	\$ 427,202
Deferred revenue	66,825	56,015
Deferred rent	229,448	190,481
Deferred compensation payable	323,676	237,700
Fair value of interest rate swap	166,325	148,195
Line of credit	-	391,000
Long-term debt	5,250,000	6,425,000
	<b>6,306,525</b>	<b>7,875,593</b>

## Commitments And Contingencies (Notes 5, 9 And 12)

## Net Assets

Unrestricted	<b>6,477,296</b>	<b>3,172,665</b>
Temporarily restricted		
Programs	2,616,130	2,696,184
Preserved battlefield land	72,639,980	63,761,496
	<b>75,256,110</b>	<b>66,457,680</b>
	<b>81,733,406</b>	<b>69,630,345</b>
	<b>\$ 88,039,931</b>	<b>\$ 77,505,938</b>

See Notes To Consolidated Financial Statements.

## Civil War Trust And Affiliates

### Consolidated Statement Of Activities Year Ended December 31, 2012 (With Comparative Totals For 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Grants	\$ -	\$ 10,785,062	\$ 10,785,062	\$ 2,542,452
Contributions	7,879,697	1,896,398	9,776,095	9,855,678
Member contributions	3,094,553	-	3,094,553	2,831,700
Donated land	-	1,008,000	1,008,000	1,168,000
Non-campaign contributions	119,193	-	119,193	165,970
Rental income	98,179	-	98,179	106,019
Conference registration fees	182,971	-	182,971	181,084
Donated services	23,283	-	23,283	4,543
Royalty income	304,080	-	304,080	9,430
Other income	238,193	-	238,193	56,503
Interest income	16,737	-	16,737	19,196
Net assets released from restriction	4,891,030	(4,891,030)	-	-
<b>Total support and revenue</b>	<b>16,847,916</b>	<b>8,798,430</b>	<b>25,646,346</b>	<b>16,940,575</b>
Expenses:				
Programs	10,815,804	-	10,815,804	12,094,020
Management and general	722,170	-	722,170	459,881
Fundraising	1,449,425	-	1,449,425	1,486,600
<b>Total expenses</b>	<b>12,987,399</b>	<b>-</b>	<b>12,987,399</b>	<b>14,040,501</b>
<b>Change in net assets before non-operating activities</b>	<b>3,860,517</b>	<b>8,798,430</b>	<b>12,658,947</b>	<b>2,900,074</b>
Non-operating activities:				
Unrealized loss on fair value of interest rate swap	(18,130)	-	(18,130)	(41,719)
Loss on disposal of property and equipment	(537,756)	-	(537,756)	(1,575)
<b>Change in net assets</b>	<b>3,304,631</b>	<b>8,798,430</b>	<b>12,103,061</b>	<b>2,856,780</b>
Net assets:				
Beginning	3,172,665	66,457,680	69,630,345	66,773,565
Ending	\$ 6,477,296	\$ 75,256,110	\$ 81,733,406	\$ 69,630,345

See Notes To Consolidated Financial Statements.

**Civil War Trust And Affiliates**

**Consolidated Statement Of Functional Expenses**  
**Year Ended December 31, 2012**  
**(With Comparative Totals For 2011)**

	<b>2012</b>				<b>2011</b>
	<b>Programs</b>	<b>Management And General</b>	<b>Fundraising</b>	<b>Total</b>	<b>Total</b>
Payroll and benefits	\$ 2,436,594	\$ 209,610	\$ 513,449	\$ 3,159,653	\$ 2,856,995
Grants	1,984,386	-	-	1,984,386	1,157,087
Donated land	1,612,484	-	-	1,612,484	3,859,095
Postage, printing, and production	948,222	2,857	431,451	1,382,530	1,615,787
Professional fees	671,100	429,439	223,974	1,324,513	1,275,553
Membership fulfillment	742,923	-	119,944	862,867	918,795
Land maintenance	649,206	-	-	649,206	450,457
Rent	403,235	26,334	75,099	504,668	428,330
Office	265,416	16,275	39,961	321,652	279,553
Meetings	227,842	4,245	8,434	240,521	218,555
Utilities	149,882	8,182	28,174	186,238	172,379
Depreciation and amortization	174,311	4,323	4,323	182,957	150,424
Educational programs	161,934	-	-	161,934	138,792
Travel and entertainment	122,627	4,013	4,467	131,107	105,835
Interest	112,248	-	-	112,248	225,624
Advertising	106,699	70	-	106,769	88,830
Other	46,695	1,955	149	48,799	42,434
Bad debt	-	14,867	-	14,867	-
Contribution	-	-	-	-	55,976
<b>Total expenses</b>	<b>\$ 10,815,804</b>	<b>\$ 722,170</b>	<b>\$ 1,449,425</b>	<b>\$ 12,987,399</b>	<b>\$ 14,040,501</b>

See Notes To Consolidated Financial Statements.

## Civil War Trust And Affiliates

### Consolidated Statement Of Cash Flows Year Ended December 31, 2012 (With Comparative Totals For 2011)

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 12,103,061	\$ 2,856,780
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	14,867	-
Deferred rent	38,967	10,017
Depreciation	178,997	146,464
Amortization	3,960	3,960
Donated land to Trust	(1,008,000)	(1,168,000)
Donated land from Trust	1,612,484	3,859,095
Loss on disposal of property and equipment	537,756	1,575
Unrealized loss on fair value of interest rate swap	18,130	41,719
Changes in assets and liabilities:		
(Increase) decrease in:		
Grant receivable	(654,425)	34,273
Promises to give	(329,427)	(26,226)
Prepaid expenses and other	(7,489)	(3,888)
Increase (decrease) in:		
Accounts payable and accrued expenses	(156,951)	172,835
Deferred revenue	10,810	260
<b>Net cash provided by operating activities</b>	<b>12,362,740</b>	<b>5,928,864</b>
Cash Flows From Investing Activities		
Acquisition of land and easements	(12,187,733)	(5,063,942)
Purchases of property and equipment	(2,333,698)	(1,534,612)
Proceeds from sale of land and easements	2,811,907	1,300,376
Proceeds from sale of property and equipment	-	109,257
Land deposits	(99,144)	(101,237)
Additions to restricted cash	(208,096)	(100,000)
Withdrawals from restricted cash for land acquisitions	4,551,440	818,211
Repayments of restricted cash	(3,271,677)	(322,298)
<b>Net cash used in investing activities</b>	<b>(10,737,001)</b>	<b>(4,894,245)</b>
Cash Flows From Financing Activities		
Repayment on line of credit	(391,000)	-
Proceeds from advances on line of credit	-	391,000
Principal payment on long-term debt	(1,175,000)	(1,175,000)
<b>Net cash used in financing activities</b>	<b>(1,566,000)</b>	<b>(784,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>59,739</b>	<b>250,619</b>
Cash And Cash Equivalents:		
Beginning	7,003,017	6,752,398
Ending	<b>\$ 7,062,756</b>	<b>\$ 7,003,017</b>
Supplemental Disclosure Of Cash Flow Information		
Interest paid	<b>\$ 113,229</b>	<b>\$ 224,726</b>

See Notes To Consolidated Financial Statements.



## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### **Note 1. Nature Of Activities And Significant Accounting Policies**

Nature of activities: The Civil War Trust and Affiliates (collectively, the Trust) consists of three entities: 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 not-for-profit corporation chartered in Virginia. CWT has classified its organization activities into three separate functions, as follows:

*Programs* – The programs 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 not-for-profit entities in preserving battlefield sites.

*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.

*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.

*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.

AFBP is an international not-for-profit 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 not-for-profit 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 Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### 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, 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 not-for-profit 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 December 31, 2012.

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

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

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 of \$6,092, which is based their estimated future cash flows. The Trust uses the allowance method to determine contributions and promises to give receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. The allowance as of December 31, 2012, was \$14,867.

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 December 31, 2012, was \$124,314.

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

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. Investments consisted of \$312,528 in equity mutual funds and \$11,148 in money market funds at December 31, 2012.

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.

Property and equipment: Property and equipment are stated at cost, or if donated, at the approximate 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 \$54,406,998 of land and \$18,232,982 of donated land and easements at December 31, 2012.

Valuation of long-lived assets: The Trust accounts for the valuation of long-lived assets under the Property, Plant and Equipment Topic of the FASB ASC, which requires that long-lived assets and certain identifiable intangible assets be reviewed 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 December 31, 2012.

Interest rate swap agreement: The fair value of the interest rate swap agreement is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement 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.

Grant support is recognized when the conditions of the grant are substantially met. 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 period in which the contribution is received, the Trust reports the support as unrestricted. Contributions from the board of directors were approximately \$2,400,000 during the year ended December 31, 2012.

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

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Non-cash donations: Donated securities 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.

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.

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 December 31, 2012.

The accounting standard on accounting for uncertainty in income taxes (FASB ASC Topic 740-10) addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, CWT, AFBP, and EBDF may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

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 2009.

Fair value of financial instruments: The carrying amounts, including cash and cash equivalents, accounts payable and accrued liabilities, and current maturities of long-term borrowing approximate fair value because of the short maturity of these instruments. The carrying amount of long-term debt approximates fair value, because the interest rates on these instruments fluctuate with market interest rates offered to the Trust for debt with similar terms and maturities.

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Use of estimates: The preparation of 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 financial statements, and the reported amounts of revenue and expenses during the reporting period. 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 financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent events: The Trust evaluated subsequent events through March 12, 2013, which is the date the consolidated financial statements were available to be issued.

#### Note 2. Cash Restricted For Land Acquisitions

The Trust has cash restricted 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 December 31, 2012:

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Cash restricted for land acquisition, beginning	\$ 2,469,170
Expenditures for acquisitions	(4,551,440)
Transfers from undesignated cash	3,271,677
Contributions	203,000
Interest income	5,096
Cash restricted for land acquisition, ending	<u><u>\$ 1,397,503</u></u>

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

#### Note 3. Land Deposits

The Trust has made cash deposits to purchase land on the following properties at December 31, 2012:

Property	Acres	Committed Purchase Price	Deposit
Balls Bluff, VA – Coombs	3.2	\$ 500,000	\$ 9,373
Bentonville, NC – Dunnegan, Johnson & Armstrong	108.5	495,000	2,500
Bentonville, NC – Harold W. Lee	61.1	330,000	4,723
Brandy Station, VA – Kincheloe/Mack	6.0	20,000	3,581
Brandy Station, VA – Troilo	64.5	3,600,000	42,400
Cedar Mountain, VA – Proctor	6.0	120,000	9,545
Chattanooga, TN – Bell	9.7	21,825	2,700
Chickamauga, GA – Powell	7.2	300,000	7,500
Fort Donelson, TN – Levester	1.9	20,000	6,035
Gettysburg, PA – Kelley (Mt. Joy)	1.7	80,000	8,079
Gettysburg, PA – Lepley	36.4	330,000	7,079
Gettysburg, PA – Smith	75.0	635,000	7,200
Glendale, VA – Donley	37.5	400,000	4,923
Malvern Hill, VA – Liles/Crewe	1.0	345,000	2,300
Manassas, VA – Gibson	3.2	538,000	2,000
Manassas, VA – Wotring	3.0	380,000	8,971
Perryville, KY – Lester	1.0	82,000	3,875
Petersburg, VA – Dear	19.4	70,000	11,943
Sailor's Creek, VA – Simpson	20.0	60,000	8,823
Vicksburg, MS – Harris	1.0	82,500	3,000
Vicksburg, MS – Donna Harris	3.0	126,000	3,000
Vicksburg, MS – Mary Harris	5.0	435,000	2,000
Vicksburg, MS – Marsalis	1.5	65,000	4,000
Wilson's Creek, MO – Keet	60.0	367,500	6,650
		<u>\$ 9,402,825</u>	172,200
Cash deposits on uncommitted property			<u>186,239</u>
			<u>\$ 358,439</u>

#### Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2012, and depreciation expense for the year ended December 31, 2012, are as follows:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation
Land and building					
improvements	15 – 39 years	\$ 1,196,579	\$ 246,536	\$ 950,043	\$ 43,231
Property and equipment	5 – 7 years	367,918	181,611	186,307	31,008
Buildings	40 years	3,898,908	189,525	3,709,383	104,758
		<u>\$ 5,463,405</u>	<u>\$ 617,672</u>	<u>\$ 4,845,733</u>	<u>\$ 178,997</u>

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

#### Note 5. Line Of Credit

EBDF has a line of credit agreement with a bank for \$1,000,000, which expires on February 22, 2014. The line bears interest at the prime rate as published in *The Wall Street Journal*. At December 31, 2012, the rate was 3.25%. All outstanding balances on the line of credit are guaranteed by two board members of EBDF. There was no outstanding balance on the line at December 31, 2012. Interest expense incurred on this line of credit during the year ended December 31, 2012, was \$15,820.

#### Note 6. Long-Term Debt

Long-term debt as of December 31, 2012, consists of the following:

Bond payable	\$ 5,000,000
Notes payable	250,000
	<u>\$ 5,250,000</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.

The variable portion of the bond's interest rate on December 31, 2012, was 1.48%. The Trust is required to maintain certain financial and non-financial covenants.

Notes payable: In December 2009, the Trust obtained a \$750,000 promissory note related to the acquisition of battlefield land located in Henrico, Virginia. Under the agreement, principal is to be paid in three installments of \$250,000, commencing December 2011 and matures in January 2014. Interest is 6.0% and is to be paid annually. The outstanding balance on the promissory note at December 31, 2012, was \$250,000.

Interest expense related to the bond and notes payable was \$96,428 for the year ended December 31, 2012.

Maturities of long-term debt at December 31, 2012, are due in future years as follows:

Years Ending December 31,	
2013	\$ 200,000
2014	550,000
2015	300,000
2016	300,000
2017	300,000
2018 – 2027	3,600,000
	<u>\$ 5,250,000</u>

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

#### Note 7. Interest Rate Swap

The Trust has an interest rate swap agreement to reduce the impact of changes in interest rates on its bond payable. At December 31, 2012, the Trust had an outstanding interest swap agreement with a commercial bank, with a notional principal amount of \$2,500,000. This agreement effectively changes the interest rate exposure on \$2,500,000 of its remaining outstanding \$5,000,000 variable rate bond to a fixed rate of 1.94%. The interest rate swap agreement maturity is June 1, 2018. For the year ended December 31, 2012, the Trust recognized a loss of \$18,130 as a result of this hedging agreement.

#### Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012, consist of the following:

	Balance December 31, 2011	Additions	Releases	Balance December 31, 2012
Gettysburg	\$ 1,004,679	\$ -	\$ (1,039)	\$ 1,003,640
Pohanka 5th NY Zouaves	500,000	-	-	500,000
HTR	390,000	-	-	390,000
Capital Campaign	-	246,878	-	246,878
Champion Hill	200,000	-	-	200,000
Education	-	60,000	-	60,000
Port Republic	-	50,000	-	50,000
Petersburg	-	32,000	-	32,000
CA Comm. Found. Antietam	30,669	-	(669)	30,000
Vicksburg Battle App	-	20,000	(3,413)	16,587
2nd Manassas (Longwell)	-	15,500	-	15,500
TI	-	12,000	-	12,000
Chancellorsville	-	12,000	-	12,000
Wilderness	-	10,000	-	10,000
Glendale (Donley)	-	10,000	-	10,000
Vicksburg, MS	-	9,000	-	9,000
Miscellaneous tracks	2,175	6,350	-	8,525
Champion Hill	-	5,000	-	5,000
Harpers Ferry	-	5,000	-	5,000
Brandy Station Stock tract	25,000	-	(25,000)	-
Adams Farm	200,000	-	(200,000)	-
Antietam Battle App	25,000	-	(25,000)	-
Gaines Mill	318,661	-	(318,661)	-
Programs – purpose restricted	2,696,184	493,728	(573,782)	2,616,130
Preserved battlefield land	63,761,496	13,195,732	(4,317,248)	72,639,980
	<u>\$ 66,457,680</u>	<u>\$ 13,689,460</u>	<u>\$ (4,891,030)</u>	<u>\$ 75,256,110</u>



## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### 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 provides for free rent 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 \$229,448 for the year ended December 31, 2012, is reported as deferred rent in the accompanying consolidated financial statements.

Rent expense for all office space was \$504,668 for the year ended December 31, 2012.

Future minimum lease payments required under all non-cancelable office leases at December 31, 2012, are as follows:

Years Ending December 31,		
2013	\$	525,218
2014		540,979
2015		556,002
2016		572,200
2017		591,131
2018 – 2021		1,426,508
	\$	<u>4,212,038</u>

#### Note 10. Grant Expense

The Trust supports other organizations with the same purpose as that of the Trust. Grants awarded for the year ended December 31, 2012, totaled \$1,984,386.

#### 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 contributions to the plan for the year ended December 31, 2012, was \$113,410.

#### Note 12. Commitments And Contingencies

Employment agreement: The Trust has entered into an employment contract with an officer of the Trust, which expires on January 31, 2016. The contract provides for severance payments 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 plans are recorded as investments and a corresponding payable on the consolidated balance sheet.

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

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#### **Note 12. Commitments And Contingencies (Continued)**

Contribution: Under the terms of a court-approved agreement, the Trust is to receive annual payments from the HTR Foundation, Inc. (the Foundation). During 2008, the Trust received a partial contribution in the amount of \$390,000, which was classified as unrestricted funds by the Trust. The donor subsequently filed a lawsuit alleging that its contributions are restricted and that the Trust has failed to comply with the donor's restrictions. The Trust believes that the suit is completely without merit and intends to vigorously defend its position. Until the lawsuit is resolved, however, the Trust has reclassified the funds as temporarily restricted net assets. In addition, the Trust has filed an action to require the Foundation to make its full annual payments to the Trust. No funds were received from the Foundation since the partial contribution in 2008. The actions by the Foundation and by the Trust were tried before a judge in January 2012, and a Verdict issued in May 2012. In the Verdict, the Court urged the parties to undertake mediation, which began in July 2012. The mediation is not finished. Until it is and the suit settled, or until the court enters final judgment and any rights to appeal are exhausted, the potential effects of these actions on the Trust's consolidated financial statements cannot be determined.

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 an audit. Management does not anticipate any significant adjustments as a result of such an audit.

#### **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.

## Civil War Preservation Trust And Affiliates

### Notes To Consolidated Financial Statements

#### Note 13. Fair Value Measurements (Continued)

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. 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 measured at fair value on a recurring basis as of June 30, 2012:

	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation investments:				
Fixed income mutual fund:				
Intermediate term-bond	\$ 312,528	\$ 312,528	\$ -	\$ -
	<u>\$ 312,528</u>	<u>\$ 312,528</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation liability	\$ 323,676	\$ -	\$ 323,676	\$ -
Interest rate swap liability	166,325	-	166,325	-
	<u>\$ 490,001</u>	<u>\$ -</u>	<u>\$ 490,001</u>	<u>\$ -</u>

Cash and cash equivalents totaling \$11,148 at December 31, 2012, are not included in the above table, because they are recorded at cost.