

Gettysburg Foundation

**Financial Statements and
Supplementary Information**

September 30, 2017 and 2016



Gettysburg Foundation

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September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 14, 2017
York, Pennsylvania

Gettysburg Foundation

Statement of Financial Position

	September 30,	
	2017	2016
Assets		
Assets		
Cash and cash equivalents	\$ 3,156,111	\$ 2,349,061
Investments	3,837,114	2,574,253
Investments held in trust	6,566,895	6,050,746
Accounts receivable	272,250	295,562
Inventory	44,695	56,033
Prepaid expenses	461,503	280,648
Promises to give, net	2,169,417	2,347,877
Collections	9,675,493	175,493
Property and equipment, net	75,820,602	78,304,284
Total Assets	\$ 102,004,080	\$ 92,433,957
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 459,671	\$ 527,176
Accounts payable to National Park Service	1,474,534	649,738
Accrued payroll and benefits	264,737	277,888
Deferred income	209,360	195,515
Notes payable	547,592	591,843
Museum land lease liability	41,647	45,037
Deferred service contract revenue	1,307,292	1,432,292
Bonds payable	10,845,000	11,465,000
Interest rate swap liability	1,306,860	1,980,383
Bond rebate interest payable	-	452,192
Split-interest annuity liability	227,201	241,798
Total Liabilities	16,683,894	17,858,862
Net Assets		
Unrestricted	70,490,467	61,127,512
Temporarily restricted	4,876,488	3,496,720
Permanently restricted	9,953,231	9,950,863
Total Net Assets	85,320,186	74,575,095
Total Liabilities and Net Assets	\$ 102,004,080	\$ 92,433,957

Gettysburg Foundation

Statement of Activities

	Year Ended September 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
In-kind contributions	\$ 9,505,149	\$ -	\$ -	\$ 9,505,149
Ticket income	5,875,417	-	-	5,875,417
Tour income	3,372,399	-	-	3,372,399
Contributions	1,187,955	2,170,651	5,000	3,363,606
Commission income	2,454,582	-	-	2,454,582
Membership dues income	941,447	-	-	941,447
Event income	503,394	-	-	503,394
Sales revenue	83,845	916	-	84,761
Rental income	30,900	-	-	30,900
Other income	8,009	-	-	8,009
Grant income	5,147	-	-	5,147
Total Support and Revenue	23,968,244	2,171,567	5,000	26,144,811
Net Assets Released from Restrictions	831,461	(831,461)	-	-
Total Support and Revenue and Net Assets Released	24,799,705	1,340,106	5,000	26,144,811
Expenses				
Program services				
Museum and Visitor Center operations	10,112,380	-	-	10,112,380
National Park Service and interpretive and office facilities Programs	3,140,921	-	-	3,140,921
	775,705	-	-	775,705
Total Program Services	14,029,006	-	-	14,029,006
Supporting services				
Management and general	925,188	-	-	925,188
Fundraising	1,629,995	-	-	1,629,995
Total Supporting Services	2,555,183	-	-	2,555,183
Total Expenses	16,584,189	-	-	16,584,189
Excess of Support and Revenue over Expenses	8,215,516	1,340,106	5,000	9,560,622
Change in Fair Value of Interest Rate Swap	673,523	-	-	673,523
Bond Rebate Interest	4,387	-	-	4,387
Return on Investments, Net	469,529	44,418	-	513,947
Loss on Sale of Property and Equipment	-	-	-	-
Change in Value of Split-Interest Annuity Liability	-	(4,756)	(2,632)	(7,388)
Changes in Net Assets	\$ 9,362,955	\$ 1,379,768	\$ 2,368	\$ 10,745,091

See accompanying notes.

Gettysburg Foundation

Statement of Activities (continued)

	Year Ended September 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
In-kind contributions	\$ 2,770,038	\$ -	\$ -	\$ 2,770,038
Ticket income	5,119,580	-	-	5,119,580
Tour income	3,262,991	-	-	3,262,991
Contributions	1,274,950	2,138,191	10,000	3,423,141
Commission income	2,360,801	-	-	2,360,801
Membership dues income	809,481	-	-	809,481
Event income	432,812	-	-	432,812
Sales revenue	83,149	1,341	-	84,490
Rental income	41,187	-	-	41,187
Other income	9,077	-	-	9,077
Grant income	-	-	-	-
Total Support and Revenue	16,164,066	2,139,532	10,000	18,313,598
Net Assets Released from Restrictions	1,481,524	(1,481,524)	-	-
Total Support and Revenue and Net Assets Released	17,645,590	658,008	10,000	18,313,598
Expenses				
Program services				
Museum and Visitor Center operations	10,112,347	-	-	10,112,347
National Park Service and interpretive and office facilities	4,571,025	-	-	4,571,025
Programs	756,919	-	-	756,919
Total Program Services	15,440,291	-	-	15,440,291
Supporting services				
Management and general	927,206	-	-	927,206
Fundraising	1,728,065	-	-	1,728,065
Total Supporting Services	2,655,271	-	-	2,655,271
Total Expenses	18,095,562	-	-	18,095,562
Excess (Deficiency) of Support and Revenue over Expenses	(449,972)	658,008	10,000	218,036
Change in Fair Value of Interest Rate Swap	53,170	-	-	53,170
Bond Rebate Interest	(452,192)	-	-	(452,192)
Return on Investments, Net	465,967	33,679	-	499,646
Loss on Sale of Property and Equipment	(4,841)	-	-	(4,841)
Change in Value of Split-Interest Annuity Liability	-	(5,777)	(3,142)	(8,919)
Changes in Net Assets	\$ (387,868)	\$ 685,910	\$ 6,858	\$ 304,900

See accompanying notes.

Gettysburg Foundation

Statement of Changes in Net Assets

	Years Ended September 30, 2017 and 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets at September 30, 2015	\$ 61,515,380	\$ 2,810,810	\$ 9,944,005	\$ 74,270,195
Changes in net assets	<u>(387,868)</u>	<u>685,910</u>	<u>6,858</u>	<u>304,900</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	<u>\$ 70,490,467</u>	<u>\$ 4,876,488</u>	<u>\$ 9,953,231</u>	<u>\$ 85,320,186</u>

Gettysburg Foundation

Statement of Cash Flows

	Years Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Changes in net assets	\$ 10,745,091	\$ 304,900
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	3,026,890	2,985,174
Loss on sale of property and equipment	-	4,841
Provision for uncollectible promises to give and bad debts	-	44,135
Change in unamortized discount - promises to give	(29,829)	99,179
Unrealized and realized (gains) losses on investments	(399,571)	(305,751)
In-kind contributions - donated securities	(5,149)	(25,838)
In-kind contributions - donated collections	(9,500,000)	-
Donation of property to National Park Service	81,064	-
Change in fair value of interest rate swap	(673,523)	(53,170)
Restricted contributions - property and equipment	(5,300)	(2,015,000)
Permanently restricted contributions - endowment	(5,000)	(10,000)
Proceeds from sale of donated securities	157,727	36,002
(Increase) decrease in assets		
Accounts receivable	23,312	(25,393)
Inventory	11,338	9,796
Prepaid expenses	(180,855)	76,731
Promises to give	(252,596)	17,966
Increase (decrease) in liabilities		
Accounts payable	103,022	(58,213)
Accounts payable to National Park Service	824,796	(656,697)
Accrued payroll and benefits	(13,151)	75,611
Deferred income	13,845	36,852
Deferred service contract revenue	(125,000)	(125,000)
Bond rebate interest payable	(452,192)	452,192
Split-interest annuity liability	(14,597)	(13,047)
Net Cash Provided by Operating Activities	3,330,322	855,270
Cash Flows from Investing Activities		
Capital expenditures	(794,799)	(1,322,669)
Proceeds from sale of property and equipment	-	6,000
Purchase of investments	(10,328,665)	(7,964,954)
Proceeds from sale of investments	8,949,226	7,783,184
Net Cash Used in Investing Activities	(2,174,238)	(1,498,439)

Gettysburg Foundation

Statement of Cash Flows (continued)

	Years Ended September 30,	
	2017	2016
Cash Flows from Financing Activities		
Principal repayments of bonds payable	(620,000)	(590,000)
Principal repayments of notes payable	(44,251)	(43,734)
Payment on interest rate swap liability	-	(643,125)
Payments on museum land lease liability	(3,390)	(3,193)
Restricted contributions - property and equipment	308,607	193,968
Permanently restricted contributions - endowment	10,000	15,000
	<u>(349,034)</u>	<u>(1,071,084)</u>
Net Cash Used in Financing Activities		
	<u>(349,034)</u>	<u>(1,071,084)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	807,050	(1,714,253)
Cash and Cash Equivalents at Beginning of Year	2,349,061	4,063,314
Cash and Cash Equivalents at End of Year	<u>\$ 3,156,111</u>	<u>\$ 2,349,061</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 600,316</u>	<u>\$ 735,412</u>

Supplementary Schedule of Noncash Investing and Financing Activities

In 2017

Accounts payable includes \$38,411 of property and equipment.
Investments of \$152,578 were received as payment on promises to give.

In 2016

Accounts payable includes \$208,938 of property and equipment.
Investments of \$10,164 were received as payment on promises to give.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016.

Concentration of Cash

At times during the years ended September 30, 2017 and 2016, 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 real estate of a historical nature or 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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, 2017 and 2016.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Functional Expense Classifications - by Natural Classification (continued)

Program expenses include expenses associated with the Ford Motor Company Education Center, 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.

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, 2017 and 2016, advertising expense amounted to \$293,313 and \$183,952, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued 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, 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, 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.

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

Subsequent Events

Gettysburg Foundation has evaluated subsequent events through December 14, 2017, which is the date the financial statements were available to be issued. No material events subsequent to September 30, 2017 were noted.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

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, 2014.

Note 4 - Promises to Give

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

	<u>2017</u>	<u>2016</u>
Promises to give	\$ 2,307,517	\$ 2,530,806
Unamortized discount	(78,100)	(107,929)
Allowance for uncollectible promises to give	<u>(60,000)</u>	<u>(75,000)</u>
	<u>\$ 2,169,417</u>	<u>\$ 2,347,877</u>
Receivable in less than one year	\$ 805,019	\$ 686,502
Receivable in one to five years	<u>1,364,398</u>	<u>1,661,375</u>
	<u>\$ 2,169,417</u>	<u>\$ 2,347,877</u>

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

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, 2022; and thereafter:

2018	\$	827,284
2019		493,200
2020		443,200
2021		428,000
2022		28,000
Thereafter		87,833
		<u>87,833</u>
	\$	<u>2,307,517</u>

The discount rates used to value long-term promises to give received during the years ended September 30, 2017 and 2016, were:

2017	3.13%
2016	2.22%

At September 30, 2017 and 2016, five donors made up approximately 93% and 92% 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 (CWMP) to accept a donation of their artifacts. CWMP, Gettysburg Foundation, GNMP, and the National Constitution Center (NCC) are developing plans to use these artifacts in an exhibit which will demonstrate the impacts of the Civil War on the U.S. Constitution. Settlement of the agreement and transfer of the artifacts occurred on December 16, 2016. The collection of artifacts transferred to Gettysburg Foundation is valued at \$9,500,000, and is included in collections on the statement of financial position.

During the year ended September 30, 2016, individuals donated artifacts valued at \$2,744,145 to Gettysburg Foundation. Gettysburg Foundation donated these artifacts to the National Park Service for use in their collection at Gettysburg National Military Park.

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

	<u>2017</u>	<u>2016</u>
Donated securities	\$ 5,149	\$ 25,838
Donated artifacts	<u>9,500,000</u>	<u>2,744,200</u>
	<u>\$ 9,505,149</u>	<u>\$ 2,770,038</u>

Gettysburg Foundation

Notes to Financial Statements

September 30, 2017 and 2016

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, 2017 and 2016, Gettysburg Foundation had 377 and 549 volunteers, respectively, who donated approximately 7,900 and 9,000 hours of time, respectively, with an estimated value of \$189,065 and \$215,344, 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, 2017 and 2016

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:

	2017			
	Total	Level 1	Level 2	Level 3
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	\$ 10,404,009	\$ 10,376,900	\$ 27,109	\$ -
Interest Rate Swap Liability	\$ 1,306,860	\$ -	\$ 1,306,860	\$ -
	2016			
Cash and Cash Equivalents	\$ 3,000,760	\$ 3,000,760	\$ -	\$ -
Mutual Funds				
Equity funds	2,427,649	2,427,649	-	-
Fixed income funds	1,359,879	1,359,879	-	-
U.S. Treasury Bills and Notes	1,809,207	1,809,207	-	-
Split-Interest Annuity	27,504	-	27,504	-
Total Investments	\$ 8,624,999	\$ 8,597,495	\$ 27,504	\$ -
Interest Rate Swap Liability	\$ 1,980,383	\$ -	\$ 1,980,383	\$ -

Gettysburg Foundation

Notes to Financial Statements

September 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, the annuity investments earned investment income of \$806 and \$825, 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, 2017 and 2016. Gettysburg Foundation made required payments to the designated beneficiary for each of the years ended September 30, 2017 and 2016 of \$21,591. The investments associated with this annuity experienced net investment income of \$35,127 and \$28,081 during the years ended September 30, 2017 and 2016, respectively.

A loss was recorded for each of the years ended September 30, 2017 and 2016 on the change in the value of the annuity liability totaling \$7,388 and \$8,919, respectively.

The investments associated with the split-interest agreements at September 30, 2017 and 2016 total \$402,055 and \$388,914, 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, 2017 and 2016, amounted to \$227,201 and \$241,798, 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, 2017 and 2016

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:

	2017		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
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>
2016			
Cash and Cash Equivalents	\$ 3,000,760	\$ 3,000,760	\$ -
Mutual Funds			
Equity funds	2,222,580	2,427,649	205,069
Fixed income funds	1,338,420	1,359,879	21,459
U.S. Treasury Bills and Notes	1,769,607	1,809,207	39,600
Split-Interest Annuity	27,504	27,504	-
	<u>\$ 8,358,871</u>	<u>\$ 8,624,999</u>	<u>\$ 266,128</u>

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

	2017	2016
Realized gains	\$ 94,875	\$ 93,060
Unrealized gains	304,696	212,691
Interest and dividend income	145,501	228,285
Investment management fees	(31,125)	(34,390)
	<u>\$ 513,947</u>	<u>\$ 499,646</u>

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

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, 2017 and 2016

Note 9 - Endowment (continued)

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 55,565	\$ 103,231	\$ 158,796
	2016			
Donor-restricted endowment funds	\$ -	\$ 34,565	\$ 95,863	\$ 130,428

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

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

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

Note 9 - Endowment (continued)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - October 1, 2015	\$ -	\$ 19,605	\$ 84,005	\$ 103,610
Investment Return				
Interest and dividends	-	6,668	-	6,668
Net gain (realized and unrealized)	-	10,553	-	10,553
Fees	-	(2,261)	-	(2,261)
Contributions	-		15,000	15,000
Change in Value of Split Interest Annuity Liability	-	-	(3,142)	(3,142)
Endowment Net Assets - September 30, 2016	<u>\$ -</u>	<u>\$ 34,565</u>	<u>\$ 95,863</u>	<u>\$ 130,428</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 absences 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, 2017 and 2016.

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.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

Note 9 - Endowment (continued)

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.

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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Building	\$ 44,543,147	\$ 44,314,144
Land and land improvements	19,355,805	19,183,941
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	<u>2,979,782</u>	<u>2,883,426</u>
	105,567,562	105,070,339
Accumulated depreciation	<u>(29,746,960)</u>	<u>(26,766,055)</u>
	<u>\$ 75,820,602</u>	<u>\$ 78,304,284</u>

Depreciation expense for the years ended September 30, 2017 and 2016 amounted to \$3,026,890 and \$2,985,174, respectively. Land, cyclorama painting restoration, scenic easements, and historical buildings are not depreciated.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, the outstanding balance on the note was \$247,592 and \$291,843, 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 2.98% and 2.45% as of September 30, 2017 and 2016, respectively. The amended mortgage terms require monthly payments of \$4,312. The maturity date of November 2022 remains unchanged from the original note. Interest expense under this note amounted to \$7,491 and \$7,723 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 was \$100,000. Interest expense under this note amounted to \$5,000 for each of the years ended September 30, 2017 and 2016.

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, 2017 and 2016 was \$200,000. Interest expense under this note amounted to \$9,600 for each of the years ended September 30, 2017 and 2016.

Aggregate maturities of notes payable, assuming no change in current terms, consist of the following for the five years ending September 30, 2022; and thereafter:

2018	\$	44,986
2019		46,342
2020		47,740
2021		49,180
2022		46,383
Thereafter		312,961
	\$	<u>547,592</u>

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

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 \$10,845,000 and \$11,465,000 as of September 30, 2017 and 2016, respectively, mature on December 1, 2027. The variable interest rate (reset weekly) at September 30, 2017 and 2016, was 0.99% and 0.89%, respectively. Total interest expense for this bond issue for the years ended September 30, 2017 and 2016 was \$235,215 and \$155,771, respectively. Principal payments made during the years ended September 30, 2017 and 2016 were \$620,000 and \$590,000, 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, 2017 and 2016, was 1.125% and 0.875%, respectively, 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, PA. 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, 2017 and 2016.

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:

	Series 2006A
2018	\$ 655,000
2019	695,000
2020	730,000
2021	925,000
2022	970,000
2023 - 2027	5,590,000
2028	1,280,000
	\$ 10,845,000

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.

In September 2016, Gettysburg Foundation was notified that the bond endowment investment reserve is pledged as collateral on the letter of credit. As such, the bond endowment investment reserve is deemed to be yield restricted and is subject to bond rebate interest every five years. Any interest earned on the bond endowment investment reserve in excess of the variable rate paid on the tax exempt municipal bonds is subject to rebate, which is payable to the Internal Revenue Service. During the year ended September 30, 2016, Gettysburg Foundation determined the bond rebate interest payable for the first five-year rebate period ended December 1, 2011 amounted to \$25,888 and was due by October 28, 2016. In addition, the bond rebate interest payable as of September 30, 2016 for the second five-year rebate period ending November 7, 2016 amounted to \$426,304 was repaid by December 31, 2016. No related liability is recorded as of September 30, 2017. Bond rebate interest expense has been recorded in the statement of activities as a component of the changes in net assets.

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, 2017 and 2016 was \$337,281 and \$542,001, respectively. The Taxable Series of 2006B bonds were paid off in 2011 but the swap instrument remained in place on the full amount of the bonds through August 31, 2016. On September 1, 2016, Gettysburg Foundation terminated the portion of the swap relating to the Taxable Series of 2006B bonds and repaid that portion of the swap. During the year ended September 30, 2016, Gettysburg Foundation made a payment of \$643,125 to restructure the swap. The funds were taken from the bond endowment investment reserve.

Gettysburg Foundation

Notes to Financial Statements

September 30, 2017 and 2016

Note 12 - Bonds Payable and Related Accounts (continued)

Derivative Instruments (continued)

The swap was issued at market terms so that it had no fair value at its inception. At September 30, 2017 and 2016, the swap agreement had a carrying value of \$1,306,860 and \$1,980,383, 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 \$673,523 and \$53,170 for the years ended September 30, 2017 and 2016, respectively, and are recorded in the statement of activities as a component of the changes in net assets. At September 30, 2017 and 2016, the notional value of the swap was \$10,845,000 and \$11,465,000, respectively.

Museum Land Lease Agreement

On October 5, 2006, Gettysburg Foundation entered into an agreement with the Adams County Industrial Development Authority (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, 2017 and 2016, this liability amounted to \$41,647 and \$45,037, 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 \$1,307,292 and \$1,432,292 as of September 30, 2017 and 2016, respectively.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

Note 14 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Promises to give	\$ 2,164,417	\$ 2,337,877
Battlefield rehabilitation	2,032,133	549,872
Gettysburg Railroad Station	137,365	127,865
Split-interest annuity	123,545	104,884
Museum exhibits	115,795	58,398
Other	94,005	733
Education programs	80,664	112,000
Spangler Farm and trail	72,999	35,747
Endowment earnings accumulated	55,565	34,565
Stewardship 150 projects	-	134,779
	<u>\$ 4,876,488</u>	<u>\$ 3,496,720</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>2017</u>	<u>2016</u>
Scenic easements	\$ 9,845,000	\$ 9,845,000
Endowment investments	176,901	174,100
Promises to give	5,000	10,000
Present value of split-interest annuity liability	<u>(73,670)</u>	<u>(78,237)</u>
	<u>\$ 9,953,231</u>	<u>\$ 9,950,863</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, 2017 and 2016 amounted to \$113,198 and \$134,257, respectively.

Gettysburg Foundation

Notes to Financial Statements
September 30, 2017 and 2016

Note 17 - Related Party Transactions

The former Chairperson of Gettysburg Foundation's Board of Directors is related through common management to various related parties. In addition, 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>2017</u>	<u>2016</u>
Promises to give	\$ 687,497	\$ 917,898
Accounts payable	6,248	112,753

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

	<u>2017</u>	<u>2016</u>
Contributions	\$ 88,961	\$ 758,950
Gift - in-kind Donation of Artifacts	-	2,740,625
Property and equipment expenditures, capitalized	77,786	112,368
Maintenance and supplies, expensed	29,018	273,311
Professional fees	312,998	9,400
Guide and speaker fees	-	1,100

Note 18 - Rental Income

Gettysburg Foundation subleases 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. Lease payments under the lease agreement for both of the years ended September 30, 2017 and 2016 amounted to \$24,000.

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, 2017 and 2016

Note 19 - Commitments (continued)

Future minimum lease payments consist of the following for the five years ending September 30, 2022; and thereafter:

2018	\$	18,000
2019		18,000
2020		18,000
2021		18,000
2022		18,000
Thereafter		<u>58,500</u>
	\$	<u>148,500</u>

Rent expense related to these leases, for the years ended September 30, 2017 and 2016 amounted to \$20,640 and \$31,316, respectively.

Note 20 - Reclassifications

Certain information in the 2016 financial statements and related footnotes contain reclassifications necessary to make that information comparable to information presented in the 2017 financial statements.

Gettysburg Foundation

Schedule of Functional Expenses - by Natural Classification

Year Ended September 30, 2017

	Program Services			Supporting Services		Total
	Museum and Visitor Center Operations	National Park 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 expense (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>

Gettysburg Foundation

Schedule of Functional Expenses - by Natural Classification (continued)

Year Ended September 30, 2016

	Program Services			Supporting Services		Total
	Museum and Visitor Center Operations	National Park Service and Interpretive and Office Facilities	Programs	Management and General	Fundraising	
Salaries and wages	\$ 1,800,826	\$ 191,430	\$ 243,560	\$ 423,507	\$ 851,786	\$ 3,511,109
Employee benefits and payroll tax	463,902	38,775	56,779	179,470	168,287	907,213
Professional fees	78,359	7,338	148,857	128,794	118,085	481,433
Advertising and promotion	176,799	-	3,065	-	4,088	183,952
Office, telephone and postage	61,672	3,918	15,685	5,593	117,446	204,314
Travel, meals and entertainment	81,280	1,964	67,410	39,769	58,081	248,504
Printing	45,085	46	24,345	8,041	150,499	228,016
Supplies	235,717	58,953	25,656	8,541	34,202	363,069
Repairs and maintenance	221,107	52,724	4,794	3,797	6,594	289,016
Museum exhibits and artifacts	3,631	70,507	-	-	-	74,138
Trash and janitorial	13,979	7,823	3,376	1,107	3,248	29,533
Information technology	213,860	39,494	5,620	9,617	47,769	316,360
Dues, subscriptions and professional development	28,588	1,007	4,641	4,809	10,857	49,902
Rent expense	-	4,800	2,640	8,610	8,610	24,660
Real estate taxes	48,765	10,920	540	840	2,635	63,700
Utilities	286,196	64,548	8,016	4,965	7,818	371,543
Insurance	53,634	7,318	5,626	9,749	19,160	95,487
Bank and credit card processing fees	178,897	-	62	-	8,724	187,683
Admission taxes	197,064	-	629	-	-	197,693
Cost of sales and bus rentals	1,325,528	-	56,463	-	2,500	1,384,491
Guide and speaker fees	1,559,057	-	14,535	415	8,273	1,582,280
Registration and filing fees	-	-	-	-	5,201	5,201
Membership expenses	-	-	936	-	66,095	67,031
Donation and preservation funding to NPS	-	304,879	-	650	-	305,529
Donations to GNMP and NPS	-	427,130	-	-	-	427,130
Donation of artifacts and property to NPS	-	2,744,145	-	-	-	2,744,145
Depreciation	2,337,603	533,306	50,290	44,797	19,178	2,985,174
Interest expense	700,798	-	13,394	-	8,929	723,121
Bad debt recovery	-	-	-	44,135	-	44,135
	<u>\$ 10,112,347</u>	<u>\$ 4,571,025</u>	<u>\$ 756,919</u>	<u>\$ 927,206</u>	<u>\$ 1,728,065</u>	<u>\$ 18,095,562</u>