



**Bishop Gadsden Episcopal  
Retirement Community**

Financial Statements

December 31, 2018 and 2017

# **Bishop Gadsden Episcopal Retirement Community**

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Table of Contents

December 31, 2018 and 2017

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6

## Independent Auditors' Report

To the Board of Trustees of  
Bishop Gadsden Episcopal Retirement Community

We have audited the accompanying financial statements of Bishop Gadsden Episcopal Retirement Community, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bishop Gadsden Episcopal Retirement Community as of December 31, 2018 and 2017, and the results of its operations, 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.

*Baker Tilly Virchow Krause, LLP*

Tysons, Virginia  
April 24, 2019

# Bishop Gadsden Episcopal Retirement Community

Balance Sheets

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,872,693	\$ 8,357,062
Resident receivables, net	372,611	259,225
Other receivables and deposits	573,253	23,017
Prepaid expenses	383,162	283,173
Total current assets	8,201,719	8,922,477
<b>Property and Equipment, Net</b>	120,200,363	119,077,625
<b>Assets Whose Use is Limited, Net</b>	13,460,034	12,804,367
<b>Investments</b>	31,616,817	34,427,241
Total assets	<u>\$ 173,478,933</u>	<u>\$ 175,231,710</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of bonds payable	\$ 3,593,903	\$ 3,491,091
Accounts payable, trade	1,696,797	725,195
Accrued expenses	1,161,254	1,218,265
Accrued interest	341,038	339,207
Liability under charitable gift annuities, current	79,663	81,043
Refundable entrance fees, current	1,614,000	1,619,000
Total current liabilities	8,486,655	7,473,801
<b>Deferred Revenue from Entrance Fees</b>	40,915,783	36,927,221
<b>Refundable Deposits</b>	1,958,969	855,342
<b>Refundable Entrance Fees</b>	39,022,053	43,073,768
<b>Liability Under Charitable Gift Annuities</b>	354,381	388,680
<b>Bonds Payable, Net</b>	41,492,069	44,668,881
<b>Other Liabilities</b>	550,409	484,289
Total liabilities	<u>132,780,319</u>	<u>133,871,982</u>
<b>Net Assets</b>		
Without donor restrictions	30,057,870	30,969,491
With donor restrictions	10,640,744	10,390,237
Total net assets	<u>40,698,614</u>	<u>41,359,728</u>
Total liabilities and net assets	<u>\$ 173,478,933</u>	<u>\$ 175,231,710</u>

See notes to financial statements

# Bishop Gadsden Episcopal Retirement Community

## Statements of Operations

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Revenues, Gains and Other Support</b>		
Resident services	\$ 27,946,436	\$ 26,957,824
Amortization of entrance fees	7,628,476	7,178,034
Interest and dividends	516,621	476,223
Net assets released from restrictions, operations	1,059,672	1,128,406
Other	299,500	287,607
	<u>37,450,705</u>	<u>36,028,094</u>
<b>Operating Expenses</b>		
Residential services	10,723,735	10,365,414
Dietary	4,293,864	3,978,054
Plant operations	4,477,685	3,961,831
General and administrative	5,089,394	5,406,700
Social services and activities	925,994	914,870
Housekeeping and laundry	846,395	768,442
Marketing	345,527	378,940
Information technology	609,612	567,742
Fundraising	434,511	367,757
Interest	1,490,486	1,765,174
Depreciation	6,808,082	6,474,516
	<u>36,045,285</u>	<u>34,949,440</u>
Total operating expenses	<u>36,045,285</u>	<u>34,949,440</u>
Operating income	<u>1,405,420</u>	<u>1,078,654</u>
<b>Other Income (Loss)</b>		
Realized gains on investments, net	1,063,645	542,908
Loss on disposal of property and equipment	(65,453)	(195,353)
Change in value of split-interest agreements	(43,984)	(47,792)
	<u>954,208</u>	<u>299,763</u>
Total other income	<u>954,208</u>	<u>299,763</u>
Excess of revenues over expenses	2,359,628	1,378,417
<b>Other Changes in Net Assets without Donor Restrictions</b>		
Change in net unrealized investment gains and losses on investments	(3,417,064)	4,009,109
Net assets released from restrictions, capital purchases	145,815	-
	<u>145,815</u>	<u>-</u>
Change in net assets without donor restrictions	<u>\$ (911,621)</u>	<u>\$ 5,387,526</u>

See notes to financial statements

## Bishop Gadsden Episcopal Retirement Community

Statements of Changes in Net Assets  
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Net Assets without Donor Restrictions</b>		
Excess of revenues over expenses	\$ 2,359,628	\$ 1,378,417
Change in net unrealized investment gains and losses on investments	(3,417,064)	4,009,109
Net assets released from restrictions, capital purchases	<u>145,815</u>	<u>-</u>
Change in net assets without donor restrictions	<u>(911,621)</u>	<u>5,387,526</u>
<b>Net Assets with Donor Restrictions</b>		
Contributions	1,958,913	1,562,705
Interest and dividends	355,282	262,593
Change in net unrealized investment gains and losses on investments	(858,201)	930,697
Net assets released from restrictions	<u>(1,205,487)</u>	<u>(1,128,406)</u>
Change in net assets with donor restrictions	<u>250,507</u>	<u>1,627,589</u>
Change in net assets	(661,114)	7,015,115
<b>Net Assets, Beginning of Year</b>	<u>41,359,728</u>	<u>34,344,613</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 40,698,614</u></u>	<u><u>\$ 41,359,728</u></u>

See notes to financial statements

# Bishop Gadsden Episcopal Retirement Community

## Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (661,114)	\$ 7,015,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from nonrefundable entrance fees	9,863,380	10,058,410
Restricted contributions	(631,743)	(140,970)
Depreciation	6,808,082	6,474,516
Loss on disposal of property and equipment	65,453	195,353
Loss on refinancing	-	176,035
Amortization of deferred financing costs	79,572	75,591
Amortization of bond premiums	-	(28,029)
Amortization of entrance fees	(7,628,476)	(7,178,034)
Realized gain on investments, net	(1,063,645)	(542,908)
Change in net unrealized investment gains and losses on investments	4,275,265	(4,939,806)
Change in:		
Receivables and deposits	(663,622)	253,522
Prepaid expenses	(99,989)	129,372
Accounts payable, accrued expenses and other liabilities	982,542	(184,421)
Refundable deposits	212,970	(107,006)
Liability under charitable gift annuities	(35,679)	(33,251)
Net cash provided by operating activities	<u>11,502,996</u>	<u>11,223,489</u>
<b>Cash Flows from Investing Activities</b>		
Net (sales) purchases of investments and assets whose use is limited	(1,056,863)	7,442,353
Purchase of property and equipment	(7,996,273)	(6,062,564)
Net cash (used in) provided by investing activities	<u>(9,053,136)</u>	<u>1,379,789</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds of refundable entrance fees	492,720	1,900,640
Refunds of entrance fees	(2,814,745)	(2,559,155)
Proceeds from refundable entrance fee deposits, new construction	909,625	-
Restricted contributions	631,743	140,970
Proceeds from issuance of bonds payable	-	12,015,486
Principal payments on bonds payable	(3,153,572)	(18,047,097)
Payments for deferred financing costs	-	(159,705)
Net cash used in financing activities	<u>(3,934,229)</u>	<u>(6,708,861)</u>
Net change in cash and cash equivalents	(1,484,369)	5,894,417
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>8,357,062</u>	<u>2,462,645</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 6,872,693</u>	<u>\$ 8,357,062</u>
<b>Supplementary Cash Flows Information</b>		
Interest paid	<u>\$ 1,409,083</u>	<u>\$ 1,844,366</u>

See notes to financial statements

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2018 and 2017

## **1. Organization**

Bishop Gadsden Episcopal Retirement Community ("Bishop Gadsden") is a tax-exempt nonprofit corporation that provides housing, health care, and other related services to residents through the operation of a life plan community located in Charleston, South Carolina. Bishop Gadsden, incorporated in South Carolina, is affiliated with The Episcopal Church (USA), and exists for the purpose of providing a faith-based retirement community and ministry to older adults. Bishop Gadsden seeks to provide continuing care, in accordance with the terms of governmental licenses and restrictions, to the extent of its resources and facilities, which currently includes 260 independent living units, 69 assisted living units, 19 memory care units and 46 skilled nursing beds.

## **2. Summary of Significant Accounting Policies**

### **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Bishop Gadsden considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, except for those included in investments or assets whose use is limited. Bishop Gadsden maintains its cash and cash equivalents accounts at various financial institutions. Bishop Gadsden has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents which may at times, exceed federally insured limits.

### **Resident and Other Receivables**

Accounts receivable for services provided to residents consist of amounts owed directly from residents on a private pay basis and amounts owed from third-party payors on behalf of residents. Receivables from third-party payors are recorded at established rates, net of contractual adjustments specific to each payor. Receivables from private pay residents are recorded at established rates. Receivables are considered to be past due when payments have not been received by Bishop Gadsden by their contractually stated due date. Bishop Gadsden assesses collectability on all resident accounts prior to providing services. An allowance for uncollectible accounts is recognized to reduce accounts receivable to its net realizable value for impairment of revenues for changes in resident credit worthiness. The allowance is estimated by management based on factors such as aging of the accounts receivable, and anticipated collection of the consideration. Accounts are written off through bad debt expense when Bishop Gadsden has exhausted all collection efforts and accounts are deemed impaired. The allowance for uncollectible accounts amounted to approximately \$50,000 as of both December 31, 2018 and 2017.

### **Assets Whose Use is Limited**

Assets whose use is limited primarily includes designated assets set aside by the Board of Trustees and assets held due to donor restrictions.

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2018 and 2017

## **Investments**

Bishop Gadsden's investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported in the accompanying balance sheets are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the balance sheets could change materially in the near term.

Investments in equity and debt securities with readily determinable fair values are measured at fair value based on quoted market prices. The alternative investment, which does not have already determinable fair value, is valued at net asset value per share. Investment income or loss (including realized gains and losses on investments, interest, dividends, and capital gain distributions) is included in the determination of excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses are excluded from the performance indicator. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

Bishop Gadsden periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the fair value of a security; and the intent and ability of Bishop Gadsden to hold the security until the fair value recovers. Declines in fair value below cost that are deemed to be other-than-temporary would be included in the accompanying statements of operations as a component of excess of revenues over expenses.

## **Charitable Gift Annuities**

Bishop Gadsden records assets received under charitable gift annuity agreements at the fair market value of the assets when the assets are received by Bishop Gadsden. In conjunction with these gifts, Bishop Gadsden has recorded a liability equal to the present value of future cash flows expected to be paid to the beneficiaries based upon the actuarial expected lives of the beneficiaries.

## **Property and Equipment**

Property and equipment, including construction in progress, are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the underlying assets. The general range of estimated useful lives is 8 years to 15 years for land improvements, 20 years to 40 years for buildings, 5 years to 20 years for building improvements and furniture and equipment, and 5 years to 20 years for vehicles.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

# Bishop Gadsden Episcopal Retirement Community

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Notes to Financial Statements

December 31, 2018 and 2017

## Estimated Obligation to Provide Future Services to Continuing Care Residents

Bishop Gadsden annually calculates the present value of the net cost of future services and use of facilities to be provided to current residents and compares that amount to the balance of deferred revenue from entrance fees. Bishop Gadsden utilizes a discount rate of 3 percent. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. No obligation existed as of December 31, 2018 and 2017.

## Net Assets

In 2018, Bishop Gadsden adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 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. Bishop Gadsden has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been remained net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The financial statements include a disclosure about liquidity and availability of resources at December 31, 2018 (Note 4).
- The functional expense disclosure for 2018 includes expenses reported both by nature and function (Note 10).

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

*Net assets with donor restrictions* - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

## **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2018 and 2017

Bishop Gadsden 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. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restrictions. Contributions with donor restricts whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the statements of operations and changes in net assets.

Bishop Gadsden reports gifts of property and equipment (or other long-lived assets) as net assets 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Bishop Gadsden reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### **Refundable Entrance Fees and Deferred Revenue from Entrance Fees**

Under the terms of Bishop Gadsden's Residence and Services Agreement, each independent living resident pays an entrance fee. The agreement requires a deposit of 10 percent of the entrance fee when the Residence and Services Agreement is signed, with the balance of the fee to be paid prior to occupancy. Entrance fees received upon occupancy, along with monthly service fees, pay for the cost of services provided to residents.

Bishop Gadsden offers a non-refundable and two types of refundable contract options to its residents. The non-refundable portion of the entrance fees are amortized at a contractual rate of 2 percent per month for 50 months. A refund, if any, is determined based on the number of months occupied, less an administration fee, and is paid no later than 60 days after the unit is vacated. Under the refundable contract options, residents may elect to pay additional incremental entrance fees. Under these options, 50 percent or 90 percent of the original entrance fees are refundable depending on the contract option elected. The contract provides for payment of the refundable fees after the unit is vacated and a new resident occupies the unit and pays the entrance fee in effect at the time of occupancy or one year, whichever is first.

Under the non-refundable contract option, once a unit is occupied, entrance fees are recorded as deferred revenue from entrance fees and are recognized as amortization income of entrance fees over the actuarially determined life expectancy of the resident. The refundable portion, if any, and other refundable deposits are recorded in the refundable entrance fees and deposits on the accompanying balance sheets and are not amortized into income. The remaining life expectancy of the residents is adjusted annually based on actuarial information. Contractual refund obligations are approximately \$42,595,000 and \$45,548,000 as of December 31, 2018 and 2017, respectively.

Refundable entrance fees on the balance sheets is presented at the contractually refundable obligation and includes \$17,953,518 and \$20,275,543 of 90 percent and 50 percent of refundable contracts at December 31, 2018 and 2017, respectively. Deposits paid, less an administration charge, are refundable to individuals canceling their residency contract prior to occupying a unit at Bishop Gadsden. No administrative charge is assessed for cancellation resulting from death or from physical or mental impairment.

## Bishop Gadsden Episcopal Retirement Community

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Notes to Financial Statements

December 31, 2018 and 2017

### Net Resident Service Revenue

In 2018, Bishop Gadsden elected to early adopt the FASB ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements. Under the full retrospective approach, the guidance is applied to the first period presented, recognizing a cumulative effect of the adoption change as an adjustment to beginning net assets.

The adoption of ASU No. 2014-09 did not have a material impact on the financial statements of Bishop Gadsden, but resulted in enhanced disclosures as required by ASU No. 2014-09.

Net resident service revenues are reported at the amount that reflects the consideration Bishop Gadsden expects to receive in exchange for the services provided. These amounts are due from residents or third-party payors and include variable consideration for retroactive adjustments, if any, under reimbursement programs. Performance obligations are determined based on the nature of the services provided. Net resident service revenues are recognized as performance obligations are satisfied.

Net resident service revenues are primarily comprised of the following revenue streams:

*Skilled nursing:* Skilled nursing revenues are primarily derived from providing nursing services to residents at a stated daily fee, net of any explicit and implicit price concessions. Bishop Gadsden has determined that skilled nursing services are considered one performance obligation which is satisfied over time as services are provided. Therefore, skilled nursing revenues are recognized on a daily basis as services are rendered.

*Assisted living:* Assisted living revenues are primarily derived from providing housing and personal care services to residents at a stated monthly fee. Bishop Gadsden has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, assisted living revenues are recognized on a month-to-month basis.

*Independent living:* Independent living revenues are primarily derived from providing housing and services to residents. Bishop Gadsden has determined that the services included in the monthly fee have the same timing and pattern of transfer and are a series of distinct services that are considered one performance obligation which is satisfied over time as services are provided. Therefore, independent living monthly fees are recognized on a month-to-month basis.

*Homecare agency:* Homecare agency revenues include services for in-homecare from residents and external patients. Bishop Gadsden has determined that homecare agency revenues are considered one performance obligation which is satisfied over time as services are provided. Therefore, homecare agency revenues are recognized on a daily basis as services are rendered.

*Other resident services:* Other resident services revenues include services such as housekeeping, laundry, transportation, medical supplies and other revenues from residents. Bishop Gadsden has determined that other resident services revenues are considered one performance obligation which is satisfied over time as services are provided. Therefore, other resident services revenues are recognized on a daily basis as services are rendered.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

The guaranteed refund component of entrance fees is not amortized to income and is classified as refundable entrance fees in the accompanying balance sheets.

Revenue from nonrefundable entrance fees received are recognized through amortization of the nonrefundable entrance fee using the straight-line method over annually adjusted estimated remaining life expectancies of the residents which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. Amortization of nonrefundable, entrance fees included in independent living revenues was \$7,609,508 in 2018 and \$7,141,990 in 2017.

Bishop Gadsden receives revenue for services under a third-party payor program, Medicare. Settlements with Medicare for retroactive adjustments due to audits, reviews, or investigations are included in the determination of the estimated transaction price for providing services. Bishop Gadsden estimates the transaction price based on the terms of the contract and a correspondence with the Medicare and historical payment trends, and retroactive adjustments are recognized in future periods as final settlements are determined.

As described above, the Medicare Part A rates are based on clinical, diagnostic, and other factors. The determination of these rates is partially based on the Organization's clinical assessment of its residents. Bishop Gadsden is required to clinically assess its residents at predetermined time periods throughout the year. The documented assessments are subject to review and adjustment by the Medicare programs.

Bishop Gadsden disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Resident service revenue and amortization of entrance fees consist of the following for the years ended December 31, 2018 and 2017:

	2018					
	Skilled Nursing	Assisted Living	Independent Living	Homecare Agency	Other Resident Services	Total
Self-pay	\$ 3,997,005	\$ 6,740,061	\$ 15,518,251	\$ 588,873	\$ 639,881	\$ 27,484,071
Medicare	462,365	-	-	-	-	462,365
Amortization of nonrefundable entrance fees	-	18,968	7,609,508	-	-	7,628,476
<b>Total</b>	<b>\$ 4,459,370</b>	<b>\$ 6,759,029</b>	<b>\$ 23,127,759</b>	<b>\$ 588,873</b>	<b>\$ 639,881</b>	<b>\$ 35,574,912</b>
	2017					
	Skilled Nursing	Assisted Living	Independent Living	Homecare Agency	Other Resident Services	Total
Self-pay	\$ 3,957,668	\$ 6,608,010	\$ 15,092,794	\$ 762,541	\$ 536,811	\$ 26,957,824
Amortization of nonrefundable entrance fees	-	36,044	7,141,990	-	-	7,178,034
<b>Total</b>	<b>\$ 3,957,668</b>	<b>\$ 6,644,054</b>	<b>\$ 22,234,784</b>	<b>\$ 762,541</b>	<b>\$ 536,811</b>	<b>\$ 34,135,858</b>

Payment terms and conditions for Bishop Gadsden's resident contracts vary by contract type and payor source, although terms generally include payment to be made within 30 days. Net resident service fee revenues for recurring and routine monthly services are generally billed monthly in advance. Net resident service fee revenues for ancillary services are generally billed monthly in arrears. Additionally, nonrefundable entrance fees are generally billed and collected in advance of move-in. Revenues collected from residents in advance are recognized as a liability from entrance fees until the performance obligations are satisfied.

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2018 and 2017

## **Donated Services**

Individuals volunteer their time and perform a variety of tasks that assist Bishop Gadsden with specific assistance programs, campaign solicitations, and various committee assignments. No amounts have been reflected in the financial statements for these donated services for the years ended December 31, 2018 and 2017.

## **Income Tax Status**

Bishop Gadsden is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Bishop Gadsden qualifies for the charitable contribution deduction under Section 170 and has been classified as an estate that is not a private foundation under Section 509(a)(2).

## **Benevolent Assistance**

Bishop Gadsden has a benevolent assistance policy to identify residents who are unable to pay and uses certain funds designated for benevolent assistance to subsidize the charges for entrance fees and services provided to those residents. Such residents are identified based on financial information obtained from the resident and subsequent review and analysis.

Bishop Gadsden has estimated its direct and indirect costs of providing benevolent assistance under its benevolent assistance policy. In order to estimate the cost of providing such care, management calculated a cost-to-charge ratio by comparing the cost to provide services to residents and amounts charged to residents. The cost-to-charge ratio is applied to the charges foregone to calculate the estimated direct and indirect cost of providing benevolent assistance. Using this methodology, Bishop Gadsden has estimated the costs foregone for services under Bishop Gadsden's benevolent assistance policy to be approximately \$536,000 and \$571,000 for the years ended December 31, 2018 and 2017, respectively. Bishop Gadsden received approximately \$760,000 and \$623,000 to subsidize the costs of providing benevolent assistance under its benevolent assistance policy for the years ended December 31, 2018 and 2017, respectively.

## **Performance Indicator**

The statements of operations includes a performance indicator labeled as excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from operating income, consistent with industry practice, include change in unrealized gains and losses on investments, net assets released from restriction for capital purchases, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

## **Recent Accounting Pronouncements**

### **Financial Instruments**

During January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU No. 2016-01 was issued to enhance the reporting model for financial instruments in financial statements. The provisions of ASU No. 2016-01 require marketable equity securities to be reported at fair value with changes in fair value recognized within the performance indicator, establishes a qualitative factor in evaluating impairment on equity investments without readily determinable fair values, and eliminates the requirement to disclose the fair value on financial instruments measured at amortized cost. Bishop Gadsden will be required to prospectively adopt the guidance in ASU No. 2016-01 for years beginning after December 15, 2018. Bishop Gadsden is currently assessing the impact that ASU No. 2016-01 will have on its financial statements.

# Bishop Gadsden Episcopal Retirement Community

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Notes to Financial Statements

December 31, 2018 and 2017

## Restricted Cash

During November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU No. 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU No. 2016-18 is to be applied retroactively with transition provisions. Bishop Gadsden is currently assessing the impact that ASU No. 2016-18 will have on its financial statements.

## Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on the change in net assets.

## Subsequent Events

Bishop Gadsden has evaluated subsequent events through April 24, 2019, which is the date the financial statements were available to be issued.

## 3. Fair Value Measurements, Assets Whose Use is Limited, and Other Financial Instruments

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to Bishop Gadsden for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

The following table presents the fair value hierarchy for the balances of the assets and liabilities of Bishop Gadsden measured at fair value on a recurring basis as of December 31, 2018:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Reported at Fair Value				
Investments:				
Cash and cash equivalents	\$ 7,064,073	\$ 7,064,073	\$ 7,064,073	\$ -
Assets whose use is limited:				
Cash and cash equivalents	\$ 3,452,420	\$ 3,452,420	\$ 3,452,420	\$ -
Mutual funds:				
Equity funds	4,635,010	4,635,010	4,635,010	-
Fixed income funds	4,209,541	4,209,541	4,209,541	-
International funds	1,163,063	1,163,063	1,163,063	-
Total	<u>\$ 13,460,034</u>	<u>\$ 13,460,034</u>	<u>\$ 13,460,034</u>	<u>\$ -</u>
Disclosed at Fair Value				
Cash and cash equivalents	<u>\$ 6,872,693</u>	<u>\$ 6,872,693</u>	<u>\$ 6,872,693</u>	<u>\$ -</u>
Long-term debt	<u>\$ 45,784,479</u>	<u>\$ 45,784,479</u>	<u>\$ -</u>	<u>\$ 45,784,479</u>

The following table presents the fair value hierarchy for the balances of the assets and liabilities of Bishop Gadsden measured at fair value on a recurring basis as of December 31, 2017:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Reported at Fair Value				
Assets whose use is limited:				
Cash and cash equivalents	\$ 2,169,150	\$ 2,169,150	\$ 2,169,150	\$ -
Mutual funds:				
Equity funds	3,895,052	3,895,052	3,895,052	-
Fixed income funds	5,046,691	5,046,691	5,046,691	-
International funds	1,693,474	1,693,474	1,693,474	-
Total	<u>\$ 12,804,367</u>	<u>\$ 12,804,367</u>	<u>\$ 12,804,367</u>	<u>\$ -</u>
Disclosed at Fair Value				
Cash and cash equivalents	<u>\$ 8,357,062</u>	<u>\$ 8,357,062</u>	<u>\$ 8,357,062</u>	<u>\$ -</u>
Long-term debt	<u>\$ 48,938,051</u>	<u>\$ 48,938,051</u>	<u>\$ -</u>	<u>\$ 48,938,051</u>

Bishop Gadsden values certain investment holdings at fair value using their net asset value and has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date of \$24,552,744 and \$34,427,241 as of December 31, 2018 and 2017, respectively.

Bishop Gadsden's alternative investment is comprised solely of the CF Global Multi-Asset Fund, LLC (the "Fund"). The Fund is invested in a diversified portfolio of equity and fixed income securities and real assets and other alternative investments, among other types of securities. The Fund is measured using the net asset value per share as a practical expedient. The Fund has a short-term frequency, no unfunded commitments and allows investment redemptions on the last day of the calendar month after a five-business-day notification. The fair value of the Fund, which includes crossfund investment funds and third party investment funds, has been estimated using the net asset value per share of the underlying investments. The Fund is included in investments on the balance sheets.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

Bishop Gadsden's financial instruments consist primarily of cash and cash equivalents, receivables, assets whose use is limited, accounts payable, accrued expenses and other liabilities and long-term debt. The carrying value of these items, excluding assets whose use is limited and long-term debt, approximates fair value due to their short maturity. Assets whose use is limited are recorded at fair value determined using fair market value based on quoted market prices in active markets. The fair value of long-term debt, which approximates its carrying value, is based on current rates offered for similar issues with similar terms and maturities, or estimated based using a discount rate a market participant would demand.

#### 4. Liquidity and Availability of Resources

The following table reflects Bishop Gadsden's financial assets available for general expenditure within one year at December 31, 2018. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of assets whose use is limited by resident deposits, and donor restrictions.

Financial assets:	
Cash and cash equivalents	\$ 6,872,693
Investments	31,616,817
Resident receivable, net	372,611
Other receivables and deposits	<u>573,253</u>
Total financial assets	<u>\$ 39,435,374</u>

As part of Bishop Gadsden's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Bishop Gadsden invests cash in excess of daily requirements in short-term investments. Certain of the donor purpose restricted funds may be utilized as the restrictions are satisfied.

Additionally, Bishop Gadsden maintains a \$7,000,000 line of credit and a \$1,500,000 line of credit, as discussed in more detail in Note 6. As of December 31, 2018, all of the \$8,500,000 remained available on Bishop Gadsden's lines of credit.

#### 5. Property and Equipment

Major classifications of property and equipment are summarized below as of December 31:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 15,999,221	\$ 14,897,444
Building and building improvements	145,960,428	144,768,341
Furniture and equipment	21,301,562	18,361,842
Vehicles	672,782	621,706
Construction in progress	<u>6,511,803</u>	<u>3,979,202</u>
	190,445,796	182,628,535
Less accumulated depreciation	<u>(70,245,433)</u>	<u>(63,550,910)</u>
Total	<u>\$ 120,200,363</u>	<u>\$ 119,077,625</u>

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

Construction in progress at December 31, 2018 consists of initial project development and construction costs for an expansion and repositioning project (the "Glebe") to consist of an addition of 8 independent living units. In addition, costs associated with initial project development related to a new healthcare facility and assisted living renovations are included in construction in progress at December 31, 2018. A construction contract exists for the Glebe in the amount of approximately \$9,785,000, of which \$700,000 was completed as of December 31, 2018. Construction in progress at December 31, 2017 consists of initial project development and construction costs for the expansion and repositioning projects.

### 6. Lines of Credit

During 2018, Bishop Gadsden entered into an unsecured \$7,000,000 revolving line of credit with Sun Trust Bank, N.A. with an expiration of December 31, 2020. Borrowings under the line of credit bear interest at the 30-day London Inter-bank Offered Rate plus 1.5 percent (4.00 percent as of December 31, 2018). Interest is due and payable on a monthly basis. There were no borrowings on the line of credit as of December 31, 2018.

Bishop Gadsden also has an unsecured \$1,500,000 revolving line of credit with Sun Trust Bank, N.A. with an expiration of March 1, 2020. Borrowings under the line of credit bear interest at the 30-day London Inter-bank Offered Rate plus 1.50 percent (4.00 percent and 3.06 percent as of December 31, 2018 and 2017, respectively). Interest is due and payable on a monthly basis. There were no borrowings on the line of credit as of December 31, 2018 or 2017.

### 7. Bonds Payable

Bonds payable, net consists of the following as of December 31:

	<u>2018</u>	<u>2017</u>
South Carolina Jobs - Economic Development Authority Refunding Revenue Bonds Series 2017	\$ 10,947,430	\$ 12,015,486
South Carolina Jobs - Economic Development Authority Refunding Revenue Bonds Series 2016	9,879,718	10,521,109
South Carolina Jobs - Economic Development Authority Revenue Bonds Series 2014	<u>24,957,331</u>	<u>26,401,456</u>
	45,784,479	48,938,051
Less unamortized debt issuance costs	<u>(698,507)</u>	<u>(778,079)</u>
	45,085,972	48,159,972
Less current portion	<u>(3,593,903)</u>	<u>(3,491,091)</u>
Total	<u>\$ 41,492,069</u>	<u>\$ 44,668,881</u>

On April 1, 2017, Bishop Gadsden issued a note to evidence its obligation to the South Carolina Jobs - Economic Development Authority (the "Authority") arising from the loan to Bishop Gadsden of the proceeds of the Economic Development Revenue Refunding Bonds (Bishop Gadsden Episcopal Retirement Community) Series 2017 (the "Series 2017 Bonds") in the amount of \$12,015,486. The proceeds of the Series 2017 Bonds were used to refund the Series 2007 Bonds. The bonds are secured by Bishop Gadsden's facilities. The Series 2017 Bonds are payable in annual installments ranging from \$1,068,056 in April 2018 to \$1,339,247 in April 2027. Interest is payable semi-annually at an annual rate of 2.98 percent.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

On July 1, 2016, Bishop Gadsden issued a note to evidence its obligation to the Authority arising from the loan to Bishop Gadsden of the proceeds of the Economic Development Refunding Revenue Bonds (Bishop Gadsden Episcopal Retirement Community) Series 2016 (the "Series 2016 Bonds") in the amount of \$11,162,500. The proceeds of the Series 2016 Bonds were used to refund the Series 2002F1 Bonds. The bonds are secured by Bishop Gadsden's facilities. The Series 2016 Bonds are payable in annual installments ranging from \$641,391 in April 2017 to \$1,120,744 in April 2027. Interest is payable semi-annually at an annual rate of 2.34 percent.

On May 7, 2014, Bishop Gadsden issued a note to evidence its obligation to the Authority arising from the loan to Bishop Gadsden of the proceeds of the Economic Development Revenue Bonds (Bishop Gadsden Episcopal Retirement Community) Series 2014A (the "Series 2014A Bonds") in the amount of \$27,100,000, Series 2014B (the "Series 2014B Bonds") in the amount of \$16,051,346, and Series 2014C (the "Series 2014C Bonds") in the amount of \$13,411,863, (collectively, the "Series 2014 Bonds"). The Series 2014 Bonds are secured by Bishop Gadsden's facilities and revenues. The Series 2014A Bonds were "draw-down" bonds that were funded by a financial institution to fund construction expenditures associated with an independent living expansion project known as "The Quay Project", which was completed and placed into service during the year ended December 31, 2016. The financial institution committed to fund \$27,100,000 of the Series 2014A Bonds. Management was required to use the initial entrance fees received from the Quay Project to repay the Series 2014A Bonds. The Series 2014A Bonds were repaid in full during 2016. The Series 2014B Bonds are payable in annual installments ranging from \$486,997 in April 2017 to \$959,802 in April 2039. Interest is payable semi-annually at an annual rate of 3.09 percent. The Series 2014C Bonds are payable in annual installments ranging from \$775,694 in April 2015 to \$1,237,745 in April 2027. Interest is payable semi-annually at an annual rate of 3.04 percent.

Interest expense as reported on the accompanying statements of operations includes approximately \$76,000 related to deferred financing costs for the year ended December 31, 2018. Interest expense as reported on the accompanying statements of operations includes approximately \$176,000 in losses due to refinancing and \$76,000 related to deferred financing costs for the year ended December 31, 2017.

Scheduled principal repayments on bonds payable for the next five years and thereafter in the aggregate as of December 31, 2018, are as follows:

	Series 2017 Bonds	Series 2016 Bonds	Series 2014B Bonds	Series 2014C Bonds	Total
2019	\$ 1,100,577	\$ 1,004,435	\$ 970,902	\$ 517,989	\$ 3,593,903
2020	1,127,245	1,008,932	1,000,074	532,969	3,669,220
2021	1,155,916	1,028,974	1,032,652	550,915	3,767,457
2022	1,184,630	1,046,867	1,063,450	568,175	3,863,122
2023	1,214,056	1,058,114	1,096,228	585,975	3,954,373
Thereafter	5,165,006	4,732,396	4,732,930	12,306,072	26,936,404
Total	<u>\$ 10,947,430</u>	<u>\$ 9,879,718</u>	<u>\$ 9,896,236</u>	<u>\$ 15,062,095</u>	45,784,479
Less unamortized debt issuance cost					<u>(698,507)</u>
Bonds payable, net					<u>\$ 45,085,972</u>

Bishop Gadsden is subject to certain financial covenants relating to the bonds payable. The covenants consist of a minimum debt service coverage ratio and a minimum liquidity requirement. As of December 31, 2018, management believes Bishop Gadsden is in compliance with these covenant requirements.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

### 8. Net Assets

Net asset presentation on the balance sheets with expanded disclosure for the amount and purpose of designations is as follows:

	<u>2018</u>	<u>2017</u>
Net assets:		
Without donor restrictions:		
Undesignated	\$ 30,057,870	\$ 30,969,491
With donor restrictions:		
Purpose restricted for:		
Operations	5,056,908	5,556,128
Capital projects	1,013,614	311,120
Restricted in perpetuity	<u>4,570,222</u>	<u>4,522,989</u>
	<u>10,640,744</u>	<u>10,390,237</u>
Total net assets	<u>\$ 40,698,614</u>	<u>\$ 41,359,728</u>

During 2018 and 2017, net assets of \$1,059,672 and \$1,128,406, respectively, were released from donor restrictions for operations by incurring expenses satisfying the restricted purposes. During 2018, net assets of \$145,815 was released from donor restrictions relating to capital projects satisfying the restricted purposes.

Earnings from net assets restricted in perpetuity are available to support charitable and benevolent care provided by the Bishop Gadsden.

### 9. Endowment Funds

*Interpretation of Relevant Law* - The state of South Carolina adopted the South Carolina Prudent Management of Institutional Funds Act (the "Act") effective May 29, 2008. The Board of Trustees of Bishop Gadsden has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Bishop Gadsden classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment restricted in perpetuity and (2) the original value of subsequent gifts to the endowment restricted in perpetuity.

The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity is classified as donor purpose restricted until those amounts are appropriated for expenditure by Bishop Gadsden in a manner consistent with the standard of prudence prescribed in the Act. In accordance with the Act, Bishop Gadsden considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- The duration and preservation of the fund
- The purposes of Bishop Gadsden and the endowment fund with donor restrictions
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Bishop Gadsden
- The investment policy of Bishop Gadsden

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

The following is the reconciliation of endowment net assets as of and for the years ended December 31, 2018 and 2017:

	<b>With Donor Restriction</b>		<b>Total</b>
	<b>Purpose Restricted</b>	<b>Restricted in Perpetuity</b>	
Endowed Net Assets, January 1, 2017	\$ 933,156	\$ 4,382,019	\$ 5,315,175
Investment income	120,265	-	120,265
Change in unrealized gains and losses on investments, net	283,790	-	283,790
Contributions	-	140,970	140,970
Releases from restrictions	(6,000)	-	(6,000)
Endowed Net Assets, December 31, 2017	1,331,211	4,522,989	5,854,200
Investment income	163,470	-	163,470
Change in unrealized gains and losses on investments, net	(323,083)	-	(323,083)
Contributions	-	47,233	47,233
Releases from restrictions	(8,000)	-	(8,000)
Endowed Net Assets, December 31, 2018	<u>\$ 1,163,598</u>	<u>\$ 4,570,222</u>	<u>\$ 5,733,820</u>

*Funds with Deficiencies* - It is Bishop Gadsden's policy to maintain the corpus amounts of each individual endowment fund with donor restrictions received. If the fair value of assets associated with individual donor-restricted endowment funds were to fall below the level that the donor or the Act requires, Bishop Gadsden is to maintain the corpus as a fund of perpetual duration, in accordance with U.S. GAAP. Deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies as of December 31, 2018 and 2017.

*Return Objectives and Risk Parameters* - Bishop Gadsden has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets with donor restricted funds that Bishop Gadsden must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to preserve and grow capital, strive for consistent absolute returns, preserve purchasing power by striving for long-term returns which either match or exceed the set payout, fees and inflation without putting the principal value at imprudent risk, and diversify investments consistent with commonly accepted industry standard to minimize the risk of large losses.

*Strategies Employed for Achieving Objectives* - To satisfy its long-term rate-of-return objectives, Bishop Gadsden 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). Management targets a diversified asset allocation that meets Bishop Gadsden's long-term rate-of-return objectives while avoiding undue risk from imprudent concentration in any single asset class or investment vehicle.

*Spending Policy and How the Investment Objectives Relate to Spending Policy* - Bishop Gadsden's spending policy is consistent with its objective of preservation of the fair value of the original gift of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2018 and 2017

### 10. Expenses by Both Nature and Function

Bishop Gadsden's expenses for resident services (including residential services, dietary, housekeeping and laundry, social services and plant operations), general and administrative (including general and administrative, marketing and information technology), and fundraising are as follows for the years ending December 31, 2018:

	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 10,821,514	\$ 2,553,482	\$ 160,774	\$ 13,535,770
Employee benefits and payroll taxes	823,025	1,571,813	11,748	2,406,586
Supplies and other expenses	2,053,038	257,601	15,596	2,326,235
Food	2,323,189	53,634	6,195	2,383,018
Repairs and maintenance	2,851,885	444,904	17,726	3,314,515
Utilities	1,624,769	-	-	1,624,769
Professional services	769,245	362,690	5,330	1,137,265
Advertising and marketing	-	67,001	217,142	284,143
Insurance	-	733,408	-	733,408
Depreciation	6,600,519	207,563	-	6,808,082
Interest	1,490,486	-	-	1,490,486
Bad debt expense	1,008	-	-	1,008
Total	<u>\$ 29,358,678</u>	<u>\$ 6,252,096</u>	<u>\$ 434,511</u>	<u>\$ 36,045,285</u>

In 2017, \$28,060,866 of expenses related to resident services, \$6,520,817 related to general and administrative, and \$367,757 related to fundraising.

### 11. Retirement Plans

#### Pension

Bishop Gadsden has a qualified defined contribution retirement plan for eligible employees who are at least 21 years of age and have been employed more than one year. Employees are eligible for a safe harbor contribution equal to 100 percent of employee deferrals up to 2 percent of compensation plus an additional 50 percent safe harbor matching contribution of employee deferrals in excess of 2 percent of compensation not to exceed a maximum matching contribution of 4 percent of compensation. At Bishop Gadsden's discretion it may make a profit sharing contribution. No profit sharing contribution was made for the years ended December 31, 2018 and 2017. Bishop Gadsden contributions to the plan are approximately \$278,000 and \$246,000 for the years ended December 31, 2018 and 2017, respectively.

#### 457(b) Plan

Bishop Gadsden has a 457(b) retirement plan eligible for select employees. Contributions of up to the maximum amount of \$16,995 per recipient are made on behalf of the select employees. Bishop Gadsden made contributions to the plan of approximately \$51,000 both of the years ended December 31, 2018 and 2017, respectively.

## **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2018 and 2017

### **12. Commitments and Contingencies**

Bishop Gadsden is subject to legal proceedings and claims which arise in the ordinary course of business. Bishop Gadsden maintains liability insurance coverage for claims made during the policy year. Under a claims-made policy, determination of coverage is triggered by the date the insured first becomes aware and notifies the insurer of a claim or potential claim. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

The senior living services industry is subject to numerous laws, regulations, and administrative directives of federal, state, and local governments and agencies. Compliance with these laws, regulations, and administrative directives is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for resident services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future effects of this matter on Bishop Gadsden, if any, are not determinable.