

THORNWELL

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2022 and 2021

And Report of Independent Auditor

THORNWELL
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Report of Independent Auditor

To the Board of Trustees
Thornwell
Clinton, South Carolina

Opinion

We have audited the accompanying financial statements of Thornwell, which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thornwell as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Thornwell and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Thornwell's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Thornwell's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cherry Bekaert LLP

Greenville, South Carolina
August 25, 2023

THORNWELL
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,258,273	\$ 991,927
Accounts receivable	426,922	411,116
Current portion pledges receivable	366,083	699,104
Current portion related party note receivable	62,667	-
Prepaid expenses	227,401	234,256
Other current assets	94,739	70,013
Total Current Assets	<u>2,436,085</u>	<u>2,406,416</u>
Property, Plant, and Equipment, Net	<u>11,233,437</u>	<u>11,312,738</u>
Other Assets:		
Investments, at fair value	35,247,782	43,197,024
Perpetual trusts held by third parties, at fair value	6,263,970	7,899,500
Real estate held for investment	3,476,455	3,476,455
Net pledges receivable, less current portion	241,415	515,171
Related party note receivable, less current portion	130,667	-
Other	47,571	49,933
Total Other Assets	<u>45,407,860</u>	<u>55,138,083</u>
Total Assets	<u><u>\$ 59,077,382</u></u>	<u><u>\$ 68,857,237</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 147,299	\$ 183,551
Accrued payroll, payroll taxes, and employee benefits	332,669	287,080
Accrued expenses	203,158	53,557
Deferred revenue	48,080	28,900
Line of credit	133,886	-
Total Current Liabilities	<u>865,092</u>	<u>553,088</u>
Total Liabilities	<u>865,092</u>	<u>553,088</u>
Net Assets:		
Without donor restrictions	37,100,160	42,943,398
With donor restrictions	21,112,130	25,360,751
Total Net Assets	<u>58,212,290</u>	<u>68,304,149</u>
Total Liabilities and Net Assets	<u><u>\$ 59,077,382</u></u>	<u><u>\$ 68,857,237</u></u>

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

THORNWELL
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support:			
Contributions and gifts	\$ 5,368,683	\$ 292,182	\$ 5,660,865
Fees for services	2,034,354	-	2,034,354
Grants	1,053,757	-	1,053,757
Investment return, net	(3,342,349)	(2,178,883)	(5,521,232)
Change in fair value of perpetual trusts held by third parties	-	(1,635,530)	(1,635,530)
Other support	358,921	-	358,921
Net assets released from restrictions:			
Satisfaction of program restrictions	726,390	(726,390)	-
Total Revenues and Other Support	<u>6,199,756</u>	<u>(4,248,621)</u>	<u>1,951,135</u>
Expenses:			
Program services	9,152,137	-	9,152,137
Supporting Services:			
Administration and general	1,304,637	-	1,304,637
Fundraising	1,586,220	-	1,586,220
Total Expenses	<u>12,042,994</u>	<u>-</u>	<u>12,042,994</u>
Change in net assets	(5,843,238)	(4,248,621)	(10,091,859)
Net assets, beginning of year	42,943,398	25,360,751	68,304,149
Net assets, end of year	<u>\$ 37,100,160</u>	<u>\$ 21,112,130</u>	<u>\$ 58,212,290</u>

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

THORNWELL
STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support:			
Contributions and gifts	\$ 6,658,179	\$ 741,723	\$ 7,399,902
Fees for services	2,055,779	-	2,055,779
Grants	836,171	-	836,171
Paycheck Protection Program grant	1,303,162	-	1,303,162
Investment return, net	2,675,639	1,441,103	4,116,742
Change in fair value of perpetual trusts held by third parties	-	720,412	720,412
Other support	478,747	-	478,747
Net assets released from restrictions:			
Satisfaction of program restrictions	915,307	(915,307)	-
Total Revenues and Other Support	14,922,984	1,987,931	16,910,915
Expenses:			
Program services	8,779,820	-	8,779,820
Supporting Services:			
Administration and general	1,058,246	-	1,058,246
Fundraising	1,424,061	-	1,424,061
Total Expenses	11,262,127	-	11,262,127
Change in net assets	3,660,857	1,987,931	5,648,788
Net assets, beginning of year	39,282,541	23,372,820	62,655,361
Net assets, end of year	\$ 42,943,398	\$ 25,360,751	\$ 68,304,149

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

THORNWELL
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	Supporting Services				Total
	Program Services	Administration and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 4,428,370	\$ 852,303	\$ 903,673	\$ 1,755,976	\$ 6,184,346
Payroll taxes	320,505	60,655	65,390	126,045	446,550
Employee insurance	631,355	68,296	124,855	193,151	824,506
Retirement and other payroll expenses	209,031	60,009	53,082	113,091	322,122
Total Salary and Benefits	5,589,261	1,041,263	1,147,000	2,188,263	7,777,524
Utilities	326,632	20,515	25,267	45,782	372,414
Insurance	328,433	18,069	18,069	36,138	364,571
Travel, entertainment, and lodging	130,395	15,714	32,028	47,742	178,137
Contractual services	689,615	89,613	93,408	183,021	872,636
Children's clothing and activities	43,562	-	-	-	43,562
Postage	3,471	155	80,367	80,522	83,993
Painting, cleaning, and maintenance contracts	70,024	2,567	2,567	5,134	75,158
Other	158,363	8,922	2,352	11,274	169,637
Food	365,774	12,268	8,939	21,207	386,981
Supplies	213,692	10,675	17,473	28,148	241,840
Cost of goods sold	83,807	-	-	-	83,807
Printing	21,038	473	92,137	92,610	113,648
Technology	113,311	46,912	29,786	76,698	190,009
Repairs and maintenance	212,184	6,115	8,152	14,267	226,451
Total Expenses Before Depreciation	8,349,562	1,273,261	1,557,545	2,830,806	11,180,368
Depreciation	802,575	31,376	28,675	60,051	862,626
Total Expenses	\$ 9,152,137	\$ 1,304,637	\$ 1,586,220	\$ 2,890,857	\$ 12,042,994

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

THORNWELL
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Supporting Services				Total
	Program Services	Administration and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 4,258,154	\$ 585,380	\$ 872,661	\$ 1,458,041	\$ 5,716,195
Payroll taxes	306,293	34,246	63,118	97,364	403,657
Employee insurance	667,461	46,457	121,705	168,162	835,623
Retirement and other payroll expenses	165,088	42,444	28,002	70,446	235,534
Total Salary and Benefits	5,396,996	708,527	1,085,486	1,794,013	7,191,009
Utilities	307,596	19,103	19,503	38,606	346,202
Insurance	316,522	17,430	17,430	34,860	351,382
Travel, entertainment, and lodging	273,431	18,675	29,869	48,544	321,975
Contractual services	420,931	182,838	16,541	199,379	620,310
Children's clothing and activities	44,314	-	-	-	44,314
Postage	10,519	474	54,699	55,173	65,692
Painting, cleaning, and maintenance contracts	72,935	3,121	3,121	6,242	79,177
Other	157,301	5,359	3,424	8,783	166,084
Food	298,722	5,739	3,580	9,319	308,041
Supplies	229,347	14,490	8,054	22,544	251,891
Cost of goods sold	50,230	-	-	-	50,230
Printing	9,089	629	111,423	112,052	121,141
Technology	121,266	38,401	23,694	62,095	183,361
Repairs and maintenance	288,736	10,832	19,383	30,215	318,951
Total Expenses Before Depreciation	7,997,935	1,025,618	1,396,207	2,421,825	10,419,760
Depreciation	781,885	32,628	27,854	60,482	842,367
Total Expenses	<u>\$ 8,779,820</u>	<u>\$ 1,058,246</u>	<u>\$ 1,424,061</u>	<u>\$ 2,482,307</u>	<u>\$ 11,262,127</u>

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

THORNWELL
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,091,859)	\$ 5,648,788
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net realized and unrealized losses (gains) on investments and real estate held for investment	6,901,234	(2,520,748)
Change in fair value of perpetual trusts held by third parties	1,635,530	(720,412)
Depreciation	862,626	842,367
Contributions restricted for long-term purposes	(501,462)	(172,823)
Change in assets and liabilities:		
Accounts receivable	(15,806)	(169,307)
Prepaid expenses and other assets	(15,509)	(55,469)
Pledges receivable	606,777	(610,784)
Related party note receivable	(193,334)	-
Accounts payable	(36,252)	100,174
Accrued payroll, payroll taxes, and employee benefits	45,589	5,889
Accrued expenses	149,601	(124,443)
Deferred revenue	19,180	14,110
Net cash flows from operating activities	<u>(633,685)</u>	<u>2,237,342</u>
Cash flows from investing activities:		
Net (purchases) sale of investments and real estate held for investment	1,048,008	(1,266,918)
Purchases of property, plant, and equipment	<u>(783,325)</u>	<u>(884,834)</u>
Net cash flows from investing activities	<u>264,683</u>	<u>(2,151,752)</u>
Cash flows from financing activities:		
Proceeds from line of credit, net	133,886	-
Contributions restricted for long-term purposes	<u>501,462</u>	<u>172,823</u>
Net cash flows from financing activities	<u>635,348</u>	<u>172,823</u>
Net change in cash and cash equivalents	266,346	258,413
Cash and cash equivalents, beginning of year	<u>991,927</u>	<u>733,514</u>
Cash and cash equivalents, end of year	<u>\$ 1,258,273</u>	<u>\$ 991,927</u>
Supplemental noncash disclosure of cash flow information:		
Interest paid	<u>\$ 2,524</u>	<u>\$ -</u>

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

THORNWELL

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 1—Organization and nature of operations

Located in Clinton, South Carolina, Thornwell provides a variety of residential, community-based, and educational services serving children and families across Florida, Georgia, and South Carolina.

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 (“U.S. 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 net present value of their estimated future cash flows. The discounts on those amounts are computed using credit risk adjusted rates applicable to the year in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, 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.

Fees from services are recorded as revenue as the services are performed based on agreed-upon rates. The performance obligation of delivering care to children and their families is simultaneously received and consumed by the families; therefore, the revenue is recognized ratably over the period of performance. Fees received in advance of services to be rendered are recorded as deferred revenue.

A portion of Thornwell's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when Thornwell has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position. Thornwell has no cost-reimbursable grants that have not been recognized at December 31, 2022 or 2021 because qualifying expenditures have not yet been incurred. Thornwell has grants in which it receives payments from the grantor in advance of qualifying expenses being incurred. At December 31, 2022 and 2021, grants with advance payments are \$48,080 and \$28,900, respectively, and are recognized in the statements of financial position as deferred revenue.

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

Net Assets Without Donor Restrictions – Net assets that 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 – Net assets that 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.

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. 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, 2022 and 2021, \$166,188 and \$201,531, respectively, 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, plant operations, maintenance, technology, and human resources which are allocated ratably across functions based on approximate time and effort attributable to each function.

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.

Perpetual Trusts Held by Third Parties – 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 recognizes 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. Thornwell capitalizes all property, plant and equipment in excess of \$5,000 with a useful life greater than one year. 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
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 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.

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 Thornwell continues to satisfy the requirements of a tax-exempt organization at December 31, 2022. 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, 2022.

Recently Issued Accounting Pronouncements Adopted – In February 2016, FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. 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 statement of financial position 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 statement of activities. Thornwell has adopted ASU 2016-02 effective January 1, 2022 using the modified retrospective approach. There was no material impact to the financial statements and underlying accounting as a result of this adoption.

In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. Thornwell has adopted ASU 2020-07 on the prospective basis for all periods presented. There was no material impact to the financial statements and underlying accounting as a result of this adoption.

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 3—Liquidity and availability of resources

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 residential, community-based, and educational services for children and 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:

	<u>2022</u>	<u>2021</u>
Financial assets available to meet general expenditures over the next 12 months:		
Cash and cash equivalents	\$ 1,258,273	\$ 991,927
Less cash and cash equivalents to be transferred to endowment	(166,188)	(201,531)
Accounts receivable, net	426,922	411,116
Pledges receivable for general expenditures due in one year or less	306,254	420,637
Gifts in transit, included in other current assets on the statement of financial position	64,872	48,213
Payout on endowments for use over next 12 months	1,908,777	1,898,202
Use of unrestricted bequests as approved by the board as needed	<u>1,275,000</u>	<u>1,425,000</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 5,073,910</u>	<u>\$ 4,993,564</u>

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.

In addition to the amounts in the table above, Thornwell's board-designated endowment of \$21,745,388 and \$27,364,692 at December 31, 2022 and 2021, 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.

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 4—Pledges receivable

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

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

	2022	2021
In one year or less	\$ 366,083	\$ 699,104
Between one year and five years	259,717	546,870
	<u>625,800</u>	<u>1,245,974</u>
Less unamortized present value discount (discount rates ranging from 0.6% to 5.2%)	(15)	(4,125)
Less allowance for doubtful pledges	<u>(18,287)</u>	<u>(27,574)</u>
	607,498	1,214,275
Less current portion	<u>(366,083)</u>	<u>(699,104)</u>
Net pledges receivable, less current portion	<u>\$ 241,415</u>	<u>\$ 515,171</u>

Note 5—Investments

Investments consist of the following at December 31:

	2022	2021
Short-term investments	\$ 3,896,987	\$ 834,359
CD's	1,274,594	-
Alternative investments	1,998,227	679,929
Common stocks - domestic	1,529,795	1,110,667
Preferred stocks	4,899,220	10,158,621
Mutual funds	20,435,845	29,159,067
Corporate bonds - domestic	<u>1,213,114</u>	<u>1,254,381</u>
Total investment securities	35,247,782	43,197,024
Real estate held for investment	<u>3,476,455</u>	<u>3,476,455</u>
Total investments	<u>\$ 38,724,237</u>	<u>\$ 46,673,479</u>

Note 6—Perpetual trusts held by third parties

Thornwell is the beneficiary under the terms of various trusts. Perpetual trusts held by third parties consist of the following at December 31:

	2022	2021
Perpetual trusts held by third parties	<u>\$ 6,263,970</u>	<u>\$ 7,899,500</u>

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 7—Property, plant, and equipment

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

	2022	2021
Land and land improvements	\$ 1,025,724	\$ 1,025,724
Buildings and building improvements	28,379,547	27,658,318
Furniture and equipment	2,335,607	2,251,395
Vehicles	565,536	573,571
Breeding livestock	15,750	15,750
Construction in progress	29,070	66,056
	<u>32,351,234</u>	<u>31,590,814</u>
Less accumulated depreciation	<u>(21,117,797)</u>	<u>(20,278,076)</u>
Property, plant, and equipment, net	<u>\$ 11,233,437</u>	<u>\$ 11,312,738</u>

Note 8—Endowments

Thornwell's endowments consist of individual funds established for a variety of purposes. As required by U.S. 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.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual board-designated endowment funds may fall below the level 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. Deficits of this nature reported in net assets with donor restrictions were \$58,609 and \$-0- as of December 31, 2022 and 2021, respectively. The corpus related to endowment funds with deficits was \$489,194 and \$-0- as of December 31, 2022 and 2021, respectively.

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

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Note 8—Endowments (continued)

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 5% of its endowment fund’s preceding 12 quarters rolling average as of September 30 of the preceding fiscal year in which the distribution is planned. In establishing this policy, Thornwell has 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:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 19,793,308	\$ 19,793,308
Board-designated endowment funds	21,745,388	-	21,745,388
	<u>\$ 21,745,388</u>	<u>\$ 19,793,308</u>	<u>\$ 41,538,696</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 23,756,328	\$ 23,756,328
Board-designated endowment funds	27,364,692	-	27,364,692
	<u>\$ 27,364,692</u>	<u>\$ 23,756,328</u>	<u>\$ 51,121,020</u>

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 8—Endowments (continued)

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 27,364,692	\$ 23,756,328	\$ 51,121,020
Investment return, net	(3,579,579)	(3,727,398)	(7,306,977)
Contributions	61,203	501,462	562,665
Board-approved withdrawals	(2,010,343)	(687,860)	(2,698,203)
Transfers	(9,644)	-	(9,644)
Fees	(80,941)	(49,224)	(130,165)
Endowment net assets, end of year	<u>\$ 21,745,388</u>	<u>\$ 19,793,308</u>	<u>\$ 41,538,696</u>
	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 24,336,656	\$ 22,120,204	\$ 46,456,860
Investment return, net	2,404,680	2,204,073	4,608,753
Contributions	2,166,556	172,823	2,339,379
Board-approved withdrawals	(1,109,775)	(688,981)	(1,798,756)
Bequest fund draw	(350,000)	-	(350,000)
Fees	(83,425)	(51,791)	(135,216)
Endowment net assets, end of year	<u>\$ 27,364,692</u>	<u>\$ 23,756,328</u>	<u>\$ 51,121,020</u>

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, 2022, the amount outstanding totaled \$133,886, and the availability on the line of credit was \$4,866,114. At December 31, 2021, there was no outstanding balance on the line of credit and the availability on the line of credit was \$5,000,000. The line was amended in November 2021 to modify the interest rate to the Bloomberg Short-Term Bank Yield Index (“BSBY”) plus 1.25%, which was 5.57% and 1.33% at December 31, 2022 and 2021, respectively. The line of credit is due on demand.

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 10—Restrictions and limitations on net asset balances

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
General, instructional, and scholarships	\$ 2,854,310	\$ 5,968,864
Annuities and split-interest agreements	139,247	177,038
	<u>2,993,557</u>	<u>6,145,902</u>
The corpus of endowment funds required to be retained permanently by explicit donor stipulation:		
Endowed general, instructional, and scholarships	11,993,850	11,492,387
Endowed perpetual trusts held by third parties	6,124,723	7,722,462
	<u>18,118,573</u>	<u>19,214,849</u>
Total net assets with donor restrictions	<u>\$ 21,112,130</u>	<u>\$ 25,360,751</u>

Once appropriated, the income from funds required to be retained permanently is expendable for donor-restricted purposes. The income from these funds is included in the general, instructional, and scholarships amounts in the above table.

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 which totaled \$21,745,388 and \$27,364,692 at December 31, 2022 and 2021, respectively.

Note 11—Retirement plans

Thornwell maintains a defined contribution plan covering substantially all full-time employees. Thornwell contributes 4% 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 \$316,326 and \$215,493 for the years ended December 31, 2022 and 2021, 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 \$0 and \$14,671 for the years ended December 31, 2022 and 2021, 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

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 \$949,594 at December 31, 2022. 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 no material losses are anticipated in connection with these matters at December 31, 2022.

Note 13—Fair value measurements

Accounting Standards Codification (“ASC”) 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’s 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. Certain investments that do not have readily determinable fair values including alternative investments are reported at estimated fair value, utilizing the practical expedient of their net asset values. Those net asset values are determined by the investment managers and are reviewed and evaluated by management. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments. Quantitative information for the valuation inputs and related sensitivities of these investments is maintained by third parties and is not reasonably available to Thornwell.

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Short-term investments	\$ 3,896,987	\$ -	\$ -	\$ -	\$ 3,896,987
CD's	1,274,594	-	-	-	1,274,594
Alternative investments	-	-	-	1,998,227	1,998,227
Common stocks - domestic	1,529,795	-	-	-	1,529,795
Preferred stocks	4,899,220	-	-	-	4,899,220
Mutual funds	20,435,845	-	-	-	20,435,845
Corporate bonds - domestic	1,213,114	-	-	-	1,213,114
Total investments	33,249,555	-	-	1,998,227	35,247,782
Perpetual trusts held by third parties	-	-	6,263,970	-	6,263,970
Total assets at fair value	<u>\$ 33,249,555</u>	<u>\$ -</u>	<u>\$ 6,263,970</u>	<u>\$ 1,998,227</u>	<u>\$ 41,511,752</u>

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 13—Fair value measurements (continued)

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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Assets:					
Short-term investments	\$ 834,359	\$ -	\$ -	\$ -	\$ 834,359
Alternative investments	-	-	-	679,929	679,929
Common stocks - domestic	1,110,667	-	-	-	1,110,667
Preferred stocks	10,158,621	-	-	-	10,158,621
Mutual funds	29,159,067	-	-	-	29,159,067
Corporate bonds - domestic	1,254,381	-	-	-	1,254,381
Total investments	42,517,095	-	-	679,929	43,197,024
Perpetual trusts held by third parties	-	-	7,899,500	-	7,899,500
Total assets at fair value	<u>\$ 42,517,095</u>	<u>\$ -</u>	<u>\$ 7,899,500</u>	<u>\$ 679,929</u>	<u>\$ 51,096,524</u>

The change in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	<u>Perpetual trusts held by third parties</u>
Balance, January 1, 2021	\$ 7,179,088
Change in fair value	720,412
Balance, December 31, 2021	7,899,500
Change in fair value	(1,635,530)
Balance, December 31, 2022	<u>\$ 6,263,970</u>

Set forth below is additional information pertaining to alternative investments held at NAV at December 31, 2022:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Gates & Lockups</u>
Alternative investments:				
Real Income Trust	\$ 1,998,227	None	Monthly	One year

Set forth below is additional information pertaining to alternative investments held at NAV at December 31, 2021:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Gates & Lockups</u>
Alternative investments:				
Real Income Trust	\$ 679,929	None	Monthly	One year

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 13—Fair value measurements (continued)

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

Measurement at fair value on a nonrecurring basis at December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real estate held for investment	\$ -	\$ 3,476,455	\$ -	\$ 3,476,455
	<u>\$ -</u>	<u>\$ 3,476,455</u>	<u>\$ -</u>	<u>\$ 3,476,455</u>

Measurement at fair value on a nonrecurring basis at December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real estate held for investment	\$ -	\$ 3,476,455	\$ -	\$ 3,476,455
	<u>\$ -</u>	<u>\$ 3,476,455</u>	<u>\$ -</u>	<u>\$ 3,476,455</u>

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 valuation techniques during the current year.

Note 14—Leases

Thornwell, as lessor, leases apartments, houses, and other buildings to tenants under lease agreements. Many of these leases are for lease terms of less than one year or on month-to-month leases; therefore, these leases are considered short-term leases under ASC 842. Two leases, however, are classified as operating lease agreements with terms between 2 and 29 years with options to renew. Certain of these lease agreements provide for variable rentals based on usage in excess of specified levels. The leases do not transfer ownership of the leased assets and do not provide an option for the lessees to purchase the assets. Rental income for the years ended December 31, 2022 and 2021 was approximately \$315,000 and \$267,000, respectively.

At lease inception, Thornwell determines whether an arrangement qualifies as a lease under ASC 842 (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration). Thornwell only reassess if the terms and conditions of the contract are changed.

The future minimum payments to be received under the noncancelable operating leases at December 31, 2022 are as follows:

2023	\$ 210,416
2024	210,416
2025	210,416
2026	210,416
2027	210,416
Thereafter	2,013,206
	<u>\$ 3,065,286</u>

THORNWELL
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 15—Paycheck Protection Program

Due to the COVID-19 pandemic, Congress authorized the Small Business Association (“SBA”) to make loans to small businesses with the express intent of keeping employees on the payroll during the crisis. This program is the Paycheck Protection Program (“PPP”), and Thornwell applied for and received \$1,303,162 during the year ended December 31, 2021. The loan is fully forgivable if the proceeds are used to cover payroll costs, interest on mortgages, rent, and utilities. At least 60% of the forgiven amount must be used to cover payroll expenses. On September 8, 2021, Thornwell received notice from the SBA that the entire balance of the loan had been forgiven. In accordance with ASC 958-605, Thornwell accounted for this loan as a conditional contribution. As such, Thornwell recorded the forgiven amount as federal grant revenue on the statements of activities for the year ended December 31, 2021.

Note 16—Related party relationships and transactions

In April 2022, Thornwell entered into a loan agreement with Thornwell Charter School, a South Carolina public charter school, located on the Thornwell property, in which Thornwell agreed to loan Thornwell Charter School up to \$650,000 to fund renovation costs. During 2022, \$200,000 was drawn on the loan by Thornwell Charter School. The balance of the receivable due from Thornwell Charter School is \$193,334 at December 31, 2022. The loan is to be paid back in monthly principal payments of \$1,667 starting in September 2022 through April 2023 and \$7,000 beginning in May 2023 with interest incurring based on actual interest incurred by Thornwell on the Line of Credit (discussed in Note 9) plus 2%, which was 7.57% at December 31, 2022. The loan is due on June 30, 2032 and early payment on the loan is permitted.

Scheduled future principal payments under the note receivable from Thornwell Charter School at December 31, 2022 are as follows:

2023	\$	62,667
2024		84,000
2025		46,667
	\$	<u>193,334</u>

Note 17—Subsequent events

Thornwell has evaluated subsequent events through August 25, 2023, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

In May 2023, Thornwell received \$568,750 in Employee Retention Credit funds which will be recorded as revenue during the year ended December 31, 2023.

In April 2023, Thornwell sold a piece of real estate held for investment with a carrying value of \$2,318,052 at December 31, 2022 for \$4,921,001, net of real estate fees and closing costs.