THORNWELL

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

THORNWELL
TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Trustees
Thornwell
Clinton, South Carolina

We have audited the accompanying financial statements of Thornwell, which comprise the statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, in August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU has been applied retrospectively to all periods presented.

Cherry Bekaert LLP

Greenville, South Carolina
June 24, 2019

THORNWELL

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 661,752	$ 1,452,674
Accounts receivable, net	213,809	750
Current portion pledges receivable	904,248	276,239
Prepaid expenses	83,583	20,343
Other current assets	31,666	96,318
Total Current Assets	1,895,058	1,846,324
Property, Plant, and Equipment, net	6,440,113	5,744,740
Other Assets:		
Investments, at fair value	35,140,077	37,342,014
Trust fund assets, at fair value	5,861,690	6,430,620
Real estate held for investment	3,274,540	3,279,060
Net pledges receivable, less current portion	612,533	383,191
Other	73,671	75,972
Total Other Assets	44,962,511	47,510,857
Total Assets	$ 53,297,682	$ 55,101,921
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 99,104	$ 46,794
Accrued payroll, payroll taxes, and employee benefits	176,232	222,925
Accrued expenses	94,112	93,324
Line of credit	314,692	-
Total Current Liabilities	684,140	363,043
Total Liabilities	684,140	363,043
Net Assets:		
Without donor restrictions	32,664,216	33,857,816
With donor restrictions	19,949,326	20,881,062
Total Net Assets	52,613,542	54,738,878
Total Liabilities and Net Assets	$ 53,297,682	$ 55,101,921

THORNWELL

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and gifts	$ 5,484,329	$ 1,010,965	$ 6,495,294
Fees for services	1,970,171	-	1,970,171
Grants	952,248	-	952,248
Investment return, net	(1,088,802)	(676,875)	(1,765,677)
Change in fair value of restricted trusts	-	(568,930)	(568,930)
Other support	341,475	-	341,475
Net assets released from restrictions:			
Satisfaction of program restrictions	696,896	(696,896)	-
Total Revenues and Other Support	8,356,317	(931,736)	7,424,581
Expenses:			
Program services	7,896,688	-	7,896,688
Supporting services:			
Administration and general	751,678	-	751,678
Fundraising	901,551	-	901,551
Total Expenses	9,549,917	-	9,549,917
Change in net assets	(1,193,600)	(931,736)	(2,125,336)
Net assets, beginning of year	33,857,816	20,881,062	54,738,878
Net assets, end of year	$ 32,664,216	$ 19,949,326	$ 52,613,542

THORNWELL

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and gifts	$ 5,778,437	$ 545,761	$ 6,324,198
Fees for services	1,673,118	-	1,673,118
Grants	985,710	-	985,710
Investment return, net	1,458,607	743,526	2,202,133
Change in fair value of trusts	-	573,435	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	978,885	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	978,885	2,777,700
Net assets, beginning of year	32,059,001	19,902,177	51,961,178
Net assets, end of year	$ 33,857,816	$ 20,881,062	$ 54,738,878

THORNWELL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services: Administration and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total
Salaries and wages	$ 3,994,091	$ 476,323	$ 463,548	$ 939,871	$ 4,933,962
Payroll taxes	288,015	24,129	33,954	58,083	346,098
Employee related expenses	656,256	37,812	52,258	90,070	746,326
Retirement	151,413	39,793	27,515	67,308	218,721
Total Salary and Benefits	5,089,775	578,057	577,275	1,155,332	6,245,107
Utilities	339,245	19,751	21,871	41,622	380,867
Insurance	235,703	12,965	12,965	25,930	261,633
Travel, entertainment, and lodging	142,893	8,300	31,464	39,764	182,657
Contractual services	425,797	52,353	37,531	89,884	515,681
Children's clothing and activities	121,719	-	1,950	1,950	123,669
Postage	7,534	424	55,993	56,417	63,951
Painting, cleaning, and maintenance contracts	122,539	6,264	6,264	12,528	135,067
Other	182,158	6,323	3,519	9,842	192,000
Food	245,574	3,248	20,981	24,229	269,803
Supplies	162,679	10,090	9,438	19,528	182,207
Printing	35,318	2,090	72,308	74,398	109,716
Technology	77,822	22,149	28,327	50,476	128,298
Capital expenditures	87,976	3,588	3,588	7,176	95,152
Total Expenses Before Depreciation	7,276,732	725,602	883,474	1,609,076	8,885,808
Depreciation	619,956	26,076	18,077	44,153	664,109
Total Expenses	$ 7,896,688	$ 751,678	$ 901,551	$ 1,653,229	$ 9,549,917

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

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	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
Repairs and maintenance	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 this statement.

THORNWELL

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (2,125,336)	$ 2,777,700
Adjustments to reconcile change in net assets to net cash from operating activities:		
Net realized and unrealized losses (gains) on investments	2,988,944	(1,375,181)
Gifts restricted for permanent investment	-	(539,780)
Change in fair value of restricted trusts	568,930	(573,435)
Depreciation	664,109	784,494
Change in assets and liabilities:		
Accounts receivable	(213,059)	(458)
Prepaid expenses and other assets	3,713	55,241
Restricted cash	-	48,416
Pledges receivable	(857,351)	42,070
Accounts payable	52,310	(118,999)
Accrued payroll, payroll taxes, and employee benefits	(46,693)	15,959
Accrued expenses	788	(16,863)
Actuarial liability of annuities payable	-	(12,393)
Net cash from operating activities	1,036,355	1,086,771
Cash flows from investing activities:		
Proceeds from sales of investments	124,441	789,425
Purchase of investments	(906,928)	(1,860,294)
Purchases of property, plant, and equipment	(1,359,482)	(461,119)
Net cash from investing activities	(2,141,969)	(1,531,988)
Cash flows from financing activities:		
Proceeds from line of credit, net	314,692	-
Proceeds from gifts restricted for permanent investment	-	539,780
Additions to trust fund assets	-	(166,797)
Net cash from financing activities	314,692	372,983
Net change in cash and cash equivalents	(790,922)	(72,234)
Cash and cash equivalents, beginning of year	1,452,674	1,524,908
Cash and cash equivalents, end of year	$ 661,752	$ 1,452,674
Supplemental noncash disclosure of cash flow information:		
Interest paid	$ 604	$ -

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.

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 two classes:

> *Net assets without donor restrictions* are not subject to donor-imposed stipulations and include all revenues, expenses, and losses that are not changes in net assets with donor restrictions. Net assets without donor restrictions include Thornwell's operating and plant accounts.
>
> *Net assets with donor restrictions* 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 as well as 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, 2018 and 2017, respectively, $90,674 and $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.

Allocation of Expenses – The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and plant operations and maintenance, which are allocated ratably across functions.

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.

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 13 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.

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	5 to 40 years
Building and land improvements	2 to 50 years
Equipment, furniture, and vehicles	2 to 30 years

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, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements 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 net assets without donor restrictions. Thornwell reports gifts of goods and equipment as support without donor restrictions 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 support with donor restrictions. 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.

Note 2—Summary of significant accounting policies (continued)

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, 2018. 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, 2018.

Recently Issued Accounting Pronouncements Adopted – On August 18, 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. 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. During 2018, Thornwell adopted this pronouncement and has retrospectively applied the updates to the 2017 financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted – In May 2014, the FASB issued 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.

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. Thornwell is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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.

Reclassification – The presentation of grants on the statement of activities for the year ended December 31, 2017 has been updated to conform to the presentation for the year ended December 31, 2018. In the prior year, certain grants were shown as contributions and gifts instead of grants on the statement of activities. This presentation has been corrected in the current year statements of activities, and as a result, revenue from grants for the year ended December 31, 2017 changed from $498,620 as previously presented to $985,710 as currently presented, and contributions and gifts changed from $6,811,288 as previously presented to $6,324,198 as currently presented. Total revenue for the year ended December 31, 2017 did not change as a result of this correction.

Note 3—Liquidity and availability

Thornwell regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Thornwell has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and a line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Thornwell considers all expenditures related to its support, maintenance, and education of children and their families as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available to meet cash needs for general expenditures within one year consist of the following at December 31:

	2018	2017
Financial assets available to meet general expenditures over the next 12 months:		
Cash and cash equivalents	$ 661,752	$ 1,452,674
Less: Cash and cash equivalents to be transferred to endowment	(90,674)	(559,353)
Accounts receivable, net	213,809	750
Contributions receivable for general expenditures due in one year or less	715,415	276,239
Gift suspense	31,666	96,318
Payout on endowments for use over next 12 months	1,720,000	1,635,000
Use of unrestricted bequests as approved by Board as needed	1,260,000	1,635,000
Financial assets available to meet general expenditures over the next 12 months	$ 4,511,968	$ 4,536,628

In addition to financial assets available to meet general expenditures over the next 12 months, Thornwell operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 3—Liquidity and availability (continued)

In addition to the amounts in the table on page 12, Thornwell's board-designated endowment of $22,796,833 and $24,253,289 at December 31, 2018 and 2017, respectively, are subject to an annual spending rate as described in Note 8. Although Thornwell does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary. As described in Note 9, Thornwell also has a line of credit that is available for general operating needs subject to Board approval.

Note 4—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:

	2018	2017
In one year or less	$ 904,248	$ 276,239
Between one year and five years	674,266	453,191
More than five years	4,818	7,541
	1,583,332	736,971
Less unamortized present value discount		
(discount rates ranging from 1.8% to 3.6%)	(17,149)	(10,179)
Less allowance for doubtful pledges	(49,402)	(67,362)
	1,516,781	659,430
Less current portion	(904,248)	276,239
Net pledges receivable, less current portion	$ 612,533	$ 935,669

Note 5—Investments

Investments consist of the following at December 31:

	2018	2017
Short-term investments	$ 5,788,260	$ 8,427,657
U.S. government and agency securities	396,688	398,500
Common stocks - domestic	301,850	287,100
Preferred stocks	4,685,860	4,390,320
Mutual funds	20,228,705	19,862,368
Corporate bonds - domestic	3,738,714	3,976,069
Total investment securities	35,140,077	37,342,014
Real estate held for investment	3,274,540	3,279,060
Total investments	$ 38,414,617	$ 40,621,074

Note 6—Trust fund assets

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

	2018	2017
Interests in trusts held by others	$ 5,861,690	$ 6,430,620

Note 7—Property, plant, and equipment

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

	2018	2017
Land and land improvements	$ 1,025,724	$ 1,025,724
Buildings and building improvements	20,542,008	19,795,831
Furniture and equipment	1,778,651	1,662,022
Vehicles	666,926	666,926
Construction in progress	478,450	-
	24,491,759	23,150,503
Less accumulated depreciation	(18,051,646)	(17,405,763)
Property, plant, and equipment, net	$ 6,440,113	$ 5,744,740

Note 8—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 net assets with donor restrictions held in perpetuity: (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 net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions due to purpose/time restrictions 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

Note 8—Endowments (continued)

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. Deficiencies of this nature that are reported in unrestricted net assets were zero as of December 31, 2018 and 2017.

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.

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:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 18,148,264	$ 18,148,264
Board-designated endowment funds	22,796,833	-	22,796,833
	$ 22,796,833	$ 18,148,264	$ 40,945,097

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 19,923,822	$ 19,923,822
Board-designated endowment funds	24,253,289	-	24,253,289
	$ 24,253,289	$ 19,923,822	$ 44,177,111

Note 8—Endowments (continued)

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

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 24,253,289	$ 19,923,822	$ 44,177,111
Investment return	(1,202,839)	(1,238,271)	(2,441,110)
Other activities:			
Contributions	865,103	92,251	957,354
Board approved withdrawals	(1,046,245)	(588,755)	(1,635,000)
Fees	(72,475)	(40,783)	(113,258)
Total other activities	(253,617)	(537,287)	(790,904)
Endowment net assets, end of year	$ 22,796,833	$ 18,148,264	$ 40,945,097

	2017		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 21,127,175	$ 18,729,339	$ 39,856,514
Investment return	1,198,383	1,279,718	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	(85,235)	1,842,496
Endowment net assets, end of year	$ 24,253,289	$ 19,923,822	$ 44,177,111

Note 9—Line of credit

During 2018, Thornwell entered into a $5,000,000 line of credit agreement with a financial institution. At December 31, 2018 the amount outstanding totaled $314,692 and the availability on the line of credit was $4,685,308. The interest expense is based on LIBOR plus 1.75%, which was 4.21% at December 31, 2018. The line of credit is due on demand.

Note 10—Restrictions and limitations on net asset balances

Net assets with donor restrictions are available for the following purposes at December 31:

Subject to expenditure for specified purpose:

	2018	2017
General, instructional, and scholarships	$ 2,911,686	$ 3,360,468
Property, plant, and equipment	79,515	85,792
Annuities and split-interest agreements	147,343	154,877
	$ 3,138,544	$ 3,601,137

Endowment funds required to be retained permanently by explicit donor stipulation:

	2018	2017
Endowed general, instructional, and scholarships	$ 11,096,435	$ 11,004,182
Endowed trust funds	5,714,347	6,275,743
	$ 16,810,782	$ 17,279,925

Once appropriated, the income from funds require to be retained permanently is expendable for donor-restricted purposes.

There are no net assets with donor restrictions that represent Board designated net assets. Thornwell's Board has not designated net assets without donor restrictions for purposes other than quasi-endowment.

Note 11—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 $177,425 and $156,715 for the years ended December 31, 2018 and 2017, 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 $20,930 and $17,832 for the years ended December 31, 2018 and 2017, 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 12—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 $498,573 at December 31, 2018. 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, 2018.

Note 13—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, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Short-term investments	$ 5,788,260	$ -	$ -	$ 5,788,260
U.S. government and agency securities	396,688	-	-	396,688
Common stocks - domestic	301,850	-	-	301,850
Preferred stocks	4,685,860	-	-	4,685,860
Mutual funds	20,228,705	-	-	20,228,705
Corporate bonds - domestic	3,738,714	-	-	3,738,714
Total investments	35,140,077	-	-	35,140,077
Perpetual trusts held by third party	-	5,861,690	-	5,861,690
Total assets at fair value	$ 35,140,077	$ 5,861,690	$ -	$ 41,001,767

Note 13—Fair value measurements (continued)

	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

Measurement at fair value on a nonrecurring basis at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Real estate held for resale	$ -	$ 3,274,540	$ -	$ 3,274,540
	$ -	$ 3,274,540	$ -	$ 3,274,540

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

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	$ -	$ -

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 14—Subsequent events

Thornwell has evaluated subsequent events through June 24, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.