

Gettysburg Foundation

**Financial Statements and
Supplementary Information**

September 30, 2018 and 2017



Gettysburg Foundation

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September 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors
Gettysburg Foundation
Gettysburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Gettysburg Foundation, which comprise the statement of financial position as of September 30, 2018 and 2017, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Gettysburg Foundation as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RKL LLP

December 13, 2018
York, Pennsylvania

Gettysburg Foundation

Statement of Financial Position

	September 30,	
	2018	2017
Assets		
Assets		
Cash and cash equivalents	\$ 3,587,412	\$ 3,156,111
Investments	3,952,267	3,837,114
Investments held in trust	6,103,097	6,566,895
Accounts receivable	328,474	272,250
Inventory	39,549	44,695
Prepaid expenses	438,171	461,503
Promises to give, net	1,669,950	2,169,417
Collections	10,125,493	9,675,493
Property and equipment, net	74,834,313	75,820,602
Total Assets	\$ 101,078,726	\$ 102,004,080
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 545,502	\$ 459,671
Accounts payable to National Park Service	1,823,290	1,474,534
Accrued payroll and benefits	271,100	264,737
Deferred income	244,432	209,360
Notes payable	503,037	547,592
Museum land lease liability	38,048	41,647
Deferred service contract revenue	1,182,292	1,307,292
Bonds payable	10,190,000	10,845,000
Interest rate swap liability	805,507	1,306,860
Split-interest annuity liability	214,622	227,201
Total Liabilities	15,817,830	16,683,894
Net Assets		
Unrestricted	70,402,683	70,490,467
Temporarily restricted	4,787,525	4,876,488
Permanently restricted	10,070,688	9,953,231
Total Net Assets	85,260,896	85,320,186
Total Liabilities and Net Assets	\$ 101,078,726	\$ 102,004,080

Gettysburg Foundation

Statement of Activities

Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Ticket income	\$ 5,480,863	\$ -	\$ -	\$ 5,480,863
Tour income	3,061,983	-	-	3,061,983
Commission income	2,285,564	-	-	2,285,564
Contributions	638,329	496,741	120,787	1,255,857
Membership dues income	915,909	-	-	915,909
Event income	528,903	-	-	528,903
In-kind contributions	485,333	-	-	485,333
Sales revenue	94,028	261	-	94,289
Other income	6,598	-	-	6,598
Rental income	7,725	-	-	7,725
Grant income	-	-	-	-
Total Support and Revenue	13,505,235	497,002	120,787	14,123,024
Net Assets Released from Restriction	605,767	(605,767)	-	-
Total Support and Revenue and Net Assets Released	14,111,002	(108,765)	120,787	14,123,024
Expenses				
Program services				
Museum and Visitor Center operations	10,097,558	-	-	10,097,558
National Park Service and interpretive and office facilities	1,692,216	-	-	1,692,216
Programs	721,996	-	-	721,996
Total Program Services	12,511,770	-	-	12,511,770
Supporting services				
Management and general	847,600	-	-	847,600
Fundraising	1,593,176	-	-	1,593,176
Total Supporting Services	2,440,776	-	-	2,440,776
Total Expenses	14,952,546	-	-	14,952,546
Excess (Deficiency) of Support and Revenue over (under) Expenses	(841,544)	(108,765)	120,787	(829,522)
Change in Fair Value of Interest Rate Swap	501,353	-	-	501,353
Return on Investments, Net	252,407	25,890	-	278,297
Change in Value of Split-Interest Annuity Liability	-	(6,088)	(3,330)	(9,418)
Bond Rebate Interest	-	-	-	-
Changes in Net Assets	\$ (87,784)	\$ (88,963)	\$ 117,457	\$ (59,290)

See accompanying notes.

Gettysburg Foundation

Statement of Activities (continued)

Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Ticket income	\$ 5,875,417	\$ -	\$ -	\$ 5,875,417
Tour income	3,372,399	-	-	3,372,399
Commission income	2,454,582	-	-	2,454,582
Contributions	1,187,955	2,170,651	5,000	3,363,606
Membership dues income	941,447	-	-	941,447
Event income	503,394	-	-	503,394
In-kind contributions	9,505,149	-	-	9,505,149
Sales revenue	83,845	916	-	84,761
Other income	8,009	-	-	8,009
Rental income	30,900	-	-	30,900
Grant income	5,147	-	-	5,147
Total Support and Revenue	<u>23,968,244</u>	<u>2,171,567</u>	<u>5,000</u>	<u>26,144,811</u>
Net Assets Released from Restrictions	<u>831,461</u>	<u>(831,461)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue and Net Assets Released	<u>24,799,705</u>	<u>1,340,106</u>	<u>5,000</u>	<u>26,144,811</u>
Expenses				
Program services				
Museum and Visitor Center operations	10,112,380	-	-	10,112,380
National Park Service and interpretive and office facilities	3,140,921	-	-	3,140,921
Programs	775,705	-	-	775,705
Total Program Services	<u>14,029,006</u>	<u>-</u>	<u>-</u>	<u>14,029,006</u>
Supporting services				
Management and general	925,188	-	-	925,188
Fundraising	1,629,995	-	-	1,629,995
Total Supporting Services	<u>2,555,183</u>	<u>-</u>	<u>-</u>	<u>2,555,183</u>
Total Expenses	<u>16,584,189</u>	<u>-</u>	<u>-</u>	<u>16,584,189</u>
Excess of Support and Revenue over Expenses	<u>8,215,516</u>	<u>1,340,106</u>	<u>5,000</u>	<u>9,560,622</u>
Change in Fair Value of Interest Rate Swap	<u>673,523</u>	<u>-</u>	<u>-</u>	<u>673,523</u>
Return on Investments, Net	<u>469,529</u>	<u>44,418</u>	<u>-</u>	<u>513,947</u>
Change in Value of Split-Interest Annuity Liability	<u>-</u>	<u>(4,756)</u>	<u>(2,632)</u>	<u>(7,388)</u>
Bond Rebate Interest	<u>4,387</u>	<u>-</u>	<u>-</u>	<u>4,387</u>
Changes in Net Assets	<u>\$ 9,362,955</u>	<u>\$ 1,379,768</u>	<u>\$ 2,368</u>	<u>\$ 10,745,091</u>

See accompanying notes.

Gettysburg Foundation

Statement of Changes in Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at September 30, 2016	\$ 61,127,512	\$ 3,496,720	\$ 9,950,863	\$ 74,575,095
Changes in net assets	<u>9,362,955</u>	<u>1,379,768</u>	<u>2,368</u>	<u>10,745,091</u>
Net Assets at September 30, 2017	70,490,467	4,876,488	9,953,231	85,320,186
Changes in net assets	<u>(87,784)</u>	<u>(88,963)</u>	<u>117,457</u>	<u>(59,290)</u>
Net Assets at September 30, 2018	<u>\$ 70,402,683</u>	<u>\$ 4,787,525</u>	<u>\$ 10,070,688</u>	<u>\$ 85,260,896</u>

Gettysburg Foundation

Statement of Cash Flows

	Years Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Changes in net assets	\$ (59,290)	\$ 10,745,091
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	3,106,768	3,026,890
Change in unamortized discount - promises to give	(6,500)	(29,829)
Unrealized and realized gains on investments	(80,981)	(399,571)
In-kind contributions - donated securities	(35,333)	(5,149)
In-kind contributions - donated collections	(450,000)	(9,500,000)
Donation of property to National Park Service	-	81,064
Change in fair value of interest rate swap liability	(501,353)	(673,523)
Restricted contributions - property and equipment	(1,200)	(5,300)
Permanently restricted contributions - endowment	(120,787)	(5,000)
Proceeds from sale of donated securities	59,782	157,727
(Increase) decrease in assets		
Accounts receivable	(56,224)	23,312
Inventory	5,146	11,338
Prepaid expenses	23,332	(180,855)
Promises to give	379,387	(252,596)
Increase (decrease) in liabilities		
Accounts payable	(115,926)	103,022
Accounts payable to National Park Service	348,756	824,796
Accrued payroll and benefits	6,363	(13,151)
Deferred income	35,072	13,845
Deferred service contract revenue	(125,000)	(125,000)
Bond rebate interest payable	-	(452,192)
Split-interest annuity liability	(12,579)	(14,597)
Net Cash Provided by Operating Activities	2,399,433	3,330,322
Cash Flows from Investing Activities		
Capital expenditures	(1,918,722)	(794,799)
Purchase of investments	(10,666,998)	(10,328,665)
Proceeds from sale of investments	11,096,624	8,949,226
Net Cash Used in Investing Activities	(1,489,096)	(2,174,238)

Gettysburg Foundation

Statement of Cash Flows (continued)

	Years Ended September 30,	
	2018	2017
Cash Flows from Financing Activities		
Principal repayments of bonds payable	\$ (655,000)	\$ (620,000)
Principal repayments of notes payable	(44,555)	(44,251)
Payments on museum land lease liability	(3,599)	(3,390)
Restricted contributions - property and equipment	103,331	308,607
Permanently restricted contributions - endowment	120,787	10,000
	<u>(479,036)</u>	<u>(349,034)</u>
Net Cash Used in Financing Activities		
	<u>(479,036)</u>	<u>(349,034)</u>
Net Increase in Cash and Cash Equivalents	431,301	807,050
Cash and Cash Equivalents at Beginning of Year	<u>3,156,111</u>	<u>2,349,061</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,587,412</u>	<u>\$ 3,156,111</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 564,983</u>	<u>\$ 600,316</u>

Supplementary Schedule of Noncash Investing and Financing Activities

In 2018

Accounts payable includes \$240,168 of property and equipment.

Investments of \$24,449 were received as payment on promises to give.

In 2017

Accounts payable includes \$38,411 of property and equipment.

Investments of \$152,578 were received as payment on promises to give.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 1 - Nature of Operations

Gettysburg Foundation (a Pennsylvania nonprofit corporation) was established May 8, 1998 for the following purposes: preservation of the historic importance of Gettysburg National Military Park (GNMP), education of the public concerning historic events which took place at Gettysburg, Pennsylvania, and/or relate to the United States Civil War, ownership, operation, and leasing of real property, including a Museum and Visitor Center for GNMP, and such other business as may be conducted by a nonprofit corporation organized and existing under the laws of the Commonwealth of Pennsylvania.

The General Agreement between the National Park Service (NPS), and Gettysburg Foundation, dated November 7, 2002, provides that Gettysburg Foundation will operate as a nonprofit organization for the benefit of the GNMP. According to the agreement, operational funding is intended to provide sufficient revenue to fully fund program costs, including debt service, and to allow for ongoing programmatic upgrades. Revenues in excess of operating expenses will be reinvested in the facilities and programs or donated to GNMP and to the NPS in the form of annual contributions based on the agreement.

The General Agreement contains certain conditions under which Gettysburg Foundation is to convey to the NPS fee simple, clear title to all real property, improvements and appurtenances on September 30, 2028, twenty years after the Museum and Visitor Center was constructed. An Amendment to the General Agreement was entered into on November 28, 2006, in order to remain in compliance with the Internal Revenue Service regulations concerning the portion of the Museum and Visitor Center financed with tax exempt bonds (the Bond Financed Facility). After the tax exempt bonds are repaid on December 1, 2027, Gettysburg Foundation will apply to the IRS for a ruling regarding when the Bond Financed Facility can be conveyed to the NPS. If there is no response from the IRS, Gettysburg Foundation may obtain an opinion from qualified bond counsel regarding when the Bond Financed Facility can be conveyed to the NPS. Therefore, the date of the conveyance will be determined after the tax exempt bonds have been repaid in consultation with legal and tax counsel to remain in compliance with IRS regulations.

Gettysburg Foundation receives a substantial portion of its support and revenue from the Museum and Visitor Center revenues and contributions.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, 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.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, Gettysburg Foundation considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Gettysburg Foundation had no cash equivalents at September 30, 2018 and 2017.

Concentration of Cash

At times during the years ended September 30, 2018 and 2017, Gettysburg Foundation's cash balances may have exceeded the federally insured limit of \$250,000.

Investments

Investments in debt and equity securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are reported as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law. Realized gains and losses, if any, on the sale or disposal of investments are computed on a specific identification basis and are also included as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or by law.

Investments held in trust include assets designated for future capital improvements and investments and assets held by the bond trustee under a trust indenture. The terms of a letter of credit agreement supporting the bonds payable require funds to be deposited for long-term investments and for a repair and replacement reserve.

Accounts Receivable

Accounts receivable are stated at outstanding balances. Gettysburg Foundation considers accounts receivable to be fully collectible. If collection becomes doubtful, an allowance for doubtful accounts will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

Inventory

All inventories are stated at the lower of cost or fair market value.

Note 2 - Summary of Significant Accounting Policies (continued)**Promises to Give**

Promises to give are stated at outstanding balances, less an allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past experience, aging of the receivables, adverse situations that may affect a donor's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. Unpaid balances remaining after the stated payment terms are considered past due. Promises to give that are expected to be received in more than one year are discounted to present value using a risk-adjusted rate of return.

Collections

Gettysburg Foundation's collections are made up of artifacts and art objects of historical significance. Accessions of these collection items are capitalized at cost if the items were purchased, or at their appraised or fair value on the accession date (the date on which the item is accepted by Gettysburg Foundation), if the items were contributed. Gains and losses from deaccessions of these items are reflected on the statement of activities as changes in unrestricted net assets.

Property and Equipment

Property and equipment are carried at cost or at estimated market value (if contributed), less accumulated depreciation. Items purchased or contributed with a fair market value of \$5,000 or more, are capitalized. Except for land, real estate of a historical nature and works of art including the Cyclorama painting, which are not depreciated, depreciation is computed on a straight-line basis over the estimated average useful lives of the assets as follows: furniture and equipment, three to seven years; land improvements, fifteen years; building, ten to forty years; and exhibits, twenty years. Construction-in-progress is not depreciated until the assets are placed in service.

The cost and related accumulated depreciation of property and equipment sold, retired, or otherwise disposed of are removed from the appropriate accounts, and any resulting gains or losses are reflected in operations.

Long-Lived Assets

Long-lived assets, excluding collections of items of historical significance and historic sites, are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value amount. Fair value estimates are based on assumptions concerning the amount and timing of the estimated future cash flows and discount rates reflecting varying degrees of perceived risk. The management of Gettysburg Foundation concluded that no impairment adjustments were required for these other assets, during the years ended September 30, 2018 and 2017.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Derivatives and Hedging Activity

Gettysburg Foundation is a party to an interest rate swap agreement to hedge the exposure to changing rates with respect to certain variable rate debt. In accordance, the accounting standard on Accounting for Derivative Instruments and Hedging Activities, all derivatives, whether designated in hedging relationships or not, are required to be recorded on the statement of financial position at fair value. Gettysburg Foundation's interest rate swap is valued at fair value as determined by a third party. Change in fair value of the swap is recorded in the statement of activities as a component of changes in net assets. The interest rate swap exposes Gettysburg Foundation to credit risk if and to the extent the swap has a positive fair value. A positive fair value indicates that the counterparty owes Gettysburg Foundation money while a negative fair value indicates that Gettysburg Foundation owes the counterparty. Gettysburg Foundation manages this risk by dealing with high-quality counterparties.

Split-Interest Annuity Liability

Charitable gift annuities are funds received by Gettysburg Foundation on the condition that Gettysburg Foundation is required to pay stipulated amounts to a beneficiary during their lifetime. Contribution revenues are recognized at the date the agreements are established and a liability is recorded for the present value of the estimated future payments to be made to the beneficiary. Gettysburg Foundation uses the applicable federal rate at the time of gift as the basis for determining the discount rate for recording annuity obligations at net present value. The discount rates used by Gettysburg Foundation range from 1.4% to 4.2%. Adjustments to annuities payable are recorded as change in value of split-interest annuity liability in the statement of activities as a component of changes in net assets.

Net Assets

Net assets of Gettysburg Foundation and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of Gettysburg Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by Gettysburg Foundation.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, Gettysburg Foundation reports the support as unrestricted.

Note 2 - Summary of Significant Accounting Policies (continued)

Functional Expense Classifications - by Natural Classification

The cost of providing the various programs and other activities are summarized on a functional basis in the statement of activities and in the schedule of functional expenses - by natural classification. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Facility costs, including salaries and benefits, are allocated to function based on the square footage of the Museum and Visitor Center and by specific identification for other costs. Supporting services consist of management and general expenses and fundraising expenses. The functions are:

Museum and Visitor Center Operations is comprised of expenses associated with operating the 139,000 square foot Museum and Visitor Center, including expenses for ticketing and reservations, visitor services, and operating costs for the museum, film, and Cyclorama painting. Also included in this category are expenses related to sales and ticketing for the Eisenhower National Historic Site, bus tour operations, and operating costs for the David Wills House, the Gettysburg Lincoln Railroad Station, and the George Spangler Farm. Attractions at the Museum and Visitor Center include:

The Gettysburg Museum of the American Civil War, which features 12 exhibit galleries featuring artifacts, interactive exhibits, and hands-on displays that engage visitors of all ages with content that places the Battle of Gettysburg into the larger context of American history, helping visitors understand its magnitude and relevance. Multiple film experiences throughout the museum tell the story of the causes of the Civil War.

The Film, *A New Birth of Freedom*, narrated by Morgan Freeman, introduces visitors to the Civil War and the Battle of Gettysburg, placing those monumental events into the larger context of American history to enable visitors to understand that what happened in the past is very relevant in the present day.

The Cyclorama painting is a massive, 360-degree "Battle of Gettysburg" painting-in-the-round that was first exhibited in 1884. Today, this painting has been restored and is exhibited the way the artist originally intended with the painting (measuring 377 feet around and 42 feet high), a canopy that removes the building's architectural features from sight, and a three-dimensional diorama which carries the painted scene into the foreground.

GNMP interpretive and office facilities include all expenses associated with providing facilities for the interpretation, storage, research, and office space for the GNMP and the donations to GNMP and the NPS as required by the general agreement (see Note 1). Gettysburg Foundation also works closely with the GNMP and the NPS to preserve land, monuments, and artifacts and to rehabilitate the land, returning the ground as closely as possible to its 1863 appearance and includes costs associated with properties owned by the NPS as donations.

Program expenses include expenses associated with the Ford Motor Company Education Center, *In the Footsteps of Leaders* leadership programs, Rupp House History Center, and other educational and interpretive programs. Program expenses also include expenses to rehabilitate and restore land not owned by GNMP but within the boundaries of the battlefield preservation area.

Note 2 - Summary of Significant Accounting Policies (continued)

Functional Expense Classifications - by Natural Classification (continued)

Management and general costs include the expenses associated with governance, executive management, finance, and human resources of Gettysburg Foundation.

Fundraising includes expenses associated with philanthropy, including membership and resource development.

Advertising Costs

Gettysburg Foundation expenses advertising costs as incurred. For the years ended September 30, 2018 and 2017, advertising expense amounted to \$247,660 and \$293,313, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

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 statement of financial position 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 statement of activities. The guidance is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities. The standard improves current requirements related to net asset classifications, liquidity assessment, expense reporting consistency, and methods used to present cash flow from operations. This guidance is effective for fiscal years beginning after December 15, 2017.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions. The update provides a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance. For contributions received, this guidance is effective for annual periods beginning after December 15, 2018, or annual periods beginning after June 15, 2018 for public business entities. For contributions made, this guidance is effective for the annual period beginning after December 15, 2019, or annual periods beginning after December 15, 2018 for public business entities.

Gettysburg Foundation is currently evaluating the impact of the pending adoption of the new standards on the financial statements.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Subsequent Events

Gettysburg Foundation has evaluated subsequent events through December 13, 2018, which is the date the financial statements were available to be issued. No material events subsequent to September 30, 2018 were noted.

Note 3 - Tax Exempt Status

Gettysburg Foundation is a not-for-profit entity described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related activities pursuant to 509(a) of the Code. In addition, Gettysburg Foundation was organized under the Pennsylvania Nonprofit Corporation Law and is exempt from state income taxes. Accordingly, no provision for federal or state income taxes has been recorded in the financial statements.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement attribute for financial statement measurement of the tax position taken or expected to be taken in a tax return and provides guidance related to classification and disclosure matters. Adjustments, if any, for uncertain tax positions would be recorded as a liability. Gettysburg Foundation would also recognize accruals for interest and penalties related to uncertain tax positions in its interest expense. Management evaluated the tax positions taken and concluded Gettysburg Foundation has taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

Gettysburg Foundation files federal and various state income tax returns. With few exceptions Gettysburg Foundation is no longer subject to income tax examinations by the U.S. Federal, state, or local tax authorities for years before September 30, 2015.

Note 4 - Promises to Give

Promises to give consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Promises to give	\$ 1,784,550	\$ 2,307,517
Unamortized discount	(71,600)	(78,100)
Allowance for uncollectible promises to give	(43,000)	(60,000)
	<u>\$ 1,669,950</u>	<u>\$ 2,169,417</u>
Receivable in less than one year	\$ 478,382	\$ 805,019
Receivable in one to five years	1,135,036	1,284,498
Receivable in more than five years	56,532	79,900
	<u>\$ 1,669,950</u>	<u>\$ 2,169,417</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 4 - Promises to Give (continued)

Due dates of promises to give, assuming no changes in current terms, consist of the following for the five years ending September 30, 2023; and thereafter:

2019	\$	490,700
2020		442,850
2021		428,000
2022		328,000
2023		28,000
Thereafter		67,000
		<u>67,000</u>
	\$	<u>1,784,550</u>

The discount rate used to value long-term promises to give received during the year ended September 30, 2017 was 3.13%. No long-term promises to give were received during the year ended September 30, 2018.

At September 30, 2018 and 2017, five donors made up approximately 98% and 93% of promises to give, respectively.

Note 5 - In-kind Contributions

Contributed assets, including contributed equipment and materials, are reported in the accompanying financial statements at their fair market value as of the date the assets were received.

On May 2, 2016, Gettysburg Foundation reached an agreement with the Civil War Museum of Philadelphia to accept a donation of their artifacts. Settlement of the agreement and transfer of the artifacts occurred on December 16, 2016. The collection of artifacts transferred to Gettysburg Foundation is valued was \$9,500,000.

On December 27, 2017, a donor donated a war log from the Copse of Trees valued at \$450,000 to Gettysburg Foundation. This artifact is on display at the Museum and Visitor Center.

In-kind contributions meeting the requirements for recognition in the statement of activities consist of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Donated securities	\$ 35,333	\$ 5,149
Donated artifacts	<u>450,000</u>	<u>9,500,000</u>
	<u>\$ 485,333</u>	<u>\$ 9,505,149</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 5 - In-kind Contributions (continued)

Gettysburg Foundation receives a substantial amount of services donated by individuals who assist with general activities, restorative work, and other services in support of Gettysburg Foundation and the NPS. No amounts have been reflected in the financial statements for these services for they do not meet the criteria for recognition under professional standards. For the years ended September 30, 2018 and 2017, Gettysburg Foundation had 378 and 377 volunteers, respectively, who donated approximately 7,800 and 7,900 hours of time, respectively, with an estimated value of \$191,570 and \$189,065, respectively.

Note 6 - Fair Value of Financial Instruments

Fair Value Measurements

The fair value hierarchy prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full-term of the asset or liability.
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following valuation techniques were used to measure fair value of assets and liabilities in the table on the following page on a recurring basis:

Cash and cash equivalents - The carrying amounts approximate fair value because of the short-term nature of those investments.

Mutual funds and U.S. Treasury bills and notes - Fair value of mutual funds and U.S. Treasury bills and notes was based on quoted market prices for the identical security.

Split-interest annuity - The split-interest annuity value represents principal and interest earned to date, which approximates fair market value.

Interest rate swap liability - Fair value of the interest rate swap is based on quoted market prices when available, or externally developed valuation models using forward looking assumptions of interest rates and the resulting effect on the underlying cash flows of the interest rate swap. Adjustments are not made for nonperformance risk on behalf of either party.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 6 - Fair Value of Financial Instruments (continued)

Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Gettysburg Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

For assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy consist of the following as of September 30:

	2018			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 265,355	\$ 265,355	\$ -	\$ -
Mutual Funds				
Equity funds	4,274,334	4,274,334	-	-
Fixed income funds	914,179	914,179	-	-
U.S. Treasury Bills and Notes	4,574,792	4,574,792	-	-
Split-Interest Annuity	26,704	-	26,704	-
Total Investments	<u>\$ 10,055,364</u>	<u>\$ 10,028,660</u>	<u>\$ 26,704</u>	<u>\$ -</u>
Interest Rate Swap Liability	<u>\$ 805,507</u>	<u>\$ -</u>	<u>\$ 805,507</u>	<u>\$ -</u>
	2017			
Cash and Cash Equivalents	\$ 570,337	\$ 570,337	\$ -	\$ -
Mutual Funds				
Equity funds	3,446,674	3,446,674	-	-
Fixed income funds	2,331,107	2,331,107	-	-
U.S. Treasury Bills and Notes	4,028,782	4,028,782	-	-
Split-Interest Annuity	27,109	-	27,109	-
Total Investments	<u>\$ 10,404,009</u>	<u>\$ 10,376,900</u>	<u>\$ 27,109</u>	<u>\$ -</u>
Interest Rate Swap Liability	<u>\$ 1,306,860</u>	<u>\$ -</u>	<u>\$ 1,306,860</u>	<u>\$ -</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 6 - Fair Value of Financial Instruments (continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total assets. For the years ended September 30, 2018 and 2017, there were no transfers in or out of Level 3.

Note 7 - Split-Interest Annuity Liability

During the year ended September 30, 2002, Gettysburg Foundation executed a \$30,000 split-interest annuity in accordance with a contribution received from a donor. The contribution required Gettysburg Foundation to pay \$100 per month to a third-party beneficiary beginning November 1, 2003. During the years ended September 30, 2018 and 2017, the annuity investments earned investment income of \$795 and \$806, respectively, and made required payments to the designated beneficiary in the amount of \$1,200 each year.

During the year ended September 30, 2013, Gettysburg Foundation executed a \$372,257 charitable gift annuity with a donor in which Gettysburg Foundation serves as trustee. This annuity is valued at fair market value as of September 30, 2018 and 2017. Gettysburg Foundation made required payments to the designated beneficiary for each of the years ended September 30, 2018 and 2017 of \$21,591. The investments associated with this annuity experienced net investment income of \$18,403 and \$35,127 during the years ended September 30, 2018 and 2017, respectively.

A loss was recorded for each of the years ended September 30, 2018 and 2017 on the change in the value of the annuity liability totaling \$9,418 and \$7,388, respectively.

The investments associated with the split-interest agreements at September 30, 2018 and 2017 total \$398,462 and \$402,055, respectively, and are included as investments on the statement of financial position. The aggregate annuity liability is valued at fair market value based upon the present value of the annuity payments which, as of September 30, 2018 and 2017, amounted to \$214,622 and \$227,201, respectively.

Note 8 - Investments

Investments

Gettysburg Foundation has an investment account, which holds short-term investments such as treasury bills or treasury notes. Additionally, Gettysburg Foundation has investment accounts for the purpose of holding investments for its donor restricted endowment, which includes investments associated with certain self-managed split-interest annuities.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 8 - Investments (continued)

Investments Held in Trust

Gettysburg Foundation also has an investment account with Wilmington Trust Company as required under the letter of credit to provide for a bond endowment reserve, a repair and replacement reserve, and an exhibit reserve. An annual sinking fund is also required by the bond agreement.

Investments, including investments held in trust consist of the following as of September 30:

	2018		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash and Cash Equivalents	\$ 265,355	\$ 265,355	\$ -
Mutual Funds			
Equity funds	3,854,140	4,274,334	420,194
Fixed income funds	933,719	914,179	(19,540)
U.S. Treasury Bills and Notes	4,642,178	4,574,792	(67,386)
Split-Interest Annuity	26,704	26,704	-
	<u>\$ 9,722,096</u>	<u>\$ 10,055,364</u>	<u>\$ 333,268</u>
	2017		
Cash and Cash Equivalents	\$ 570,337	\$ 570,337	\$ -
Mutual Funds			
Equity funds	2,904,528	3,446,674	542,146
Fixed income funds	2,328,897	2,331,107	2,210
U.S. Treasury Bills and Notes	4,003,815	4,028,782	24,967
Split-Interest Annuity	27,109	27,109	-
	<u>\$ 9,834,686</u>	<u>\$ 10,404,009</u>	<u>\$ 569,323</u>

Return on investments, including investments held in trust consists of the following for the years ended September 30:

	2018	2017
Realized gains	\$ 318,572	\$ 94,875
Unrealized gains (losses)	(237,591)	304,696
Interest and dividend income	232,633	145,501
Investment management fees	(35,317)	(31,125)
	<u>\$ 278,297</u>	<u>\$ 513,947</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 9 - Endowment

Gettysburg Foundation's endowment consists of several funds established by donors to be invested in perpetuity. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

On March 3, 2011, Gettysburg Foundation adopted PA Act 141. The Board of Directors of Gettysburg Foundation has interpreted Pennsylvania state law under PA Act 141 as seeking to enhance total return on their donor restricted investment funds. Income is defined by Act 141 as a fixed percentage of the "value of the assets" held by Gettysburg Foundation of not less than 2% nor more than 7% based on the average fair market value of the assets over a three-year period.

As a result of this interpretation, Gettysburg Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Gettysburg Foundation in a manner consistent with the standard of prudence prescribed by the relevant state law. Unless specifically defined by a donor-restricted endowment fund required by donor stipulation, Gettysburg Foundation considers the following factors in making a determination to accumulate or appropriate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of Gettysburg Foundation's and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of Gettysburg Foundation
- 7) The investment policies of Gettysburg Foundation

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 9 - Endowment (continued)

The following schedule represents the endowment net asset composition by type of endowment fund as of September 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 69,184	\$ 220,688	\$ 289,872

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 55,565	\$ 103,231	\$ 158,796

The following schedule represents the changes in endowment net assets for the years ended September 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - October 1, 2017	\$ -	\$ 55,565	\$ 103,231	\$ 158,796
Investment Return				
Interest and dividends	-	7,881	-	7,881
Net gain (realized and unrealized)	-	9,033	-	9,033
Fees	-	(3,295)	-	(3,295)
Contributions	-	-	120,787	120,787
Change in Value of Split Interest Annuity Liability	-	-	(3,330)	(3,330)
Endowment Net Assets - September 30, 2018	\$ -	\$ 69,184	\$ 220,688	\$ 289,872

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 9 - Endowment (continued)

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - October 1, 2016	\$ -	\$ 34,565	\$ 95,863	\$ 130,428
Investment Return				
Interest and dividends	-	6,252	-	6,252
Net gain (realized and unrealized)	-	17,542	-	17,542
Fees	-	(2,794)	-	(2,794)
Contributions	-	-	10,000	10,000
Change in Value of Split Interest Annuity Liability	-	-	(2,632)	(2,632)
Endowment Net Assets - September 30, 2017	<u>\$ -</u>	<u>\$ 55,565</u>	<u>\$ 103,231</u>	<u>\$ 158,796</u>

Funds with Deficiencies

Pennsylvania state law (Act 141) has no requirement to restore permanent fund deficiencies and accounting standards provide that the generally accepted rule of reporting such deficiencies as unrestricted net assets should be applied only in the absence of donor stipulations or laws to the contrary. Following our interpretation of state law, deficiencies are reported as reductions to permanently restricted net assets. There were no such deficiencies reported as of September 30, 2018 and 2017.

Return Objectives and Risk Parameters

Gettysburg Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Gettysburg Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results to allow Gettysburg Foundation to fund the appropriate programs while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

Gettysburg Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Gettysburg Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 9 - Endowment (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The spending rate is the withdrawal rate from the endowment funds to fund specific expenditures consistent with specific endowment funds' objectives and is approved by the Board of Directors. Gettysburg Foundation's overall investment objective is to preserve capital, strive for consistent real returns, and preserve purchasing power by striving for long-term returns. This is accomplished through an investment policy that states that the spending rate, over the long term, should be less than the income generated from the endowment and should also provide for growth in the endowment to cover inflation. The approved spending rate is up to 5% per annum, but a higher rate or special withdrawal can be authorized by the Board of Directors. For the years ended September 30, 2018 and 2017, Gettysburg Foundation did not choose to withdraw an amount from the endowment. Accumulated and unspent earnings are considered temporarily restricted until they are spent.

Note 10 - Property and Equipment

Property and equipment consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Building	\$ 46,073,677	\$ 44,543,147
Land and land improvements	19,451,385	19,355,805
Exhibits	17,935,547	17,935,547
Cyclorama painting restoration	10,908,281	10,908,281
Scenic easements	9,845,000	9,845,000
Furniture and equipment	3,474,151	2,979,782
	107,688,041	105,567,562
Accumulated depreciation	<u>(32,853,728)</u>	<u>(29,746,960)</u>
	<u>\$ 74,834,313</u>	<u>\$ 75,820,602</u>

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to \$3,106,768 and \$3,026,890, respectively. Land, cyclorama painting restoration, scenic easements, and historical buildings are not depreciated.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 11 - Notes Payable

On May 1, 2002, Gettysburg Foundation purchased a property located at 449 - 451 Baltimore Street, Gettysburg, Pennsylvania for the purpose of establishing the Rupp History Center and to provide for administrative office space. The property is secured by a mortgage in the amount of \$750,000 and a security interest in the assets of Gettysburg Foundation. At September 30, 2018 and 2017, the outstanding balance on the note was \$203,037 and \$247,592, respectively. On September 1, 2007, the mortgage terms were amended to provide for a fixed rate of 5.15% for the first five years following the date of amendment. Thereafter, the interest rate is indexed to 70% of the prime rate, which was 3.50% and 2.98% as of September 30, 2018 and 2017, respectively. The amended mortgage terms require monthly payments of \$4,458. The maturity date of November 2022 remains unchanged from the original note. Interest expense under this note amounted to \$7,477 and \$7,491 for the years ended September 30, 2018 and 2017, respectively.

On September 24, 2004, Gettysburg Foundation obtained a \$100,000 note from an individual secured by a lien on the real estate located at 449 - 451 Baltimore Street, Gettysburg, Pennsylvania. Gettysburg Foundation is to pay a fixed rate of interest of 5% to be paid annually. On July 23, 2009, this note was refinanced and matures on July 23, 2039, at which time all remaining principal and interest is due. The balance at September 30, 2018 and 2017 was \$100,000. Interest expense under this note amounted to \$5,000 for each of the years ended September 30, 2018 and 2017.

On November 15, 2004, Gettysburg Foundation obtained a note payable in the amount of \$200,000 from an individual member. The note bears interest at a fixed rate of 4.8% per annum, payable monthly, with the right to pay any or all principal at any time. On July 23, 2009, this note was refinanced and matures on July 23, 2039, at which time all remaining principal and interest are due. The note is secured by a second lien on the real estate at 449 - 451 Baltimore Street, Gettysburg, Pennsylvania. The balance for each of the years ended September 30, 2018 and 2017 was \$200,000. Interest expense under this note amounted to \$9,600 for each of the years ended September 30, 2018 and 2017.

Aggregate maturities of notes payable, assuming no change in current terms, consist of the following for the five years ending September 30, 2023; and thereafter:

2019	\$	47,135
2020		48,812
2021		50,548
2022		47,913
2023		8,629
Thereafter		<u>300,000</u>
	\$	<u>503,037</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 12 - Bonds Payable and Related Accounts

Bonds Payable

On December 21, 2006, the Adams County Industrial Development Authority (ACIDA) issued two series of bonds as follows:

The ACIDA Variable-Rate Demand Revenue Bonds - Gettysburg Foundation Tax Exempt Series of 2006A were issued for \$15,000,000 at a variable rate of interest. The bonds, which have an outstanding balance of \$10,190,000 and \$10,845,000 as of September 30, 2018 and 2017, respectively, mature on December 1, 2027. The variable interest rate (reset weekly) at September 30, 2018 and 2017 was 1.61% and 0.99%, respectively. Total interest expense for this bond issue for the years ended September 30, 2018 and 2017 was \$284,333 and \$235,215, respectively. Principal payments made during the years ended September 30, 2018 and 2017 were \$655,000 and \$620,000, respectively. The bond is secured by all assets of Gettysburg Foundation.

The ACIDA Variable-Rate Demand Revenue Bonds - Gettysburg Foundation Taxable Series of 2006B were issued for \$5,000,000 at a variable rate of interest. These bonds were paid off on September 1, 2011.

Gettysburg Foundation is considered to be the borrower of these funds. In connection with the borrowing, a letter of credit was issued by Manufacturers and Traders Trust Company (the Trustee) to provide payment on and to secure the principal and interest on both series. The annual letter of credit fee at September 30, 2018 and 2017 was 1.125% of the outstanding bonds payable and annual interest payable at December 1st of each year. This is included in interest expense disclosed in the preceding paragraph. The bond proceeds were used for the construction, equipping, and furnishing of the museum and visitor center at 1195 Baltimore Pike, Gettysburg, Pennsylvania. The letter of credit was renewed on November 7, 2016 with an effective date of December 20, 2016 and expires in December 2021.

Gettysburg Foundation is required to remain in compliance with financial covenants under terms of the letter of credit related to the bond issuance. Gettysburg Foundation was not aware of any violations of the financial covenants at September 30, 2018.

Payments of interest are due monthly to the Trustee by Gettysburg Foundation. The following is a summary of Gettysburg Foundation's principal debt service commitments to the Trustee for debt outstanding as of September 30:

	<u>Series 2006A</u>
2019	\$ 695,000
2020	730,000
2021	925,000
2022	970,000
2023	1,015,000
2024 - 2028	<u>5,855,000</u>
	<u>\$ 10,190,000</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 12 - Bonds Payable and Related Accounts (continued)

Bond Rebate Interest Payable

Gettysburg Foundation is required by U.S. Treasury regulations to report any arbitrage earned on investments pledged as collateral on the letter of credit. Under these regulations the yield earned on pledged investments cannot be materially higher than the yield paid on the bond issue. Arbitrage represents the difference between the actual earnings on the pledged investments and what the investments could have earned had they been invested at the yield paid on the bond issue. If actual earnings exceed potential earnings, the bond issue is in positive arbitrage. If the actual earnings are less than the bond yield, the bond issue is in negative arbitrage. This arbitrage calculation is required to be performed every five years from the date of issue of Gettysburg Foundation's Tax Exempt Series of 2006A bonds.

Gettysburg Foundation last recorded bond rebate interest in September 2016 and paid the amounts due in October 2016. The next calculation is required by September 30, 2021. Gettysburg Foundation's investments that have been pledged as collateral on the letter of credit have been invested in yield restricted accounts. It is not anticipated that a positive arbitrage will exist, thus no liability has been recorded as of September 30, 2018 or 2017.

Derivative Instruments

During the year ended September 30, 2006, Gettysburg Foundation entered into a forward start interest rate swap to hedge the interest rate risk associated with a \$20,000,000 variable-rate, tax-free demand revenue bond issue. The bonds were issued during the year ended September 30, 2007 with Tax Exempt Series of 2006A bonds of \$15,000,000 and Taxable Series of 2006B bonds of \$5,000,000. The swap was effective on October 3, 2005 and terminates on October 1, 2027. It effectively provides for a fixed rate of interest of 3.84%. Gettysburg Foundation is paying interest related to the swap agreement. Total interest expense for this derivative instrument for the years ended September 30, 2018 and 2017 was \$265,160 and \$337,281, respectively.

The swap was issued at market terms so that it had no fair value at its inception. At September 30, 2018 and 2017, the swap agreement had a carrying value of \$805,507 and \$1,306,860, respectively. This amount is reported as interest rate swap liability on the statement of financial position. The carrying amount of the swap has been adjusted to its fair value, which because of changes in the forecasted levels of LIBOR, a Level 2 fair value input, resulted in reporting a liability, obligation due under interest rate swaps, for the fair value of the future net disbursements under the swap. Changes in the fair value of the swap amounted to \$501,353 and \$673,523 for the years ended September 30, 2018 and 2017, respectively, and are recorded in the statement of activities as a component of the changes in net assets. At September 30, 2018 and 2017, the notional value of the swap was \$10,190,000 and \$10,845,000, respectively.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 12 - Bonds Payable and Related Accounts (continued)

Museum Land Lease Agreement

On October 5, 2006, Gettysburg Foundation entered into an agreement with the ACIDA. In exchange for the use of the ACIDA's sales-tax exempt status, Gettysburg Foundation transferred title to the visitor center land and agreed to pay the ACIDA an initial payment of \$10,000, as well as monthly payments of \$500 for the following 20 years. Gettysburg Foundation may cancel the agreement at any time, but would owe the ACIDA a termination fee equal to the present value of the remaining payments. The transaction does not qualify as a sale-leaseback under generally accepted accounting principles. During 2007, the agreement's present value of \$80,139 was capitalized as part of construction in progress. The remaining liability for the monthly payments is reflected in the statement of financial position at its present value. As of September 30, 2018 and 2017, this liability amounted to \$38,048 and \$41,647, respectively.

ACIDA has title to the museum land and facility that constitutes ownership, not a security interest. However, Gettysburg Foundation is entitled to deduct all depreciation on and take any available tax credits with respect to the land and facility. Gettysburg Foundation will purchase the museum land and facility from ACIDA by paying the principal and interest on the Series 2006 Bonds when they become due and payable. The value of the land is included in net property and equipment in the statement of financial position.

Note 13 - Deferred Service Contract Revenue

Gettysburg Foundation entered into an agreement with an unrelated entity, which granted this entity the exclusive right to operate the food, beverage, and certain retail business at the Museum and Visitor Center. The agreement called for an initial deposit to Gettysburg Foundation of \$2,500,000. No additional monthly payments are required. The initial deposit is being recognized by Gettysburg Foundation on a straight-line basis over a period of twenty years. Deferred revenue related to the remainder of the agreement amounted to \$1,182,292 and \$1,307,292 as of September 30, 2018 and 2017, respectively.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2018 and 2017

Note 14 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Battlefield rehabilitation	\$ 2,176,414	\$ 2,032,133
Promises to give	1,664,950	2,164,417
Gettysburg Fund	199,156	-
Gettysburg Railroad Station	137,365	137,365
Split-interest annuity	129,726	123,545
Education programs	119,414	80,664
Museum exhibits	116,744	115,795
Other	94,549	94,005
Spangler Farm and trail	80,023	72,999
Endowment earnings accumulated	69,184	55,565
	<u>\$ 4,787,525</u>	<u>\$ 4,876,488</u>

Note 15 - Permanently Restricted Net Assets

Permanently restricted net assets include a scenic easement on 61 acres of land that is adjacent to the Museum and Visitor Center. The purpose of the easement is to aid Gettysburg Foundation to preserve, and protect and maintain, in perpetuity the residential or agricultural use and size of the property. This was received as an in-kind contribution from a donor and is based on the appraised value of \$9,845,000 when it was transferred in 2009. Other permanently restricted net assets include a portion of a split-interest annuity restricted for the endowment and promises to give and contributions restricted for land and monument preservation projects and acquisitions of properties or artifacts.

Permanently restricted net assets consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Scenic easements	\$ 9,845,000	\$ 9,845,000
Endowment investments	290,494	176,901
Promises to give	5,000	5,000
Present value of split-interest annuity liability	(69,806)	(73,670)
	<u>\$ 10,070,688</u>	<u>\$ 9,953,231</u>

Note 16 - Retirement Plan

Gettysburg Foundation sponsors a defined-contribution retirement plan covering employees who meet certain age and length of service requirements. The total retirement expense for the years ended September 30, 2018 and 2017 amounted to \$140,126 and \$113,198, respectively.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 17 - Related Party Transactions

During the year ended September 30, 2017, the former Chairperson of Gettysburg Foundation's Board of Directors was related through common management to various related parties. This individual's term on the Board of Directors ended on June 29, 2017 and, therefore, is not considered a related party for the year ended September 30, 2018. Other members of the Board of Directors have various transactions with Gettysburg Foundation.

Gettysburg Foundation had the following balances with these related parties as of September 30:

	<u>2018</u>	<u>2017</u>
Promises to give	\$ 139,691	\$ 687,497
Accounts payable	-	6,248

Gettysburg Foundation had the following transactions with related parties during the years ended September 30:

	<u>2018</u>	<u>2017</u>
Contributions	\$ 59,322	\$ 88,961
Donated artifacts	450,000	-
Property and equipment, capitalized	-	77,786
Maintenance and supplies, expensed	-	29,018
Professional fees	8,694	312,998

Note 18 - Rental Income

Gettysburg Foundation subleased the third floor of the David Wills House to an unrelated third party. Terms of the lease extended through December 2016, at which time it continued on a month-to-month basis until December 31, 2017 when the NPS assumed responsibility for the lease directly. Lease payments under the lease agreement for the years ended September 30, 2018 and 2017 amounted to \$7,200 and \$24,000, respectively.

Note 19 - Commitments

Gettysburg Foundation leases real estate located in Gettysburg, Pennsylvania under month-to-month operating leases, at a storage unit behind 451 Baltimore Street.

In January 2016, Gettysburg Foundation entered into another lease agreement to lease a third piece of real estate located on Emmitsburg Road in Gettysburg, Pennsylvania. The lease term is for a period of ten years commencing on January 1, 2016 and expiring on December 31, 2025. During the first year of the lease, Gettysburg Foundation will pay rent in monthly installments of \$1,500. The monthly payment will be adjusted annually based on the increase in the Consumer Price Index.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2018 and 2017

Note 19 - Commitments (continued)

Future minimum lease payments, assuming no change in current terms, consist of the following for the five years ending September 30, 2023; and thereafter:

2019	\$	18,420
2020		18,420
2021		18,420
2022		18,420
2023		18,420
Thereafter		<u>41,445</u>
	\$	<u>133,545</u>

Rent expense related to these leases for the years ended September 30, 2018 and 2017 amounted to \$20,950 and \$20,640, respectively.

Gettysburg Foundation

Schedule of Functional Expenses - by Natural Classification
Year Ended September 30, 2018

	Program Services			Supporting Services		Total
	Museum and Visitor Center Operations	Service and Interpretive and Office Facilities	Programs	Management and General	Fundraising	
Salaries and wages	\$ 1,894,664	\$ 233,679	\$ 228,566	\$ 460,154	\$ 815,726	\$ 3,632,789
Employee benefits and payroll tax	455,369	40,347	54,879	195,304	179,324	925,223
Professional fees	61,285	2,295	11,538	32,682	26,094	133,894
Advertising and promotion	243,740	-	499	-	3,421	247,660
Office, telephone, and postage	30,214	3,184	12,844	3,677	91,465	141,384
Travel, meals, and entertainment	33,729	926	77,813	28,885	42,255	183,608
Printing	28,521	-	17,433	3,258	113,386	162,598
Supplies	204,429	59,302	22,700	29,483	44,581	360,495
Repairs and maintenance	315,773	127,634	9,824	5,828	10,182	469,241
Museum exhibits and artifacts	2,522	6,758	-	-	-	9,280
Trash and janitorial	21,773	32,337	1,500	169	2,790	58,569
Information technology	341,744	36,391	19,703	27,593	81,738	507,169
Dues, subscriptions, and professional development	27,449	1,007	2,459	8,073	12,006	50,994
Rent expense	670	-	2,640	9,155	9,155	21,620
Real estate taxes	60,622	-	1,732	-	1,006	63,360
Utilities	252,751	57,936	8,453	4,457	11,534	335,131
Insurance	63,548	9,183	6,273	12,569	21,889	113,462
Bank and credit card processing fees	163,238	-	-	35	18,537	181,810
Admission taxes	177,345	-	41	-	-	177,386
Cost of sales and bus rentals	1,230,961	-	160,416	-	3,250	1,394,627
Guide and speaker fees	1,485,884	-	23,485	1,232	4,098	1,514,699
Registration and filing fees	-	-	-	-	7,408	7,408
Membership expenses	-	-	705	-	61,880	62,585
Donation and preservation funding to NPS	-	(10,658)	-	-	-	(10,658)
Donations to GNMP and NPS	-	485,454	-	200	-	485,654
Donation of artifacts and property to NPS	-	52,277	-	-	-	52,277
Depreciation	2,443,009	554,164	49,662	41,728	18,205	3,106,768
Interest expense	551,894	-	8,831	-	13,246	573,971
Bad debt expense (recovery)	6,424	-	-	(16,882)	-	(10,458)
	<u>\$ 10,097,558</u>	<u>\$ 1,692,216</u>	<u>\$ 721,996</u>	<u>\$ 847,600</u>	<u>\$ 1,593,176</u>	<u>\$ 14,952,546</u>

Gettysburg Foundation

Schedule of Functional Expenses - by Natural Classification (continued)

Year Ended September 30, 2017

	Program Services			Supporting Services		Total
	Museum and Visitor Center Operations	Service and Interpretive and Office Facilities	Programs	Management and General	Fundraising	
Salaries and wages	\$ 1,833,617	\$ 225,569	\$ 238,011	\$ 463,140	\$ 788,207	\$ 3,548,544
Employee benefits and payroll tax	445,585	40,427	53,073	181,415	149,180	869,680
Professional fees	97,667	1,456	81,308	115,527	56,872	352,830
Advertising and promotion	274,330	-	17,600	-	1,383	293,313
Office, telephone, and postage	49,780	3,226	13,579	3,727	136,562	206,874
Travel, meals, and entertainment	37,334	912	78,386	34,934	51,330	202,896
Printing	15,546	-	23,041	-	155,297	193,884
Supplies	231,911	65,500	45,130	13,120	27,805	383,466
Repairs and maintenance	201,918	85,142	8,784	5,536	9,391	310,771
Museum exhibits and artifacts	990	35,900	-	-	-	36,890
Trash and janitorial	18,196	9,972	4,364	26,464	2,504	61,500
Information technology	215,428	29,131	10,190	20,682	59,690	335,121
Dues, subscriptions, and professional development	20,985	531	2,418	3,913	10,699	38,546
Rent expense	772	-	2,640	9,000	9,000	21,412
Real estate taxes	61,365	-	-	-	2,617	63,982
Utilities	285,460	65,214	8,256	6,550	10,130	375,610
Insurance	58,405	8,370	6,265	12,135	20,333	105,508
Bank and credit card processing fees	174,454	-	-	-	21,667	196,121
Admission taxes	196,913	-	317	-	-	197,230
Cost of sales and bus rentals	1,329,670	-	83,072	-	2,122	1,414,864
Guide and speaker fees	1,583,597	-	57,832	1,494	5,013	1,647,936
Registration and filing fees	-	-	-	-	7,892	7,892
Membership expenses	-	-	943	-	90,438	91,381
Donation and preservation funding to NPS	-	668,631	-	-	-	668,631
Donations to GNMP and NPS	-	1,268,982	-	175	-	1,269,157
Donation of artifacts and property to NPS	-	81,064	-	-	-	81,064
Depreciation	2,403,351	550,894	27,242	42,376	3,027	3,026,890
Interest expense	575,106	-	13,254	-	8,836	597,196
Bad debt recovery	-	-	-	(15,000)	-	(15,000)
	<u>\$ 10,112,380</u>	<u>\$ 3,140,921</u>	<u>\$ 775,705</u>	<u>\$ 925,188</u>	<u>\$ 1,629,995</u>	<u>\$ 16,584,189</u>