

# **Bishop Gadsden Episcopal Retirement Community**

Financial Statements

December 31, 2021 and 2020

# **Bishop Gadsden Episcopal Retirement Community**

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## Independent Auditors' Report

To the Board of Trustees of  
Bishop Gadsden Episcopal Retirement Community

### ***Opinion***

We have audited the financial statements of Bishop Gadsden Episcopal Retirement Community (Bishop Gadsden), which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bishop Gadsden as of December 31, 2021 and 2020, 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 (GAAP).

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bishop Gadsden and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that 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 GAAP, 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 Bishop Gadsden's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' 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 auditors' 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 GAAS 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 GAAS, 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 Bishop Gadsden'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 Bishop Gadsden'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.

*Baker Tilly US, LLP*

Tysons, Virginia  
April 20, 2022

**Bishop Gadsden Episcopal Retirement Community**

Balance Sheets

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,415,475	\$ 11,514,639
Resident receivables, net	328,792	339,652
Other receivables and deposits	1,896,883	90,495
Current portion of assets whose use is limited	7,000,000	-
Current portion of pledges receivable	423,756	629,940
Prepaid expenses and other current assets	500,326	727,840
Total current assets	19,565,232	13,302,566
<b>Investments</b>	51,549,700	46,881,244
<b>Assets Whose Use is Limited, Net</b>	22,451,092	40,086,974
<b>Pledges Receivable, Net</b>	-	85,114
<b>Property and Equipment, Net</b>	199,940,385	153,070,455
Total assets	<u>\$ 293,506,409</u>	<u>\$ 253,426,353</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$ 3,863,122	\$ 3,767,457
Accounts payable, trade	767,819	585,386
Accrued expenses	1,151,157	1,899,394
Accrued interest	945,160	916,636
Liability under charitable gift annuities, current	68,952	62,248
Total current liabilities	6,796,210	7,231,121
<b>Accounts Payable, Construction</b>	6,499,989	3,932,304
<b>Refundable Deposits</b>	1,126,141	1,017,707
<b>Refundable Entrance Fees</b>	41,403,525	41,717,833
<b>Deferred Revenue From Entrance Fees</b>	53,129,956	50,486,311
<b>Liability Under Charitable Gift Annuities</b>	285,442	282,495
<b>Long-Term Debt, Net</b>	115,817,141	90,955,645
<b>Derivative Financial Instrument</b>	716,237	2,627,094
<b>Other Liabilities</b>	575,522	454,437
Total liabilities	<u>226,350,163</u>	<u>198,704,947</u>
<b>Net Assets</b>		
Without donor restrictions	44,299,343	35,386,141
With donor restrictions	22,856,903	19,335,265
Total net assets	<u>67,156,246</u>	<u>54,721,406</u>
Total liabilities and net assets	<u>\$ 293,506,409</u>	<u>\$ 253,426,353</u>

See notes to financial statements

# Bishop Gadsden Episcopal Retirement Community

## Statements of Operations

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Revenues, Gains and Other Support</b>		
Resident services	\$ 31,255,363	\$ 29,035,575
Amortization of entrance fees	8,518,539	6,993,324
Interest, dividends, and realized gains and losses on investments	2,665,649	5,690,084
Net assets released from restrictions, operations	1,047,047	1,256,197
COVID-19 grant income	81,976	1,016,713
Other	2,124,222	223,347
	<u>45,692,796</u>	<u>44,215,240</u>
<b>Operating Expenses</b>		
Residential services	12,380,886	11,311,996
Dietary	4,705,152	4,590,542
Plant operations	4,834,718	4,651,015
General and administrative	8,034,002	7,379,110
Social services and activities	1,444,095	1,371,777
Housekeeping and laundry	956,747	957,277
Marketing	441,537	330,179
Information technology	802,508	884,446
Fundraising	189,081	201,823
Interest	1,476,123	1,466,651
Depreciation	7,864,070	7,578,403
	<u>43,128,919</u>	<u>40,723,219</u>
Total operating expenses	<u>43,128,919</u>	<u>40,723,219</u>
Operating income	<u>2,563,877</u>	<u>3,492,021</u>
<b>Other Revenues and Expenses</b>		
Contributions	74,596	6,955
Forgiveness of paycheck protection program loan	2,368,048	-
Unrealized gains and losses on investments	2,058,983	(1,125,594)
Fair value adjustment of derivative financial instrument	1,910,857	(3,675,152)
Change in value of split-interest agreements	(40,532)	(19,077)
Loss on disposal of property and equipment	(22,627)	(247,800)
	<u>6,349,325</u>	<u>(5,060,668)</u>
Total other revenues and expenses	<u>6,349,325</u>	<u>(5,060,668)</u>
Revenues in excess of (less than) expenses	8,913,202	(1,568,647)
<b>Other Changes in Net Assets Without Donor Restrictions</b>		
Net assets released from restrictions, capital purchases	-	504,582
	<u>-</u>	<u>504,582</u>
Change in net assets without donor restrictions	<u>\$ 8,913,202</u>	<u>\$ (1,064,065)</u>

See notes to financial statements

## Bishop Gadsden Episcopal Retirement Community

### Statements of Changes in Net Assets

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Net Assets Without Donor Restrictions</b>		
Revenues in excess of (less than) expenses	\$ 8,913,202	\$ (1,568,647)
Net assets released from restrictions, capital purchases	<u>-</u>	<u>504,582</u>
Change in net assets without donor restrictions	<u>8,913,202</u>	<u>(1,064,065)</u>
<b>Net Assets With Donor Restrictions</b>		
Contributions	3,115,563	1,964,486
Interest and dividends	619,703	374,002
Unrealized gains and losses on investments	833,419	1,471,519
Net assets released from restrictions	<u>(1,047,047)</u>	<u>(1,760,779)</u>
Change in net assets with donor restrictions	<u>3,521,638</u>	<u>2,049,228</u>
Change in net assets	12,434,840	985,163
<b>Net Assets, Beginning</b>	<u>54,721,406</u>	<u>53,736,243</u>
<b>Net Assets, Ending</b>	<u><u>\$ 67,156,246</u></u>	<u><u>\$ 54,721,406</u></u>

See notes to financial statements

**Bishop Gadsden Episcopal Retirement Community**

## Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 12,434,840	\$ 985,163
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,864,070	7,578,403
Loss on disposal of property and equipment	22,627	247,800
Amortization of deferred financing costs	79,467	79,572
Realized gains on investments, net	(736,599)	(4,683,320)
Unrealized gains and losses on investments	(2,892,402)	(345,925)
Fair value adjustment of derivative financial instrument	(1,910,857)	3,675,152
Amortization of entrance fees	(8,518,539)	(6,993,324)
Proceeds from nonrefundable entrance fees, existing units	12,206,300	8,631,150
Restricted contributions	(3,115,563)	(1,964,486)
Forgiveness of paycheck protection program loan	(2,368,048)	-
Changes in assets and liabilities:		
Receivables and deposits	(1,795,528)	635,283
Pledges receivable	291,298	1,482,973
Prepaid expenses and other current assets	227,514	(148,298)
Accounts payable, accrued expenses, accrued interest and other liabilities	(416,195)	1,174,184
Refundable deposits	108,434	(904,428)
Liability under charitable gift annuities	9,651	(53,009)
Net cash provided by operating activities	<u>11,490,470</u>	<u>9,396,890</u>
<b>Cash Flows From Investing Activities</b>		
Net purchases of investments and assets whose use is limited	(4,541,125)	(10,162,033)
Purchase of property and equipment	<u>(52,576,716)</u>	<u>(25,153,780)</u>
Net cash used in investing activities	<u>(57,117,841)</u>	<u>(35,315,813)</u>
<b>Cash Flows From Financing Activities</b>		
Refunds of entrance fees	(1,358,424)	(1,162,139)
Proceeds from nonrefundable entrance fees, new units	-	5,849,610
Proceeds from refundable entrance fees, new units	-	1,512,210
Restricted contributions	3,115,563	1,964,486
Proceeds from issuance of long-term debt	31,400,973	2,368,048
Principal payments on long-term debt	<u>(3,767,457)</u>	<u>(3,669,220)</u>
Net cash provided by financing activities	<u>29,390,655</u>	<u>6,862,995</u>
Net change in cash and cash equivalents and restricted cash and cash equivalents	(16,236,716)	(19,055,928)
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning</b>	<u>30,542,706</u>	<u>49,598,634</u>
<b>Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending</b>	<u>\$ 14,305,990</u>	<u>\$ 30,542,706</u>
<b>Supplementary Cash Flows Information</b>		
Interest paid, net of capitalized interest	<u>\$ 1,447,599</u>	<u>\$ 927,170</u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Forgiveness of paycheck protection program loan	<u>\$ 2,368,048</u>	<u>\$ -</u>
Accounts payable, construction	<u>\$ 6,499,989</u>	<u>\$ 3,932,304</u>
<b>Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 9,415,475	\$ 11,514,639
Assets under trust indenture, held by trustee	<u>4,890,515</u>	<u>19,028,067</u>
	<u>\$ 14,305,990</u>	<u>\$ 30,542,706</u>

See notes to financial statements

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2021 and 2020

## **1. Organization**

Bishop Gadsden Episcopal Retirement Community (Bishop Gadsden) is a tax-exempt not-for-profit 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 268 independent living units, 55 assisted living units, 19 memory care units and 46 skilled nursing beds.

During 2019, Bishop Gadsden began development related to a new healthcare facility and assisted living renovations, which will create space for new short term rehab units, skilled nursing beds, and memory care units. As of the date of these financial statements, the new healthcare facility construction is expected to be completed on or around May 25, 2022 and opening immediately thereafter. Bishop Gadsden intends to liquidate and release approximately \$7,000,000 in assets whose use is limited which relates to donor restricted contributions for the new facility, and accordingly such amount been classified as current on the accompanying balance sheet as of December 31, 2021.

## **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 and Restricted Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents and restricted cash and cash equivalents include investments purchased with an initial maturity of three months or less. 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 and restricted cash and cash equivalents which may at times, exceed federally insured limits.

### **Resident and Other Receivables**

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 during periodic review of individual accounts and 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 \$20,000 and \$71,000 as of December 31, 2021 and 2020, respectively.

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements  
December 31, 2021 and 2020

## **Investments, Investment Risk and Assets Whose Use is Limited**

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.

Assets whose use is limited primarily includes designated assets set aside by the Board of Trustees, assets held by the trustees as required under trust indenture and assets held due to donor restrictions.

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 a readily determinable fair value, is valued at net asset value per share. Investment income or loss (including realized and unrealized gains and losses on investments, interest, dividends and capital gain distributions) is included in the determination of revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. 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.

## **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.

Gifts of long-lived assets such as land, buildings or equipment are reported 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 restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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.

## **Pledges Receivable**

Pledges receivable are stated at outstanding balances and are discounted to their present value if material. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received. An allowance, if any, is recorded for uncollectible pledges based on management's assessment of the collectability. Management determined all pledges to be fully collectible.

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2021 and 2020

Pledges receivable, net of discounts for net present value, are scheduled to be collected as follows:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 423,756	\$ 629,940
One year to five years	-	119,706
	<u>423,756</u>	<u>749,646</u>
Less discount on future pledges receivable	-	(34,592)
Pledges receivable, net	<u>\$ 423,756</u>	<u>\$ 715,054</u>

### Derivative Financial Instrument

Bishop Gadsden entered into an interest rate swap agreement, which is considered a derivative financial instrument, to manage its interest rate risk on its long-term debt. The interest rate swap is reported at fair value in the balance sheets and related adjustment to fair value is reported in the statements of operations.

### 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 nonrefundable and two types of refundable contract options to its residents. The nonrefundable 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 nonrefundable 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, which approximates the period of time the goods and services under the agreements are expected to be transferred to residents. 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. Amortization of nonrefundable entrance fees on independent living revenues was \$8,518,539 in 2021 and \$6,993,324 in 2020. The remaining life expectancy of the residents is adjusted annually based on actuarial information. Refundable entrance fees on the balance sheets is presented at the contractually refundable obligation.

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, 2021 and 2020

## **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 5.5 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, 2021 and 2020.

## **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.

## **Net Assets**

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.

## **Resident Service Revenues**

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. Resident service revenues are recognized as performance obligations are satisfied.

Resident service revenues are primarily comprised of skilled nursing, assisted living, independent living, homecare agency services and other resident service streams, which are primarily derived from providing housing, skilled nursing, assisted living, homecare and other services to residents at a stated daily or monthly fee, net of any explicit or implicit price concessions. Bishop Gadsden has determined that the services included in the stated daily or monthly fee for each level of care represents a series of distinct services that have the same timing and pattern of transfer. Therefore, Bishop Gadsden considers the services provided to residents in each level of care to be one performance obligation which is satisfied over time as services are provided. As such, skilled nursing, assisted living, independent living, homecare agency services and other resident services are recognized on a daily or month-to-month basis as services are rendered.

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements  
December 31, 2021 and 2020

Bishop Gadsden receives revenue for services under third-party payor programs, including Medicare and other third-party payors. Settlements with third-party payors 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 correspondence with the third-party payor and historical payment trends and retroactive adjustments are recognized in future periods as final settlements are determined.

## **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 \$439,000 and \$395,000 for the years ended December 31, 2021 and 2020, respectively. Bishop Gadsden received approximately \$650,000 and \$608,000 to subsidize the costs of providing benevolent assistance under its benevolent assistance policy for the years ended December 31, 2021 and 2020, respectively.

## **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, 2021 and 2020.

## **COVID-19 Grant Income**

COVID-19 grant income is primarily comprised of amounts received from federal funding sources related to the COVID-19 pandemic. Bishop Gadsden accounts for this funding in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and accordingly, revenues are recognized when barriers are substantially met, which occurs when the company complies with the terms and conditions related to the purpose of the grant rather than those that are administrative in nature.

In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law to combat the financial effects of COVID-19. The CARES Act created a Provider Relief Fund (PRF) to provide financial support for healthcare providers. In accordance with the terms and conditions of the PRF, Bishop Gadsden could apply the funding against lost revenues and eligible expenses not reimbursed from other sources. Bishop Gadsden received PRF payments of \$81,976 in 2021 and \$1,016,713 in 2020.

Bishop Gadsden incurred eligible expenses in excess of \$81,976 in 2021 and \$1,016,713 in 2020 in accordance with the terms of the PRF. These amounts were recognized and included in COVID-19 grant income in the accompanying statements of operations.

The majority of the funding received is subject to future reporting and audit requirements. Noncompliance with the terms and conditions of the PRF could result in repayment of some or all of the support, which can be subject to government review and interpretation. An estimate of the possible effects of these matters cannot be made as of the date these financial statements were issued.

# **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2021 and 2020

## **Employee Retention Credit (ERC)**

The Employee Retention Credit (ERC), which was included as part of the CARES Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. Bishop Gadsden qualified for the ERC as its operations were partially suspended during the first quarter of 2021 due to orders from local government and healthcare regulators limiting certain of its activities due to COVID-19. Bishop Gadsden averaged more than 100 full-time employees (FTEs), but less than 500 FTEs during 2019, therefore, it was considered a small employer during 2021. As a small employer, all of Bishop Gadsden's otherwise qualified wages were eligible for the ERC. For 2021, the ERC equaled 70 percent of an employee's qualified wages up to \$10,000 per employee per calendar quarter with a maximum annual credit of \$21,000 for each employee.

Bishop Gadsden accounts for this federal funding in accordance with FASB ASC 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. Bishop Gadsden claimed credits of approximately \$1,841,000 on an amended first quarter Form 941 which is included in other revenue in the statement of operations for the year ended December 31, 2021. As of December 31, 2021, Bishop Gadsden had an ERC receivable of approximately \$1,841,000, included in other receivables and deposits on the accompanying balance sheet.

## **Income Tax Status**

Bishop Gadsden is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related activities pursuant to Section 509(a).

## **Performance Indicator**

The statements of operations includes a performance indicator labeled revenues in excess of (less than) expenses. Changes in net assets without donor restrictions which are excluded from revenues in excess of (less than) expenses, consistent with industry practice, include 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).

## **New Accounting Standards Not Yet Adopted**

### **Reference Rate Reform**

In March, 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 was issued to provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments of ASU No. 2020-04 only apply to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU No. 2020-04 are effective for all entities as of March 12, 2020 through December 31, 2022.

# Bishop Gadsden Episcopal Retirement Community

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## Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

During September 2020, the FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021. Bishop Gadsden is currently assessing the effect that ASU No. 2020-07 will have on its results of operations, financial position and cash flows.

## Subsequent Events

Bishop Gadsden has evaluated subsequent events through April 20, 2022, which is the date the financial statements were issued.

## 3. Resident Service Revenue

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 consist of the following for the years ended December 31, 2021 and 2020:

	2021					
	Skilled Nursing	Assisted Living	Independent Living	Homecare Agency	Other Resident Services	Total
Self-pay	\$ 4,003,480	\$ 6,752,661	\$ 18,148,355	\$ 947,349	\$ 588,431	\$ 30,440,276
Medicare	815,087	-	-	-	-	815,087
Total	<u>\$ 4,818,567</u>	<u>\$ 6,752,661</u>	<u>\$ 18,148,355</u>	<u>\$ 947,349</u>	<u>\$ 588,431</u>	<u>\$ 31,255,363</u>
	2020					
	Skilled Nursing	Assisted Living	Independent Living	Homecare Agency	Other Resident Services	Total
Self-pay	\$ 3,652,790	\$ 6,282,795	\$ 17,597,243	\$ 667,015	\$ 210,430	\$ 28,410,273
Medicare	625,302	-	-	-	-	625,302
Total	<u>\$ 4,278,092</u>	<u>\$ 6,282,795</u>	<u>\$ 17,597,243</u>	<u>\$ 667,015</u>	<u>\$ 210,430</u>	<u>\$ 29,035,575</u>

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 deferred revenue from entrance fees until the performance obligations are satisfied and are included in deferred revenues from entrance fees in the accompanying balance sheets. In 2021 and 2020, Bishop Gadsden recognized approximately \$8,197,000 and \$6,316,000, respectively, of revenue that was included in the deferred revenue from entrance fees balance as of January 1, 2021 and 2020. Bishop Gadsden applies the practical expedient in ASC 606 and therefore does not disclose amounts for remaining performance obligations that have original expected durations of one year or less.

## **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

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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 Bishop Gadsden's clinical assessment of its residents. Bishop Gadsden is required to clinically assess its residents at predetermined time periods throughout the year. Therapy services provided to Medicare Part B beneficiaries are paid at the letter of a published fee schedule or actual charges. The documented assessments are subject to review and adjustment by the Medicare program.

#### **4. Fair Value Measurements, Investments, 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

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

	<b>2021</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
Reported at fair value:			
Investments and assets whose use is limited:			
Mutual funds:			
Equity funds	\$ 41,338,206	\$ 41,338,206	\$ -
Fixed income funds	30,921,499	30,921,499	-
International funds	115,644	115,644	-
Total investments and assets whose use is limited measured at fair value	<u>\$ 72,375,349</u>	<u>\$ 72,375,349</u>	<u>\$ -</u>
Derivative financial instrument	<u>\$ (716,237)</u>	<u>\$ -</u>	<u>\$ (716,237)</u>
	<b>2020</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
Reported at fair value:			
Investments and assets whose use is limited:			
Mutual funds:			
Equity funds	\$ 23,354,076	\$ 23,354,076	\$ -
Fixed income funds	18,865,841	18,865,841	-
International funds	21,871,672	21,871,672	-
Total investments and assets whose use is limited measured at fair value	<u>\$ 64,091,589</u>	<u>\$ 64,091,589</u>	<u>\$ -</u>
Derivative financial instrument	<u>\$ (2,627,094)</u>	<u>\$ -</u>	<u>\$ (2,627,094)</u>

The following provides a reconciliation of the amounts included in fair value hierarchy to the amounts reported in the accompanying balance sheets at December 31:

	<b>2021</b>	<b>2020</b>
Assets whose use is limited, net and investments:		
Cash and cash equivalents	\$ 8,625,443	\$ 22,876,629
Assets measured at fair value	<u>72,375,349</u>	<u>64,091,589</u>
	<u>\$ 81,000,792</u>	<u>\$ 86,968,218</u>

# Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements  
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## Valuation Methodologies

Mutual funds are valued at closing price reported in active markets for the same or similar securities.

The fair value of the interest rate swap takes into consideration the prevailing interest rate environment and the specific terms and conditions of the interest rate swaps and considers the credit risk of Bishop Gadsden. The method used to determine the fair value calculates the estimated future payments required by the interest rate swap and discounts these payments using an appropriate discount rate. The value represents the estimated exit price Bishop Gadsden would pay or be paid to terminate the interest rate swap agreement.

## 5. Liquidity and Availability of Resources

The following table reflects Bishop Gadsden's financial assets available for general expenditure within one year of the balance sheets date. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of: (a) assets whose use is limited by board designations, regulatory bodies, under trust indenture and other agreements; and (b) donor purpose-restricted funds and permanent endowments.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 9,415,475	\$ 11,514,639
Resident receivable, net	328,792	339,652
Other receivables and deposits	1,896,883	90,495
Investments	51,549,700	46,881,244
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 63,190,850</u>	<u>\$ 58,826,030</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 \$1,500,000 line of credit, which was increased to \$5,000,000 in February 2022 as discussed in more detail in Note 7.

## 6. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 17,414,471	\$ 16,994,531
Building and building improvements	156,906,745	156,149,447
Furniture and equipment	23,297,790	20,393,679
Vehicles	989,561	806,719
Construction in progress	80,521,740	30,935,623
	<u>                    </u>	<u>                    </u>
	279,130,307	225,279,999
Less accumulated depreciation	<u>(79,189,922)</u>	<u>(72,209,544)</u>
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 199,940,385</u>	<u>\$ 153,070,455</u>

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

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Construction in progress at December 31, 2021 includes development related to a new healthcare facility and assisted living renovations. A construction contract exists for the new healthcare facility in the amount of approximately \$60,600,000, of which approximately \$56,000,000 was included in construction in progress as of December 31, 2021. Additionally, a construction contract exists for the assisted living renovations in the amount of approximately \$11,107,000 of which approximately \$8,422,000 was included in construction in progress as of December 31, 2021. Approximately \$27,295,000 and \$1,902,000 included in construction in progress as of December 31, 2020 related to the new healthcare facility and assisted living renovations, respectively.

### 7. Line of Credit

Bishop Gadsden has an unsecured \$1,500,000 revolving line of credit with Truist Bank with no set expiration. Borrowings under the line of credit bear interest at one-month LIBOR plus 1.50 percent (1.60 percent and 1.64 percent as of December 31, 2021 and 2020, respectively). Interest is due and payable on a monthly basis. There were no borrowings on the line of credit as of December 31, 2021 or 2020. The line of credit agreement was increased to \$5,000,000 in February of 2022.

### 8. Long-Term Debt

Long-term debt, net consists of the following as of December 31:

	<u>2021</u>	<u>2020</u>
South Carolina Jobs - Economic Development Authority Revenue Bonds Series 2019A	\$ 50,555,000	\$ 50,555,000
South Carolina Jobs - Economic Development Authority Revenue Bonds Series 2019B	31,400,973	-
South Carolina Jobs - Economic Development Authority Refunding Revenue Bonds Series 2017	7,563,692	8,719,608
South Carolina Jobs - Economic Development Authority Refunding Revenue Bonds Series 2016	6,503,708	7,534,632
South Carolina Jobs - Economic Development Authority Revenue Bonds Series 2014	20,352,830	21,935,397
Paycheck Protection Program	-	2,368,048
Total	116,376,203	91,112,685
Plus bond premium, net	5,191,362	5,308,926
Less unamortized debt issuance costs	<u>(1,887,302)</u>	<u>(1,698,509)</u>
	119,680,263	94,723,102
Less current portion	<u>(3,863,122)</u>	<u>(3,767,457)</u>
Total	<u>\$ 115,817,141</u>	<u>\$ 90,955,645</u>

## **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2021 and 2020

In December 2019, the South Carolina Jobs-Economic Development Authority (the Authority) issued, at a premium, \$50,555,000 of tax-exempt bonds, Series 2019A, on behalf of Bishop Gadsden at a fixed interest rate ranging from 4.00 percent to 5.00 percent. Interest on the Series 2019A Bonds is payable semi-annually beginning April 1, 2020. Principal payments on the Series 2019A Bonds are to be paid annually beginning on April 1, 2028 with a final maturity on April 1, 2054. The bond premiums are being amortized over the life of the 2019A Bonds using the effective interest method.

In addition, in December 2019, the Authority issued tax-exempt, direct purchase bank revenue bonds, Series 2019B, to be advanced on a drawdown basis, which is not to exceed \$50,000,000. Interest is payable monthly on the drawn portion of the Series 2019B Bonds at a variable rate based on one-month LIBOR plus 70 basis points (0.80 percent as of December 31, 2021). Principal payments on the Series 2019B Bonds are to be paid annually beginning on April 1, 2028 with a final maturity on April 1, 2046. The first drawdown occurred in June 30, 2021. As of December 31, 2021, the drawdown on the Series 2019B is in the amount of \$31,400,973.

Proceeds from the Series 2019A and Series 2019B Bonds were deposited into a project fund, which will be used to pay construction costs associated with the repositioning project; used to fund various debt service reserve, interest and liquidity accounts, as required by the bond documents; and used to fund a transactions costs associated with the issuance of the Series 2019 Bonds. The amount of interest capitalized was approximately \$2,081,000 and \$2,403,000 in 2021 and 2020, respectively.

On April 1, 2017, 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 Refunding Bonds (Bishop Gadsden Episcopal Retirement Community) Series 2017 (the Series 2017 Bonds) in the amount of \$12,015,486. The Series 2017 Bonds are payable in annual installments ranging from \$1,184,630 in April 2022 to \$1,339,247 in April 2027. Interest is payable semi-annually at an annual rate of 2.98 percent.

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 Series 2016 Bonds are payable in annual installments ranging from \$1,046,867 in April 2022 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 2014A Bonds were repaid in full during 2016 with proceeds from initial entrance fee contracts related to the Quay project. The Series 2014B Bonds are payable in annual installments ranging from \$568,175 in April 2022 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 \$1,063,450 in April 2022 to \$1,237,745 in April 2027. Interest is payable semi-annually at an annual rate of 3.04 percent.

The Bonds are secured by a first mortgage lien on and security interest in Bishop Gadsden's property and equipment and a security interest in Bishop Gadsden's gross revenues, as defined in the applicable agreements.

## Bishop Gadsden Episcopal Retirement Community

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### Paycheck Protection Program

On April 23, 2020, Bishop Gadsden received loan proceeds in the amount of \$2,368,048 under the Paycheck Protection Program (PPP) which was established as part of the CARES Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying businesses in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying businesses to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period. Any unforgiven portion is payable over 2 years at an interest rate of 1 percent with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period.

Bishop Gadsden met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness during January of 2021. Legal release was received during June of 2021, therefore, Bishop Gadsden recorded forgiveness income of \$2,368,048 within its statement of operations for the year ended December 31, 2021.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Interest expense as reported on the accompanying statements of operations includes approximately \$79,000 and \$80,000 related to deferred financing costs for the years ended December 31, 2021 and 2020, respectively.

Scheduled principal repayments on bonds payable for the next five years and thereafter in the aggregate as of December 31, 2021, are as follows:

Years ending December 31:	
2022	\$ 3,863,122
2023	3,954,373
2024	4,049,256
2025	4,158,910
2026	4,521,980
Thereafter	<u>95,828,562</u>
Total	<u>\$ 116,376,203</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.

# Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements  
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## Interest Rate Swap Agreement

In October 2019, Bishop Gadsden entered into an interest rate swap agreement on the 2019B Bonds which is scheduled to expire in October 2034. According to the terms of the swap agreement, if 81 percent of the USD-LIBOR Index (0.10 percent and 0.14 percent at December 31, 2021 and 2020, respectively) is less than the fixed rate of 2.11 percent, Bishop Gadsden must make a monthly payment to the counterparty to the agreement. Conversely, if 81 percent of the USD-LIBOR Index is more than the fixed rate, the counterparty to the swap agreement must make a monthly payment to Bishop Gadsden. The monthly payments are calculated by multiplying the notional amount (\$50,000,000 at December 31, 2020 and 2019) by the difference between 81 percent of the USD-LIBOR Index and the fixed rate.

The fair value of the swap agreement is estimated to be the amount Bishop Gadsden would receive or pay to terminate the swap agreement. This amount is classified as derivative financial instrument on the balance sheets.

Changes in the fair value of the derivative financial instrument is included in revenues in excess of (less than) expenses on the statements of operations since the agreement is not designated as a hedging instrument. The change in the fair value of the derivative financial instrument was \$1,910,857 in 2021 and (\$3,675,152) in 2020.

## 9. Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Purpose restricted for:		
Operations	\$ 10,324,977	\$ 8,519,135
Capital projects	7,748,588	6,135,699
Restricted in perpetuity	<u>4,783,338</u>	<u>4,680,431</u>
	<u>\$ 22,856,903</u>	<u>\$ 19,335,265</u>

## 10. 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.

## Bishop Gadsden Episcopal Retirement Community

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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

The following is the reconciliation of endowment net assets as of and for the years ended December 31, 2021 and 2020:

	With Donor Restriction		Total
	Purpose Restricted	Restricted in Perpetuity	
Endowed net assets, January 1, 2020	\$ 2,641,374	\$ 4,719,345	\$ 7,360,719
Investment income	128,291	-	128,291
Unrealized gains and losses on investments	394,497	-	394,497
Contributions	-	38,914	38,914
Releases from restrictions	(7,500)	-	(7,500)
Endowed net assets, December 31, 2020	2,126,086	4,680,431	6,806,517
Investment income	177,650	-	177,650
Unrealized gains and losses on investments	236,702	-	236,702
Contributions	-	102,905	102,905
Releases from restrictions	(7,500)	-	(7,500)
Endowed net assets, December 31, 2021	<u>\$ 2,532,938</u>	<u>\$ 4,783,336</u>	<u>\$ 7,316,274</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, 2021 and 2020.

## Bishop Gadsden Episcopal Retirement Community

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*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.

### 11. 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 ended December 31, 2021 and 2020:

	2021			
	<u>Resident Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 13,244,101	\$ 3,715,623	\$ 126,630	\$ 17,086,354
Employee benefits and payroll taxes	993,971	1,923,549	10,060	2,927,580
Supplies and other expenses	2,338,536	461,397	13,409	2,813,342
Healthcare service	-	473,591	-	473,591
Food	2,643,025	114,043	7,876	2,764,944
Repairs and maintenance	2,637,405	566,547	7,212	3,211,164
Utilities	1,723,429	-	-	1,723,429
Professional services	741,131	682,663	3,067	1,426,861
Advertising and marketing	-	256,705	20,827	277,532
Insurance	-	1,083,929	-	1,083,929
Depreciation	7,525,102	338,968	-	7,864,070
Interest	1,476,123	-	-	1,476,123
Total	<u>\$ 33,322,823</u>	<u>\$ 9,617,015</u>	<u>\$ 189,081</u>	<u>\$ 43,128,919</u>

## Bishop Gadsden Episcopal Retirement Community

Notes to Financial Statements

December 31, 2021 and 2020

	2020			
	Resident Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 13,008,285	\$ 3,640,662	\$ 151,967	\$ 16,800,914
Employee benefits and payroll taxes	1,000,252	1,860,082	18,169	2,878,503
Supplies and other expenses	1,822,699	824,557	7,378	2,654,634
Food	2,261,902	72,446	5,175	2,339,523
Repairs and maintenance	2,675,200	539,911	6,925	3,222,036
Utilities	1,587,852	-	-	1,587,852
Professional services	527,466	485,409	3,893	1,016,768
Advertising and marketing	-	212,900	8,316	221,216
Insurance	-	956,719	-	956,719
Depreciation	7,250,113	328,290	-	7,578,403
Interest	1,466,651	-	-	1,466,651
Total	\$ 31,600,420	\$ 8,920,976	\$ 201,823	\$ 40,723,219

### 12. Retirement Plans

#### Pension

Bishop Gadsden has a qualified defined contribution retirement plan in which employees are eligible after completing 6 months of eligible service and upon reaching age 18. The Plan excludes leased employees, nonresident aliens and employees covered by a collective bargaining agreement, if any. 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, 2021 and 2020. Bishop Gadsden contributions to the plan are approximately \$424,000 and \$506,000 for the years ended December 31, 2021 and 2020, respectively.

#### 457(b) Plan

Bishop Gadsden has a 457(b) retirement plan eligible for select employees. Contributions of up to the maximum amount of \$19,500 per recipient are made on behalf of the select employees. Bishop Gadsden made contributions to the plan of approximately \$39,000 for both the years ended December 31, 2021 and 2020.

### 13. 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.

## **Bishop Gadsden Episcopal Retirement Community**

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Notes to Financial Statements

December 31, 2021 and 2020

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.

### **COVID-19**

The spread of COVID-19 around the world has caused significant volatility in the U.S. and international markets, supply chains, businesses and communities. Bishop Gadsden's evaluation of the effects of these events is ongoing as of the date of the accompanying financial statements were issued. COVID-19 may impact various parts of Bishop Gadsden's future operations and financial performance, including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption and declines in revenue related to decreases in volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.