THORNWELL

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Report of Independent Auditor

To the Board of Trustees of
Thornwell
Clinton, South Carolina

We have audited the accompanying financial statements of Thornwell, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 Thornwell'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 Thornwell'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 Thornwell as of December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Greenville, South Carolina
June 14, 2018

THORNWELL

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,452,674	$ 1,524,908
Accounts receivable, net	750	292
Current portion pledges receivable	276,239	280,529
Prepaid expenses	20,343	86,438
Other Current Assets	96,318	109,693
Total Current Assets	1,846,324	2,001,860
Property, Plant, and Equipment, net	5,744,740	6,068,115
Other Assets:		
Restricted cash	-	48,416
Investments, at fair value	37,342,014	34,840,554
Trust fund assets, at fair value	6,430,620	5,690,388
Real estate held for investment	3,279,060	3,334,470
Net pledges receivable, less current portion	383,191	420,971
Other	75,972	51,743
Total Other Assets	47,510,857	44,386,542
Total Assets	$ 55,101,921	$ 52,456,517
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 46,794	$ 165,793
Accrued payroll, payroll taxes, and employee benefits	222,925	206,966
Accrued expenses	93,324	110,187
Actuarial liability of annuities payable, current portion	-	3,870
Total Current Liabilities	363,043	486,816
Long-Term Liabilities:		
Actuarial liability of annuities payable, less current portion	-	8,523
Total Liabilities	363,043	495,339
Net Assets:		
Unrestricted	33,857,816	32,059,001
Temporarily restricted	3,601,137	3,698,224
Permanently restricted	17,279,925	16,203,953
Total Net Assets	54,738,878	51,961,178
Total Liabilities and Net Assets	$ 55,101,921	$ 52,456,517

The accompanying notes to the financial statements are an integral part of these statements.

THORNWELL
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions and gifts	$ 6,265,527	$ 5,981	$ 539,780	$ 6,811,288
Fees for services	1,673,118	-	-	1,673,118
Grants	498,620	-	-	498,620
Investment income	576,246	250,706	-	826,952
Net realized and unrealized gains on investments	882,361	492,820	-	1,375,181
Change in fair value of restricted trusts	-	37,243	536,192	573,435
Other support	290,797	-	-	290,797
Net assets released from restrictions:				
Satisfaction of program restrictions	883,837	(883,837)	-	-
Total Revenues and Other Support	11,070,506	(97,087)	1,075,972	12,049,391
Expenses:				
Program services	7,523,453	-	-	7,523,453
Supporting services:				
Administration and general	781,815	-	-	781,815
Fundraising	966,423	-	-	966,423
Total Expenses	9,271,691	-	-	9,271,691
Change in net assets	1,798,815	(97,087)	1,075,972	2,777,700
Net assets, beginning of year	32,059,001	3,698,224	16,203,953	51,961,178
Net assets, end of year	$ 33,857,816	$ 3,601,137	$ 17,279,925	$ 54,738,878

The accompanying notes to the financial statements are an integral part of these statements.

THORNWELL

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions and gifts	$ 8,871,410	$ 258,367	$ 48,416	$ 9,178,193
Fees for services	2,230,114	-	-	2,230,114
Grants	536,356	-	-	536,356
Investment income	876,045	415,660	-	1,291,705
Net realized and unrealized gains on investments	631,324	443,893	-	1,075,217
Change in fair value of trusts	-	922	(57,359)	(56,437)
Other support	121,429	-	-	121,429
Net assets released from restrictions:				
Satisfaction of program restrictions	481,765	(481,765)	-	-
Total Revenues and Other Support	13,748,443	637,077	(8,943)	14,376,577
Expenses:				
Program services	6,886,245	-	-	6,886,245
Supporting services:				
Administration and general	694,705	-	-	694,705
Fundraising	807,082	-	-	807,082
Total Expenses	8,388,032	-	-	8,388,032
Change in net assets	5,360,411	637,077	(8,943)	5,988,545
Net assets, beginning of year	26,698,590	3,061,147	16,212,896	45,972,633
Net assets, end of year	$ 32,059,001	$ 3,698,224	$ 16,203,953	$ 51,961,178

THORNWELL
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

		Supporting Services			
	Program Services	Administration and General	Fundraising	Total Supporting Services	Total
Salaries and wages	$ 3,804,129	$ 435,214	$ 502,404	$ 937,618	$ 4,741,747
Payroll taxes and fringe benefits	276,518	20,269	37,015	57,284	333,802
Employee related expenses	559,235	31,071	62,766	93,837	653,072
Retirement	123,552	36,861	21,034	57,895	181,447
Total salary and benefits	4,763,434	523,415	623,219	1,146,634	5,910,068
Utilities	344,360	19,553	20,812	40,365	384,725
Insurance	247,687	13,760	13,760	27,520	275,207
Travel, entertainment, and lodging	235,309	28,985	32,276	61,261	296,570
Contractual services	282,839	98,637	29,291	127,928	410,767
Children's clothing and activities	145,381	-	-	-	145,381
Postage	6,119	412	54,279	54,691	60,810
Painting, cleaning, and maintenance contracts	106,787	5,823	5,839	11,662	118,449
Other	145,924	19,795	30,718	50,513	196,437
Food	229,388	2,447	11,147	13,594	242,982
Supplies	145,017	7,429	7,831	15,260	160,277
Printing	21,430	666	100,812	101,478	122,908
Technology	61,450	25,815	9,082	34,897	96,347
Capital expenditures	59,860	3,638	2,771	6,409	66,269
Total expenses before depreciation	6,794,985	750,375	941,837	1,692,212	8,487,197
Depreciation	728,468	31,440	24,586	56,026	784,494
Total Expenses	$ 7,523,453	$ 781,815	$ 966,423	$ 1,748,238	$ 9,271,691

The accompanying notes to the financial statements are an integral part of these statements.

THORNWELL
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2016

		Supporting Services			
	Program Services	Administration and General	Fundraising	Total Supporting Services	Total
Salaries and wages	$ 3,049,384	$ 393,089	$ 398,802	$ 791,891	$ 3,841,275
Payroll taxes and fringe benefits	220,697	17,862	28,542	46,404	267,101
Employee related expenses	467,836	30,587	49,584	80,171	548,007
Retirement	85,615	27,782	9,994	37,776	123,391
Total salary and benefits	3,823,532	469,320	486,922	956,242	4,779,774
Utilities	382,920	21,488	22,350	43,838	426,758
Insurance	221,558	12,309	12,309	24,618	246,176
Travel, entertainment, and lodging	133,142	25,381	48,958	74,339	207,481
Contractual services	218,028	72,001	22,394	94,395	312,423
Children's clothing and activities	141,862	89	25,912	26,001	167,863
Postage	6,066	381	57,068	57,449	63,515
Painting, cleaning, and maintenance contracts	74,856	3,835	6,636	10,471	85,327
Other	145,757	14,430	5,832	20,262	166,019
Food	202,030	4,003	9,195	13,198	215,228
Supplies	515,165	10,376	8,931	19,307	534,472
Printing	20,695	1,116	43,654	44,770	65,465
Technology	64,729	14,107	30,067	44,174	108,903
Repairs and maintenance	230,255	2,796	2,796	5,592	235,847
Total expenses before depreciation	6,180,595	651,632	783,024	1,434,656	7,615,251
Depreciation	705,650	43,073	24,058	67,131	772,781
Total Expenses	$ 6,886,245	$ 694,705	$ 807,082	$ 1,501,787	$ 8,388,032

THORNWELL
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017		2016
Cash flows from operating activities:				
Change in net assets	$	2,777,700	$	5,988,545
Adjustments to reconcile change in net assets to net cash from operating activities:				
Net realized and unrealized (gains) losses on investments		(1,375,181)		(1,075,217)
Gifts restricted for permanent investment		(539,780)		(48,416)
Noncash gifts		-		(2,450,067)
Change in fair value of restricted trusts		(573,435)		56,437
Depreciation		784,494		772,781
Change in assets and liabilities:				
Accounts receivable		(458)		3,592
Prepaid expenses and other assets		55,241		32,542
Restricted cash		48,416		(48,416)
Pledges receivable		42,070		43,513
Accounts payable		(118,999)		9,368
Accrued payroll, payroll taxes, and employee benefits		15,959		(33,405)
Accrued expenses		(16,863)		(35,629)
Actuarial liability of annuities payable		(12,393)		(492)
Net cash from operating activities		1,086,771		3,215,136
Cash flows from investing activities:				
Proceeds from sales of investments		789,425		34,251,332
Purchase of investments		(1,860,294)		(35,848,674)
Purchases of property and equipment		(461,119)		(941,308)
Net cash from investing activities		(1,531,988)		(2,538,650)
Cash flows from financing activities:				
Proceeds from gifts restricted for permanent investment		539,780		48,416
Additions to trust fund assets		(166,797)		-
Net cash from financing activities		372,983		48,416
Net change in cash and cash equivalents		(72,234)		724,902
Cash and cash equivalents, beginning of year		1,524,908		800,006
Cash and cash equivalents, end of year	$	1,452,674	$	1,524,908
Supplemental noncash disclosure of cash flow information:				
Noncash gift of real estate	$	-	$	2,450,067

Note 1—Organization and nature of operations

Located in Clinton, South Carolina, Thornwell is maintained and operated for the support, maintenance, and education of children and their families.

Note 2—Summary of significant accounting policies

General – The financial statements of Thornwell have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Revenue Recognition – Contributions received and unconditional promises to give are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the year in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Thornwell provides an allowance for uncollectible pledges based on information obtained from advisors, peer organizations, and other factors. Collections of pledges written-off or fully reserved in prior years are recorded as contributions in the year received.

At December 31, 2017 and 2016, there was an immaterial conditional promise to give which provided funding necessary to help establish a Reading Literacy Program at Thornwell.

Thornwell may receive, in some years, large bequests or proceeds from grantor trusts that are significant in relation to the total revenue. The timing of these gifts, as well as the frequency, is not predictable.

Classification of Net Assets – Net assets have been grouped into the following three classes:

Unrestricted net assets are not subject to donor-imposed stipulations and include all revenues, expenses, and losses that are not changes in temporarily or permanently restricted net assets. Unrestricted net assets include Thornwell's operating and plant accounts.

Temporarily restricted net assets include gifts, grants, income, gains, and pledges for which donor imposed restrictions have not been met and allocated earnings and changes in fair value on endowed investments not yet appropriated by the Board of Trustees.

Permanently restricted net assets include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities of less than 90 days. Those instruments are used to temporarily invest endowment funds until appropriate investments are identified. As of December 31, 2017, $559,353 was included in cash and cash equivalents that was designated by the Board of Trustees to be invested in the Board Designated Endowment.

Note 2—Summary of significant accounting policies (continued)

Fundraising Expenses – Thornwell incurs costs associated with fundraising activities that include salaries, benefits, marketing, postage, and other fundraising costs.

Restricted Cash – Cash and cash equivalents that are restricted as to withdrawal or use are recorded in *Other Assets* in the Statements of Financial Position. The restricted cash balance was zero and $48,416 for the years ended December 31, 2017 and 2016, respectively. The restricted cash balance consists of permanently restricted contributions made to the endowment.

Investments – Marketable equity and debt securities are recorded at fair value, with realized and unrealized gains and losses reported in the statements of activities. The fair values of investment in funds are determined monthly by the funds' administrators based on current market values or independent valuations of the underlying assets.

Investments acquired by gift, including real estate, are recorded at fair value at the date of gift. See Note 11 for additional information on fair value measurements.

Interests in Trusts Held by Others – The interest in assets held by others in split-interest agreements are recorded at their fair market value when received. Liabilities incurred in the exchange portion of an agreement, usually an agreement to pay an annuity to the donor, are also recognized. For these financial statements, such assets are shown net of recorded liabilities.

Annuity Funds – Thornwell has charitable gift annuity agreements in which the donor contributes assets to Thornwell in exchange for a promise by Thornwell to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Gift annuity contributions are recognized in the period received at their fair market value when received. The assets are held as general assets of Thornwell, and the annuity liability is a general obligation of Thornwell. Upon death of the donor, the annuity liability, if any, is removed and recognized as income.

Perpetual Trusts – Thornwell has interests in perpetual trusts and accordingly has an irrevocable right to receive income earned from the trusts' assets in perpetuity. Because of the perpetual aspect of the trusts, Thornwell will never receive the trusts' assets or corpus. Upon donation, Thornwell recognized an asset representing its beneficial interest in the perpetual trust based on the present value of the estimated future distributions from trust assets. Thornwell reviews interests in perpetual trusts annually to recognize the current fair value of these assets.

Real Estate Held for Investment – Real estate assets held for investment acquired by gift are recorded at fair value as of the date of gift and are periodically subject to appraisals to assess changes in fair value.

Property, Plant, and Equipment – Property, plant, and equipment are recorded at cost. Donated assets are recorded at fair value at the date of donation. Expenditures for maintenance and repairs are charged to expense as incurred; betterments and renewals are capitalized.

Depreciation is provided over the estimated useful lives of the assets and computed on the straight-line basis. A summary of depreciable lives follows:

Buildings, residences, and other structures	15 to 20 years
Building and land improvements	15 years
Equipment, furniture, and vehicles	3 to 10 years

Note 2—Summary of significant accounting policies (continued)

Thornwell reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, Thornwell reports the support as unrestricted. Thornwell reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Thornwell reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income Tax Status – Thornwell is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by Financial Accounting Standards Board ("FASB") on Accounting for Uncertainty in Income Taxes. Management believes that Thornwell continues to satisfy the requirements of a tax-exempt organization at December 31, 2017. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined Thornwell had no significant uncertain income tax positions at December 31, 2017.

Recent Issued Accounting Pronouncements Not Yet Adopted – In May 2014, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09 – *(Topic 606)*, which creates a principles-based approach for recognizing revenue replacing all of the existing industry-based GAAP guidance. Under this new standard, an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, in which the entity expects to be entitled in exchange for those goods or services. Revenue recognition will be determined by applying a five-step process, including:

1. Identify the contract(s) with a customer,
2. Identify the performance obligations in the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the performance obligations in the contract, and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU No. 2014-09 established the effective date as follows: for nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may early adopt in limited situations.

In August 2015, the FASB issued ASU No. 2015-14 – *Revenue from Contracts with Customers (Topic 960)*: Deferral of the Effective Date, which delays the effective date by one year. As such, the guidance provided by ASU No. 2014-09, *Revenue from Contracts with Customers* is effective for annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Thornwell is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ASU Nos. 2016-08 – *Revenue from Contracts with Customers (Topic 606)*: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), 2016-10 – *Revenue from Contracts with Customers (Topic 606)*: Identifying Performance Obligations and Licensing, and 2016-12 – *Revenue from Contracts with Customers (Topic 606)*: Narrow-Scope Improvements and Practical Expedients, issued at various times during 2016, clarified the guidance of ASU No. 2014-09 without changing the substance or the effective date.

Note 2—Summary of significant accounting policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the combined balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. Thornwell is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

On August 18, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU provides for a variety of changes to the presentation of the financial statements of not-for-profit entities, including changing from three classes of net assets to two classes of net assets, enhancing disclosure requirements related to liquidity concerns and endowment management, a requirement to present expenses classified by both their nature and their function and other changes to presentation and disclosure. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. Thornwell is presently evaluating the impact of the ASU on the financial statements.

Note 3—Pledges receivable

Unconditional promises to give are included in the financial statements as contributions receivable and contributions and gifts revenue of the appropriate net asset category. Contributions receivable are recorded at the present value of the future cash flows.

Unconditional promises to give at December 31 are expected to be realized in the following years:

	2017	2016
In one year or less	$ 276,239	$ 280,529
Between one year and five years	453,191	515,245
More than five years	7,541	6,848
	736,971	802,622
Less unamortized present value discount		
(discount rates ranging from 1.8% to 2.6%)	(10,179)	(9,744)
Less allowance for doubtful pledges	(67,362)	(91,378)
	$ 659,430	$ 701,500

Note 4—Investments

Investments consist of the following at December 31:

	2017	2016
Short-term investments	$ 8,427,657	$ 29,535,933
U.S. government and agency securities	398,500	-
Common stocks - domestic	287,100	543,510
Preferred stocks	4,390,320	-
Mutual funds	19,862,368	4,599,009
Corporate bonds - domestic	3,976,069	162,102
Total investment securities	37,342,014	34,840,554
Real estate held for investment	3,279,060	3,334,470
Total investments	$ 40,621,074	$ 38,175,024

Note 5—Trust fund assets

Thornwell is the beneficiary under the terms of various trusts. Trust fund assets consist of the following at December 31:

	2017	2016
Interests in trusts held by others	$ 6,430,620	$ 5,690,388

Note 6—Property, plant, and equipment

Property, plant, and equipment included the following at December 31:

	2017	2016
Land and improvements	$ 1,025,724	$ 1,072,826
Buildings and building improvements	19,794,505	19,385,670
Furniture and equipment	1,662,022	1,628,480
Vehicles	666,926	678,826
Construction in progress	-	21,600
	23,149,177	22,787,402
Less accumulated depreciation	(17,404,437)	(16,719,287)
Property, plant, and equipment, net	$ 5,744,740	$ 6,068,115

Note 7—Endowments

Thornwell's endowments consist of individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Trustees of Thornwell has interpreted the South Carolina Uniform Prudent Management of Institutional Funds Act ("SCUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Thornwell 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 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 Thornwell in a manner consistent with the standard of prudence prescribed by SCUPMIFA. In accordance with SCUPMIFA, Thornwell considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund,
2. The purposes of Thornwell 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 the appreciation of investments,
6. Other resources of Thornwell, and
7. The investment policies of Thornwell

Funds with Deficiencies – From time to time, the fair value of assets associated with individual Board-designated endowment funds may fall below the level that the donor or SCUPMIFA requires Thornwell to retain as a fund of perpetual duration. Deficiencies can result from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters – Thornwell has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of Board-designated funds that Thornwell must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce reasonable investment returns while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, Thornwell 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). Thornwell targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Note 7—Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy – Thornwell has a policy of appropriating for distribution each year a maximum of 5% of its endowment fund's fair value over the prior fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, Thornwell considered the long-term expected return on its endowment. Accordingly, over the long term, Thornwell expects the current spending policy to allow its endowment to grow at a reasonable rate. This is consistent with Thornwell's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. In addition to the 5% distribution per the spending policy, additional funds may be withdrawn from Board-designated endowment funds with Board approval.

Endowment net asset composition by type of fund as of December 31:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,643,897	$ 17,279,925	$ 19,923,822
Board-designated endowment funds	24,253,289	-	-	24,253,289
	$ 24,253,289	$ 2,643,897	$ 17,279,925	$ 44,177,111

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 2,525,386	$ 16,203,953	$ 18,729,339
Board-designated endowment funds	21,127,175	-	-	21,127,175
	$ 21,127,175	$ 2,525,386	$ 16,203,953	$ 39,856,514

Note 7—Endowments (continued)

Changes in endowment net assets for the year ended December 31:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 21,127,175	$ 2,525,386	$ 16,203,953	$ 39,856,514
Investment return	1,198,383	743,526	536,192	2,478,101
Other activities:				
Contributions	3,475,112	-	539,780	4,014,892
Board approved withdrawals	(954,771)	(592,379)	-	(1,547,150)
Bequest fund draw	(540,009)	-	-	(540,009)
Fees	(52,601)	(32,636)	-	(85,237)
Total other activities	1,927,731	(625,015)	539,780	1,842,496
Endowment net assets, end of year	$ 24,253,289	$ 2,643,897	$ 17,279,925	$ 44,177,111

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 19,917,148	$ 1,668,064	$ 16,212,896	$ 37,798,108
Investment return	1,213,176	859,553	(57,359)	2,015,370
Other activities:				
Contributions	-	-	48,416	48,416
Board approved withdrawals	(3,149)	(2,231)	-	(5,380)
Total other activities	(3,149)	(2,231)	48,416	43,036
Endowment net assets, end of year	$ 21,127,175	$ 2,525,386	$ 16,203,953	$ 39,856,514

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires Thornwell to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were zero as of December 31, 2017 and 2016.

Note 8—Restrictions and limitations on net asset balances

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

	2017	2016
General, instructional, and scholarships	$ 3,360,468	$ 3,319,469
Property, plant, and equipment	85,792	186,159
Annuities and split-interest agreements	154,877	192,596
	$ 3,601,137	$ 3,698,224

Permanently restricted net assets consist of endowment funds required to be retained permanently either by explicit donor stipulation. Permanently restricted net assets consist of the following at December 31:

	2017	2016
Endowed general, instructional, and scholarships	$ 11,004,182	$ 10,631,199
Endowed trust funds	6,275,743	5,572,754
	$ 17,279,925	$ 16,203,953

Once appropriated, the income from permanently restricted net assets is expendable for donor-restricted purposes.

Note 9—Retirement plans

Thornwell maintains a defined contribution plan covering substantially all full-time employees. Thornwell contributes 3% of gross wages for all covered employees with one year of eligible service. Thornwell may make discretionary matching contributions to eligible participants up to 3% of employee contributions. Contributions to the plan were $156,715 and $102,327 for the years ended December 31, 2017 and 2016, respectively.

For clergy members and originally covered employees, a defined benefit plan is administered by the Board of Pensions of the Presbyterian Church USA. Contributions to the plan were $17,832 and $18,495 for the years ended December 31, 2017 and 2016, respectively. Information regarding the plan is available from the plan administrator at the following address:

The Board of Pensions of the Presbyterian Church USA
2000 Market Street
Philadelphia, PA 19103-3298

Note 10—Contingencies

Credit Risk – Financial instruments, which potentially subject Thornwell to concentrations of credit risk, consist principally of cash and investments deposited in financial institutions in excess of federally insured limits. The Federal Deposit Insurance Corporation insures cash balances up to $250,000 per bank. Thornwell's cash and cash equivalents are held at multiple financial institutions, and exceeded the federally insured amount by $1,644,520 at December 31, 2017. Thornwell's investments are held at Merrill Lynch.

Litigation – From time to time, Thornwell is a party to various legal proceedings arising from normal operations. Management believes that no material losses are anticipated in connection with these matters at December 31, 2017.

Note 11—Fair value measurements

Accounting Standards Codification Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques 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: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any 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 table sets forth, within the fair value hierarchy, Thornwell's assets and liabilities at fair value on a recurring basis as of December 31:

	Assets and Liabilities at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 8,427,657	$ -	$ -	$ 8,427,657
U.S. government and agency securities	398,500	-	-	398,500
Common stocks - domestic	287,100	-	-	287,100
Preferred stocks	4,390,320	-	-	4,390,320
Mutual funds	19,862,368	-	-	19,862,368
Corporate bonds - domestic	3,976,069	-	-	3,976,069
Total investments	37,342,014	-	-	37,342,014
Perpetual trusts held by third party	-	6,430,620	-	6,430,620
Total assets at fair value	$ 37,342,014	$ 6,430,620	$ -	$ 43,772,634

Note 11—Fair value measurements (continued)

	Assets and Liabilities at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments	$ 29,535,933	$ -	$ -	$ 29,535,933
Common stocks - domestic	543,510	-	-	543,510
Mutual funds	4,599,009	-	-	4,599,009
Corporate bonds - domestic	162,102	-	-	162,102
Total investments	34,840,554	-	-	34,840,554
Perpetual trusts held by third party	-	5,690,388	-	5,690,388
Total assets at fair value	$ 34,840,554	$ 5,690,388	$ -	$ 40,530,942
Liabilities:				
Actuarial liability of annuities payable	$ -	$ -	$ 12,393	$ 12,393

Measurement at fair value on a nonrecurring basis at December 31, 2017:

	Level 1	Level 2	Level 3	Total
Real estate held for resale	$ -	$ 3,279,060	$ -	$ 3,279,060
	$ -	$ 3,279,060	$ -	$ 3,279,060

Measurement at fair value on a nonrecurring basis at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Real estate held for resale	$ -	$ 3,334,470	$ -	$ 3,334,470
	$ -	$ 3,334,470	$ -	$ 3,334,470

Note 11—Fair value measurements (continued)

The following table sets forth a summary of changes in fair value of Thornwell's Level 3 assets and liabilities for the year ended December 31:

	2017	
	Oil and Gas Investment	**Actuarial Liability of Annuities Payable**
Balance, beginning of year	$ -	$ 12,393
Other, net	-	(12,393)
Balance, end of year	$ -	$ -

	2016	
	Oil and Gas Investment	**Actuarial Liability of Annuities Payable**
Balance, beginning of year	$ 258,692	$ 12,885
Sales	(258,692)	-
Other, net	-	(492)
Balance, end of year	$ -	$ 12,393

All assets have been valued using a market approach, except for Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. Fair values for assets in Level 3 are calculated using assumptions about discounted cash flow and other present value techniques. There were no changes in the valuations techniques during the current year.

Note 12—Subsequent events

Thornwell has evaluated subsequent events through June 14, 2018, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.