

Historic Charleston Foundation

Report on Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Historic Charleston Foundation

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Independent Auditor's Report

Finance Committee
Historic Charleston Foundation
Charleston, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Historic Charleston Foundation and its subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Historic Charleston Foundation and its subsidiary as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Charleston, South Carolina
May 24, 2021

Historic Charleston Foundation

Consolidated Statements of Financial Position

As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 6,524,981	\$ 6,371,315
Unconditional promises to give, net	141,085	376,410
Accounts receivable	-	2,906
Royalties receivable	26,444	21,930
Grant receivable	49,788	-
Inventories	462,142	528,290
Prepaid expenses	105,979	195,237
Investments	11,105,249	10,980,640
Historic properties and collections (Notes 1 & 7)	5,808,797	5,781,296
Depreciable property and equipment, net	5,392,462	5,169,813
Construction in progress	261,448	865,314
Total assets	<u>\$ 29,878,375</u>	<u>\$ 30,293,151</u>
Liabilities		
Accounts payable	\$ 140,247	\$ 182,423
Refundable advance	457,112	-
Accrued compensation	97,448	93,263
Deferred revenue	97,191	284,765
Order deposits	2,450	3,844
Capital lease payable	1,238	3,301
Total liabilities	<u>795,686</u>	<u>567,596</u>
Net Assets		
Net assets without donor restrictions:		
Undesignated	13,272,614	13,917,571
Designated	9,111,923	9,139,899
Total net assets without donor restrictions	<u>22,384,537</u>	<u>23,057,470</u>
Net assets with donor restrictions	<u>6,698,152</u>	<u>6,668,085</u>
Total net assets	<u>29,082,689</u>	<u>29,725,555</u>
Total liabilities and net assets	<u>\$ 29,878,375</u>	<u>\$ 30,293,151</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Consolidated Statements of Activities

For the years ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support						
Contributions	\$ 801,054	\$ 148,703	\$ 949,757	\$ 609,036	\$ 869,402	\$ 1,478,438
Grants	-	149,957	149,957	-	195,411	195,411
Gross profit from:						
Shops of Historic Charleston	247,812	-	247,812	433,964	-	433,964
Market Shop	228,195	-	228,195	607,788	-	607,788
Nathaniel Russell House Shop	12,195	-	12,195	39,296	-	39,296
Aiken-Rhett House Shop	8,019	-	8,019	21,108	-	21,108
Online Shop	36,710	-	36,710	32,370	-	32,370
Festival of Houses	69,034	-	69,034	574,746	-	574,746
Royalties	90,614	-	90,614	80,667	-	80,667
Admissions	280,358	-	280,358	913,408	-	913,408
Special tours	22,628	-	22,628	27,175	-	27,175
Enhancement	21,110	-	21,110	141,685	-	141,685
Events and travel	213,498	-	213,498	248,046	25,125	273,171
Advertising	7,625	-	7,625	16,450	-	16,450
Dealer and sponsorship income	231,620	-	231,620	274,178	-	274,178
Investment income, net	144,544	100,568	245,112	159,415	137,697	297,112
Realized gain (loss) on sales of investments	(127,331)	(55,305)	(182,636)	165,464	83,091	248,555
Unrealized gain (loss) on investments	292,661	159,750	452,411	824,122	384,983	1,209,105
Loss on disposal of fixed assets and collection items	(23,164)	-	(23,164)	(6,329)	(5,588)	(11,917)
Other	17,013	-	17,013	28,521	-	28,521
	<u>2,574,195</u>	<u>503,673</u>	<u>3,077,868</u>	<u>5,191,110</u>	<u>1,690,121</u>	<u>6,881,231</u>
Net assets released from restrictions	<u>473,606</u>	<u>(473,606)</u>	<u>-</u>	<u>1,096,451</u>	<u>(1,096,451)</u>	<u>-</u>
Total revenues, gains and other support (carried forward)	<u>3,047,801</u>	<u>30,067</u>	<u>3,077,868</u>	<u>6,287,561</u>	<u>593,670</u>	<u>6,881,231</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Consolidated Statements of Activities

For the years ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Total revenues, gains and other support (brought forward)	3,047,801	30,067	3,077,868	6,287,561	593,670	6,881,231
Expenses						
<i>Program:</i>						
Museum Houses	968,278	-	968,278	1,325,088	-	1,325,088
Educational programs and tours	679,755	-	679,755	918,957	-	918,957
Preservation services	748,938	-	748,938	1,280,832	-	1,280,832
Retail sales	692,352	-	692,352	935,465	-	935,465
Total program expenses	3,089,323	-	3,089,323	4,460,342	-	4,460,342
<i>Supporting Services:</i>						
General and administrative	386,475	-	386,475	408,940	-	408,940
Fundraising	244,936	-	244,936	301,673	-	301,673
Total supporting services	631,411	-	631,411	710,613	-	710,613
Total expenses	3,720,734	-	3,720,734	5,170,955	-	5,170,955
Change in net assets	(672,933)	30,067	(642,866)	1,116,606	593,670	1,710,276
Net assets, beginning of year	23,057,470	6,668,085	29,725,555	21,940,864	6,074,415	28,015,279
Net assets, end of year	<u>\$ 22,384,537</u>	<u>\$ 6,698,152</u>	<u>\$ 29,082,689</u>	<u>\$ 23,057,470</u>	<u>\$ 6,668,085</u>	<u>\$ 29,725,555</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Consolidated Statement of Functional Expenses

For the year ended December 31, 2020

	Program				Support Services		Total
	Museum Houses	Educational Programs and Tours	Preservation Services	Retail Sales	General and Administrative	Fundraising	
Personnel expenses	\$ 438,483	\$ 248,449	\$ 445,881	\$ 400,313	\$ 232,240	\$ 140,097	\$ 1,905,463
Depreciation	244,533	32,975	51,109	47,845	30,142	29,044	435,648
Interpretive programs, special events, and entertainment	10,838	207,987	4,518	179	2,591	1,127	227,240
Grant expenditures	76,555	24,210	91,760	-	-	-	192,525
Occupancy, telephone, and utilities	47,834	4,272	8,920	76,882	7,918	4,549	150,375
Insurance	50,147	10,794	16,984	26,972	26,953	9,807	141,657
Legal and accounting	-	-	44,916	-	60,175	15,431	120,522
Promotions, design, and advertising	25,746	59,056	904	16,897	82	1,695	104,380
Computer services	12,061	23,199	12,083	14,585	6,857	17,771	86,556
Printing, postage, and shipping	5,327	37,851	1,045	20,551	1,790	17,283	83,847
Credit card and bank charges	12,143	17,109	307	31,631	17	3,169	64,375
Contributions	-	-	50,500	-	69	-	50,569
Repairs and ground maintenance	27,900	1,187	2,268	11,600	2,572	1,037	46,564
Supplies	6,691	6,015	5,060	17,755	3,673	2,748	41,942
Royalties	-	-	-	22,162	-	-	22,162
Training, travel, and parking	3,644	3,986	4,004	4,893	3,683	770	20,980
Consultants	150	-	8,100	-	6,940	-	15,190
Maintenance of collection	6,214	80	-	-	-	-	6,294
Dues and subscriptions	-	2,577	510	-	683	138	3,907
Bad debt	-	-	-	-	-	263	263
Miscellaneous	-	-	-	88	-	-	88
Interest	13	8	20	-	38	8	86
Licenses and permits	-	-	-	-	52	-	52
Coordinators and interns	-	-	49	-	-	-	49
Total expenses	<u>\$ 968,278</u>	<u>\$ 679,755</u>	<u>\$ 748,938</u>	<u>\$ 692,352</u>	<u>\$ 386,475</u>	<u>\$ 244,936</u>	<u>\$ 3,720,734</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Consolidated Statement of Functional Expenses

For the year ended December 31, 2019

	Program				Support Services		Total
	Museum Houses	Educational Programs and Tours	Preservation Services	Retail Sales	General and Administrative	Fundraising	
Personnel expenses	\$ 647,699	\$ 338,256	\$ 430,441	\$ 543,519	\$ 264,491	\$ 208,738	\$ 2,433,144
Consultants	526	-	525,088	4,600	12,440	1,200	543,854
Depreciation	250,713	25,671	39,281	50,030	22,343	22,475	410,513
Interpretive programs, special events, and entertainment	29,674	288,281	42,356	2,103	4,911	11,009	378,334
Insurance	121,123	20,294	18,742	34,647	31,075	11,634	237,515
Occupancy, telephone, and utilities	50,966	7,923	8,409	96,257	8,686	4,799	177,040
Promotions, design, and advertising	57,100	37,018	5,409	35,111	-	450	135,088
Repairs and ground maintenance	78,785	5,693	14,108	15,030	5,824	3,637	123,077
Computer services	15,540	26,402	34,847	15,363	10,155	18,228	120,535
Credit card and bank charges	26,351	25,348	130	56,946	51	3,197	112,023
Grant expenditures	12,522	63,787	35,509	-	-	-	111,818
Printing, postage, and shipping	11,172	50,696	2,366	27,991	3,301	9,619	105,145
Legal and accounting	-	-	50,896	-	32,623	-	83,519
Supplies	9,460	9,462	8,408	27,622	6,458	5,714	67,124
Contributions	-	-	50,500	69	100	-	50,669
Training, travel, and parking	4,740	14,030	5,456	9,061	5,677	235	39,199
Royalties	-	-	-	16,835	-	-	16,835
Coordinators and interns	-	3,100	7,104	-	-	-	10,204
Maintenance of collection	8,643	220	503	-	-	-	9,366
Dues and subscriptions	50	2,711	1,243	-	609	724	5,337
Bad debt	-	-	-	281	-	-	281
Miscellaneous	-	51	-	-	126	-	177
Interest	24	14	36	-	70	14	158
Total expenses	<u>\$ 1,325,088</u>	<u>\$ 918,957</u>	<u>\$ 1,280,832</u>	<u>\$ 935,465</u>	<u>\$ 408,940</u>	<u>\$ 301,673</u>	<u>\$ 5,170,955</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Change in net assets	\$ (642,866)	\$ 1,710,276
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	435,648	410,513
Discount to present value of unconditional promises to give	(2,747)	(14,832)
Unrealized (gain) loss on investments	(452,411)	(1,209,105)
Realized (gain) loss on investments	182,636	(248,555)
Loss on disposal of fixed assets and collection items	23,164	11,917
Changes in accrued and deferred amounts:		
Unconditional promises to give, net	238,072	359,216
Accounts, royalties and grant receivable	(51,396)	(7)
Inventories	66,148	(6,148)
Prepaid expenses	89,258	8,016
Accounts payable and accrued compensation	(37,991)	(43,896)
Deferred revenue and order deposits	(188,968)	2,603
Net cash provided by (used for) operating activities	<u>(341,453)</u>	<u>979,998</u>
Investing activities		
Proceeds from sales of investments	399,977	506,468
Purchases of investments	(254,811)	(514,816)
Purchases of depreciable property and equipment and construction in progress	(77,595)	(905,709)
Purchases of collection items	(27,501)	(222,485)
Proceeds from sale of property and equipment	-	1,609
Net cash provided by (used for) investing activities	<u>40,070</u>	<u>(1,134,933)</u>
Financing activities		
Payments on capital lease payable	(2,063)	(1,990)
Proceeds from refundable advance	457,112	-
Net cash provided by (used for) financing activities	<u>455,049</u>	<u>(1,990)</u>
Net increase (decrease) in cash and cash equivalents	153,666	(156,925)
Cash and cash equivalents, beginning of year	6,371,315	6,528,240
Cash and cash equivalents, end of year	<u>\$ 6,524,981</u>	<u>\$ 6,371,315</u>
Supplemental data		
Interest paid	<u>\$ 87</u>	<u>\$ 158</u>

See Notes to Consolidated Financial Statements

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of activities:

Historic Charleston Foundation (the "Foundation") is a nonprofit organization founded in 1947 to champion the historic authenticity, cultural character, and livability of the Charleston Region through advocacy, stewardship, and community engagement. The Foundation's preservation efforts have evolved to include more than the traditional role of saving historic buildings into advocating for broader quality of life issues like affordable housing, mobility, and transportation and tourism management. In order to carry out and support its mission, the Foundation operates a number of programs and activities including two museum houses, the Nathaniel Russell House and the Aiken-Rhett House, to preserve both the architectural heritage and objects of historical significance for visitors. Conservation and long-term preservation of historically significant properties are accomplished through the acquisition and monitoring of easements, covenants and through the Edmunds Endangered Properties Fund, which allows for the purchase and resale of threatened properties to conservation-minded buyers. The Foundation rehabilitates historic neighborhood properties through its Neighborhood Revitalization Initiative, providing affordable housing for long-term residents of threatened neighborhoods. The Foundation's Royalties and Museum shop programs support the Foundation's educational purpose by developing and marketing products inspired by the architecture and material culture of the Lowcountry. The Festival of Houses and Gardens and the Charleston Antiques Show provide educational opportunities for visitors and illustrate the benefits that are derived from preservation. The Foundation is primarily supported through donor contributions, tour and admission fees, royalties and sales of specialty merchandise.

Principles of consolidation:

The accompanying consolidated financial statements include the accounts of Historic Charleston Foundation and its wholly owned subsidiary, HCF Realty, LLC. HCF Realty, LLC was incorporated on October 16, 2014 to accept, hold, maintain, and sell real estate. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of accounting and presentation:

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. The Foundation's consolidated financial statements follow the requirements of Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC"), *Financial Statements of Not-for-Profit Organizations*.

Net assets:

The Foundation's net assets are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors. These net assets also include amounts designated by the Board of Directors for a particular purpose.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Net assets, continued:

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue recognition:

Contributions: Contributions received are recorded when received as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions, as long as there is no performance requirement attached to the contribution. In the instance where there is a performance obligation attached to the contribution, the portion that is attached to a performance requirement is recorded as deferred revenue until it is earned when the performance requirement is met, while the portion that is considered to be a contribution is recorded as revenue when received or unconditionally pledged. When a 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 and reported in the Consolidated Statements of Activities as net assets released from restrictions.

The Foundation reports gifts of property and equipment, including collection items, as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grants: Grants are earned and recorded as revenue when the grant funds are received or unconditionally pledged, if there is no performance requirement in the grant agreement. At that time, any grantor restrictions are considered when recording the revenue. For any grant agreements that include performance obligations, the Foundation determines when the performance obligations will be met (i.e. at a certain point in time or over time). Revenue is recognized accordingly when the related performance obligation is met. Grant funds with a performance requirement which are received in advance are recorded as deferred revenue and are recognized as revenue when performance requirements are met.

Sponsorship and Event Ticket revenue: Ticket revenue for future events, like Festival of Houses, Festival Special Events, Walking Tours, and the Charleston Antique Show are recorded as deferred revenue and recognized as revenue at a point in time when the scheduled event occurs.

Admissions: Museum admissions are recorded as earned, when customers visit the museums. Generally, admission payments for museum houses are received and earned simultaneously.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

Retail Revenue: Retail revenue is recorded as goods are delivered to customers, generally immediately, since performance obligations are met simultaneously to funds being received. Revenue for drop ship orders is recorded initially as Drop Ship orders on the Consolidated Statements of Financial Position, and then moved to sales revenue when the merchandise is delivered to the customer and earned.

Royalty Revenue: Royalty fees due to Historic Charleston Foundation for licensed products that are sold by the Foundation and other entities are earned over the year as products are sold (performance obligation is met) which is reported quarterly to the Foundation by the vendor (licensee) in accordance with the licensing agreement. Royalties are recorded as revenue when reported, with an offset to the royalty receivable account (as the Foundation has an unconditional right to the consideration since the performance obligation has been met) until payment is received.

Unconditional promises to give, discount, and allowance for doubtful accounts:

Unconditional promises to give are recorded as contributions at the time the promises to give are made and are, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Pledges are recorded as contributions with or without donor restrictions based on their purpose and/or implied time restrictions. When the purpose and/or time restrictions are met, the amounts are recorded in the Consolidated Statements of Activities as released from restrictions. Pledges expected to be collected within one year are recorded at their net realizable values. Pledges expected to be collected in future years are recorded at the present value of their estimated future cash flows (i.e., net of a present value discount, using a discount rate of 1.76%).

The Foundation uses the allowance method to account for uncollectible unconditional promises to give. The allowance is based on management's estimate of the collectability of the promises and historical experience. As of December 31, 2020 and 2019, the Foundation did not record an allowance for doubtful accounts, as all amounts are considered collectible.

Cash and cash equivalents:

For purposes of the Consolidated Statements of Cash Flows, the Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Money market funds awaiting reinvestment are not considered to be cash equivalents, but rather are included in investments.

Accounts, grants, and royalties receivable:

Accounts, grants, and royalties receivable are stated at the amount management expects to collect from outstanding balances. Balances still outstanding after management has used reasonable collection efforts are written off as bad debt expense. The Foundation believes all accounts, grants, and royalties receivable are collectible; accordingly there is no allowance for doubtful accounts.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Availability of funds for general expenditures:

The Foundation has certain net assets that are available for general expenditures within one year of December 31, 2020 and 2019 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (See Note 2). For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of museum houses, educational programs and tours, preservation advocacy, retail services, and general contributions without donor restriction, as well as the conduct of services undertaken to support these activities, to be general expenditures. The Foundation has fixed assets that include historic properties, furniture, and equipment which are not available for general expenditures. The Foundation's collection is considered to be restricted and is included with net assets with donor restrictions. This classification is due to the requirement that any proceeds received from the deaccession of collection items must be used for the restoration, conservation, or purchase of other collection items. The Foundation has certain donor-restricted net assets that are available for general expenditures within the next year because the restrictions on the net assets are expected to be met by conducting the normal program activities. The funds that are available for the next year include donor restricted contributions for specific projects during the next year, the income from donor restricted endowments funds for the purposes specified by the donor, and board designated funds in the endowment for general operating expenditures.

Inventories:

Inventories consist of retail items and are stated at the lower of cost, determined by the average cost method, or net realizable value.

Investments:

Investments in marketable securities with readily determinable fair values are stated at their fair values in the Consolidated Statements of Financial Position. Unrealized gains and losses are included in the Consolidated Statements of Activities.

Fair value of financial instruments:

The Foundation utilizes a three-tier fair value that clarifies fair value as an exit price, representing 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.

The Foundation's financial instruments primarily consist of investments, which are reported at fair value as required by generally accepted accounting principles ("GAAP"). Also see Note 16.

Historic Charleston Foundation

*Notes to Consolidated Financial Statements
December 31, 2020 and 2019*

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Collections:

Collections consist of works of art and antique furnishings carried at cost or, if donated, at the estimated fair value at the date of the contribution. The Foundation employs a curator to ensure that the collection is protected and preserved. It is the policy of the Foundation that proceeds from the sale of any collection items are to be used to maintain or purchase collection items.

Depreciable property and equipment and historic property and collections:

The capitalization threshold of all expenditures for property and equipment having an estimated useful life greater than one year is \$5,000. Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation. Property held for sale is carried at the lower of cost or market. Maintenance and repairs are expensed as incurred. Expenditures, which result in the betterment of assets, are capitalized at cost. When it is determined that the carrying value of a long-lived asset will not be fully recovered, an asset is considered impaired and a loss is recognized as it is written down to its fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. No depreciation is taken on works of art, historical treasures or property held for sale. Leasehold improvements are amortized over the shorter of their estimated useful lives or the applicable lease term using the straight-line method.

The estimated useful lives are as follows:

Buildings and improvements	20-40 years
Furniture, fixtures and equipment	3-10 years
Website redesign	3 years

Endowment funds:

South Carolina has adopted the State Prudent Management of Institutional Funds Act (“SPMIFA”). The Board of Trustees of the Foundation has interpreted SPMIFA 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, the Foundation classifies as net assets with donor restrictions to be held in perpetuity (a) the original gifts donated to the permanent endowment, (b) subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions to be held in perpetuity is classified as net assets with donor restrictions deemed to be temporary until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Endowment funds, continued:

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Return objectives and risk parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to maximize returns within reasonable and prudent levels of risk while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index or similar established broad market measures of return on investments.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments, U.S. government securities, and bond funds to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Foundation has a policy of appropriating for distribution each year an amount not to exceed five percent of its total endowment fund's rolling average fair value over the three years preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of one and a half percent annually over the rate of return measured by the Blended Index as defined by the Investment Committee. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Donated services:

Donated services are recognized as contributions in accordance with accounting standards for contributions received and contributions made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. At December 31, 2020 and 2019, the Foundation recognized \$21,987 and \$8,225, respectively, as contributions in the Consolidated Statements of Activities for donated services. Volunteers also provided services throughout the year that are not recognized as contributions in the Consolidated Statements of Activities because the recognition criteria were not met.

Estimates:

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

Income tax status:

The Foundation and its subsidiary are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as charitable organizations whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Foundation is classified by the Internal Revenue Service as other than a private foundation.

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be in a tax return. GAAP also provides guidance on derecognition of tax benefits, classification on the Consolidated Statements of Financial Position, interest and penalties, accounting in interim periods, and disclosure.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance for the years ended December 31, 2020 or 2019. The Foundation's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest income and to report penalties as other expense.

New accounting pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is effective for fiscal years ending December 31, 2022. Currently, there is a proposal to delay the effective date another year past that. The ASU establishes a dual approach for classifying leases as either financing or operating leases, and requires recognition of an asset and liability on the balance sheet for both types of leases. The Foundation is currently assessing the impact of this new guidance on the existing leases.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

New accounting pronouncements, continued:

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Foundation's net assets or changes in net assets.

Expense allocation:

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The cost of providing the Foundation's programs and other activities has been summarized on a functional basis in the Consolidated Statements of Activities and Consolidated Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses of the Foundation include:

Program expenses: Program expenses include:

Museum houses: The Foundation engages with and educates the broader public and school children throughout the region through interpretation of the collection and two outstanding museum houses, the Nathaniel Russell House c. 1808 and Aiken-Rhett House c. 1820, providing both guided tours and a new mobile app tour of the houses, their collections, and the people who lived and worked on these properties.

Education programs and tours: As part of its mission to champion the historic authenticity and cultural character of Charleston, the Foundation offers two spring events to learn about and visit historic houses, gardens, and collections through tours and educational events. Through a mobile app, people can learn about its museum properties as well as the history of Charleston with a City Tour, highlighting 300 text stops and 30 audio stops, which tell the history of the city over time.

Preservation services: The Foundation's preservation efforts are evolving to include more than the traditional role of saving historic buildings into addressing broader quality of life issues like affordable housing, mobility, flooding, and transportation and tourism management. The Foundation advocates for all neighborhoods, historic buildings, parks, gardens, and issues facing the Lowcountry.

Retail sales: The retail shops of the Foundation showcase licensed products, ranging from furniture, china, textiles, jewelry, porcelain, decorative accessories and historic paint colors, either reproduced or inspired by their museum collections or other important collections in Charleston. The Foundation also highlights books on history, architecture, gardens, and the culture of Charleston and the Lowcountry.

General and administrative expenses: Management and general expenses include the general, administrative, and operating costs of the Foundation.

Fundraising expenses: These expenses include direct and indirect activities undertaken to solicit contributions from donors.

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Expense allocation, continued:

The expenses that are allocated and the method of allocation include:

<u>Expense Type</u>	<u>Method of Allocation</u>
Personnel expenses	Time and effort
Depreciation	Direct costs; remaining based on square footage
Interpretive programs, special events, and entertainment	Direct costs; remaining based on time and effort
Grant expenditures	Direct costs
Occupancy, telephone, and utilities	Direct costs; remaining based on full time equivalent employees per department
Insurance	Time and effort
Legal and accounting	Direct costs; remaining based on time and effort
Promotions, design, and advertising	Direct costs
Computer services	Full time equivalent employees per department
Printing, postage, and shipping	Direct costs; remaining based on full time equivalent employees per department
Credit card and bank charges	Direct costs
Contributions	Direct costs
Repairs and ground maintenance	Direct costs; remaining based on square footage
Supplies	Direct costs; remaining based on time and effort
Training, travel, and parking	Direct costs; remaining based on full time equivalent employees per department
Consultants	Direct costs
Maintenance of collection	Direct costs
Dues and subscriptions	Direct costs
Miscellaneous	Direct costs
Interest	Direct costs
Coordinators and interns	Time and effort

Subsequent events:

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 24, 2021, the date the consolidated financial statements were available to be issued.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2. Availability and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Consolidated Statements of Financial Position are comprised of the following at December 31:

	<u>2020</u>	<u>2019</u>
Assets at year end	\$ 29,878,375	\$ 30,293,151
Less amounts not available to be used within one year due to illiquidity:		
Prepaid expenses	(105,979)	(195,237)
Inventories	(462,142)	(528,290)
Unconditional promises to give, long-term portion	(21,012)	(87,766)
Historic properties and collections, depreciable property and equipment, and construction in progress	<u>(11,462,707)</u>	<u>(11,816,423)</u>
	(12,051,840)	(12,627,716)
Less amounts not available to be used within one year due to:		
Board designated/donor imposed restrictions:		
Board-designated endowment for cash reserves, net of spendable amounts	(6,763,531)	(6,770,607)
Future expendable donor-restricted amounts, net of spendable amounts	(1,446,327)	(1,361,902)
Portion of donor-restricted endowment to be retained in perpetuity	<u>(1,879,807)</u>	<u>(1,841,781)</u>
	<u>(10,089,665)</u>	<u>(9,974,291)</u>
Assets available to meet cash needs for general expenditures within one year	<u>\$ 7,735,504</u>	<u>\$ 7,691,144</u>

As part of its liquidity plan, the Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Foundation invests excess cash in short-term investments, including money market accounts, and has the ability to redeem certain investments as necessary to meet its obligations.

Note 3. Unconditional Promises to Give, Net

Unconditional promises to give, net, is comprised of the following at December 31:

	<u>2020</u>	<u>2019</u>
Receivables due in less than one year	\$ 120,073	\$ 288,644
Receivables due in one to five years	22,000	91,500
Total receivables	142,073	380,144
Less discount to net present value	<u>(988)</u>	<u>(3,734)</u>
Unconditional promises to give, net	<u>\$ 141,085</u>	<u>\$ 376,410</u>

At December 31, 2020, three donors had pledged a total of approximately \$82,000 representing 58% of total unconditional promises to give. At December 31, 2019, four donors had pledged a total of approximately \$194,500 representing 51% of total unconditional promises to give.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4. Investments

Investments consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Equities	\$ 6,141,051	\$ 6,163,974
Exchange traded funds	123,754	213,393
Real estate investment trusts	200,512	366,158
U.S. government securities	1,018,316	1,672,137
Corporate bonds	1,156,168	912,376
Mortgage backed securities	473,711	27,507
Mutual funds	1,100,638	661,373
Money market funds and cash equivalents	589,804	633,368
Certificates of deposit	301,295	330,354
Total investments	<u>\$ 11,105,249</u>	<u>\$ 10,980,640</u>

Investments are held for the following net asset classifications:

Unrestricted undesignated funds	\$ 737,594	\$ 709,804
Unrestricted board-designated endowment funds	6,946,277	6,971,265
Endowment funds with temporary restrictions	1,541,571	1,457,789
Endowment funds with permanent restrictions	<u>1,879,807</u>	<u>1,841,782</u>
	<u>\$ 11,105,249</u>	<u>\$ 10,980,640</u>

Net assets with donor restrictions to be held in perpetuity consist of endowment fund assets. The temporarily restricted investment income from the endowment fund assets can be used to support the Foundation's activities only as stipulated by the donor.

The following schedule summarizes both the investment return from the endowment and other cash accounts and their classification in the Consolidated Statements of Activities for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 303,571	\$ 358,935
Less investment fees	<u>(58,459)</u>	<u>(61,823)</u>
Investment income, net	245,112	297,112
Realized gain (loss)	(182,636)	248,555
Unrealized gain (loss)	<u>452,411</u>	<u>1,209,105</u>
Total investment income	<u>\$ 514,887</u>	<u>\$ 1,754,722</u>

The Foundation has determined that the unrealized losses are deemed to be temporary impairments as of December 31, 2020 and 2019. The Foundation evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Foundation's ability and intent to

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5. Endowments

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

The Foundation's endowment consisted of the following at December 31, 2020:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds:			
Amounts to be held in perpetuity	\$ -	\$ 1,879,807	\$ 1,879,807
Accumulated investment gains	-	1,541,571	1,541,571
Board-designated endowment funds	<u>6,946,277</u>	-	<u>6,946,277</u>
Total funds	<u>\$ 6,946,277</u>	<u>\$ 3,421,378</u>	<u>\$ 10,367,655</u>
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment, beginning of year	\$ 6,971,265	\$ 3,299,571	\$ 10,270,836
Investment return:			
Investment income, net	144,306	75,225	219,531
Net realized and unrealized gain	<u>165,408</u>	<u>104,444</u>	<u>269,852</u>
Total investment income	<u>309,714</u>	<u>179,669</u>	<u>489,383</u>
Other activity:			
Contributions	-	38,025	38,025
Board approved withdrawals	<u>(334,702)</u>	<u>(95,887)</u>	<u>(430,589)</u>
Total other activity	<u>(334,702)</u>	<u>(57,862)</u>	<u>(392,564)</u>
Endowment, end of year	<u>\$ 6,946,277</u>	<u>\$ 3,421,378</u>	<u>\$ 10,367,655</u>

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5. Endowments, Continued

The Foundation's endowment consisted of the following at December 31, 2019:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Donor-restricted endowment funds:			
Amounts to be held in perpetuity	\$ -	\$ 1,841,782	\$ 1,841,782
Accumulated investment gains	-	1,457,789	1,457,789
Board-designated endowment funds	<u>6,971,265</u>	<u>-</u>	<u>6,971,265</u>
Total funds	<u>\$ 6,971,265</u>	<u>\$ 3,299,571</u>	<u>\$ 10,270,836</u>
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment, beginning of year	\$ 6,140,954	\$ 2,814,491	\$ 8,955,445
Investment return:			
Investment income, net	158,795	75,928	234,723
Net realized and unrealized gain	<u>987,984</u>	<u>468,073</u>	<u>1,456,057</u>
Total investment income	<u>1,146,779</u>	<u>544,001</u>	<u>1,690,780</u>
Other activity:			
Contributions	-	39,718	39,718
Board approved withdrawals	<u>(316,468)</u>	<u>(98,639)</u>	<u>(415,107)</u>
Total other activity	<u>(316,468)</u>	<u>(58,921)</u>	<u>(375,389)</u>
Endowment, end of year	<u>\$ 6,971,265</u>	<u>\$ 3,299,571</u>	<u>\$ 10,270,836</u>

The Foundation's endowment reconciled to investments is as follows at December 31:

	2020	2019
Cash held outside the endowment	\$ 737,594	\$ 709,804
Investments held for the endowment	<u>10,367,655</u>	<u>10,270,836</u>
	<u>\$ 11,105,249</u>	<u>\$ 10,980,640</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with donor restrictions. There were no donor-restricted funds which had a deficiency as of December 31, 2020 or 2019. The Foundation has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws or regulations.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5. Endowments, Continued

The donor restricted endowment funds held as of December 31, 2020 and 2019 are available for the following:

	<u>2020</u>		
Donor-restricted endowment funds:	<u>Held with Temporary Restrictions</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Crafts Training Fund	\$ 191,224	\$ 70,000	\$ 261,224
ARH Capital Improvement Fund	-	2,000	2,000
Edmunds/Smythe Fund for Historic Preservation	28,336	10,400	38,736
Charles Henry Woodward Memorial Fund	320,997	100,000	420,997
Mary Lee and Frank McClain Fund	63,092	34,091	97,183
Professional Staff Development Fund	24,654	14,783	39,437
Preservation Support Endowment	170,603	369,135	539,738
John M. Rivers Memorial Fund	211,959	92,098	304,057
Juliette W. & H. Philip Staats Memorial Fund	51,148	18,906	70,054
Robert N.S. and Patti Whitelaw Fund	9,567	3,535	13,102
Samuel G. Stoney Fund	39,280	14,600	53,880
Kellogg Retirement Fund	105,928	623,990	729,918
General Operating Fund	84,773	82,680	167,453
Easement Endowment	201,053	431,589	632,642
Thomas C. Stevenson Memorial Fund	38,957	12,000	50,957
	<u>\$ 1,541,571</u>	<u>\$ 1,879,807</u>	<u>\$ 3,421,378</u>
	<u>2019</u>		
Donor-restricted endowment funds:	<u>Held with Temporary Restrictions</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Crafts Training Fund	\$ 184,786	\$ 70,000	\$ 254,786
Edmunds/Smythe Fund for Historic Preservation	27,382	10,400	37,782
Charles Henry Woodward Memorial Fund	310,621	100,000	410,621
Mary Lee and Frank McClain Fund	60,697	34,091	94,788
Professional Staff Development Fund	23,682	14,783	38,465
Preservation Support Endowment	157,303	369,135	526,438
John M. Rivers Memorial Fund	205,736	92,098	297,834
Juliette W. & H. Philip Staats Memorial Fund	49,714	18,906	68,620
Robert N.S. and Patti Whitelaw Fund	9,299	3,535	12,834
Samuel G. Stoney Fund	38,177	14,600	52,777
Kellogg Retirement Fund	87,933	623,990	711,923
General Operating Fund	81,346	82,680	164,026
Easement Endowment	183,199	395,564	578,763
Thomas C. Stevenson Memorial Fund	37,914	12,000	49,914
	<u>\$ 1,457,789</u>	<u>\$ 1,841,782</u>	<u>\$ 3,299,571</u>

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 6. Depreciable Property and Equipment, Net

Depreciable property and equipment, net, consists of the following at December 31:

	<u>2020</u>	<u>2019</u>
Missroon House rehabilitation	\$ 4,374,200	\$ 3,743,403
Russell House rehabilitation	3,160,127	3,152,725
Aiken-Rhett House rehabilitation	1,843,187	1,843,187
Preservation Center building and library	760,445	760,445
Furniture, fixtures and equipment	361,761	361,761
Leasehold improvements	72,662	72,662
Computer equipment	162,505	162,505
Web redesign	352,742	352,742
Automotive equipment	<u>27,502</u>	<u>27,502</u>
	11,115,131	10,476,932
Less accumulated depreciation	<u>(5,722,669)</u>	<u>(5,307,119)</u>
	<u>\$ 5,392,462</u>	<u>\$ 5,169,813</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$435,648 and \$410,513, respectively.

As of December 31, 2020 and 2019, construction in progress of \$261,448 and \$865,314, respectively, primarily included costs associated with the Historic Structures Study and Digital Rendering, for the Aiken-Rhett House, the Soft Furnishings project and Kitchen House project for the Nathaniel Russell House, wall and fire escape project for the main office, web development, and conservation projects.

Note 7. Historic Property and Collections

Historic property and collections consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Missroon House	\$ 752,622	\$ 752,622
Aiken-Rhett House	602,614	602,614
Preservation Center land	207,825	207,825
Nathaniel Russell House and garden	202,603	202,603
Collections:		
Donated personal property	1,427,494	1,399,994
Russell House furnishings	630,535	630,535
Aiken-Rhett House furnishings	233,189	233,189
Missroon House furnishings	184,859	184,859
Museum committee purchases	1,542,220	1,542,220
Drayton portraits	16,735	16,735
Other	<u>8,100</u>	<u>8,100</u>
	<u>\$ 5,808,797</u>	<u>\$ 5,781,296</u>

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 8. Advertising Costs

The Foundation incurred \$116,559 and \$181,387 in advertising costs, some of which are included in “Grant Expenditures” in the Consolidated Statements of Functional Expenses for the years ended December 31, 2020 and 2019, respectively. The Foundation’s policy is to expense these costs as incurred.

Note 9. Refundable Advance

In April 2020, the Foundation applied for a Paycheck Protection Program Loan (“PPP loan”) that is administered by the U.S. Small Business Administration (“SBA”) under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). On April 13, 2020, the PPP loan was approved and the Foundation received the PPP loan proceeds of \$457,112.

The PPP loan bears interest of 1.0% per annum and has a two-year term that matures on April 13, 2022. Monthly principal and interest payment was to commence on November 13, 2020. The PPP loan may be forgiven partially or fully if the PPP loan proceeds are used for payroll costs, rent and utility payments and interest payments on the Foundation’s mortgage. As of the year ended December 31, 2020, the Foundation had applied for forgiveness of the PPP loan, but had not received notification of forgiveness. The PPP loan proceeds of \$457,112 were recorded as a refundable advance in the Foundation’s Consolidated Statement of Financial Position as of December 31, 2020. As of the report date, the Foundation had received forgiveness of the PPP loan (see Note 20).

Note 10. Capital Lease Payable

In June 2016, the Foundation entered into a capital lease agreement for a new copier. The capital lease is due in monthly installments of \$179 beginning June 2016 through May 2021. The net book value of the related asset at December 31, 2020 and 2019 was \$294 and \$2,442, respectively.

The Foundation’s obligations for the capital lease payable consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Capital lease payable	\$ 1,253	\$ 3,401
Less interest portion	<u>(15)</u>	<u>(100)</u>
Present value of capital lease payable	<u>\$ 1,238</u>	<u>\$ 3,301</u>

The remaining future minimum rental payments of \$1,238 is to be paid under the capital lease agreement during the year ended December 31, 2021.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 11. Operating Leases

The Foundation entered into a lease agreement for office equipment in March 2015 for a sixty month term with a monthly payment of \$223 with the first payment due in March 2015. The equipment lease expired on February 2020.

The Foundation entered into a new lease agreement for office equipment in February 2020 for a sixty three month term with a monthly payment of \$223.

The Foundation rents retail space in the Market Hall Building. Effective June 24, 2011, the initial lease term was three years with five three year renewal options. The Foundation has exercised its options to renew for two of the three year renewal terms through June 30, 2020. Monthly rent was \$6,000 for the initial lease term and increased to \$6,615 during the second renewal term. In June 2020, the Foundation signed an amended lease agreement to extend the lease term for the third three year renewal period beginning July 17, 2020 through July 17, 2023. Monthly rent will remain the same for the first year and increase to \$6,946 for the second and third year. In the event of additional renewals, the monthly obligation will increase to the lower of (a) 5% greater than the monthly rent for the last year of the prior renewal term or (b) the then prevailing rate in the Market Hall Building based on the then average square footage rental being charged to other tenants. Per the agreement, the Foundation receives a monthly leasehold improvement credit of \$318.

Rent expense for the building during each of the years ended December 31, 2020 and 2019 was \$58,773 and \$76,574, respectively.

The following is a schedule of future minimum rental payments to be paid under the non-cancellable lease agreements, including the third three year renewal period, for the years ending December 31:

2021	\$	82,056
2022		86,028
2023		44,352
2024		2,676
2025		<u>892</u>
Total	\$	<u>216,004</u>

Note 12. Employee Benefit Plan

The Foundation has an employee benefit plan (the "Plan") under Internal Revenue Service Code Section 403(b). All eligible employees are auto enrolled in the Plan upon employment, and all eligible employees are 100% vested. Starting January 1, 2017, the plan allows for a discretionary employer contribution and escalation feature with a graduated schedule over the next few years. For the 2020 calendar year, the Foundation board originally approved a 1% discretionary employer contribution and an employer match of up to 5% of the employees' contributions for all eligible employees. For approximately two months in 2020, the Foundation suspended the 5% employer match. For the 2019 calendar year, the Foundation board approved a 2% discretionary employer contribution and an employer match of up to 4% of the employees' contributions for all eligible employees. The Foundation contributed \$60,386 and \$88,090 to the Plan during the years ended December 31, 2020 and 2019, respectively.

Historic Charleston Foundation

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 13. Concentrations of Credit Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash balances, investments held in the custody of others and unconditional promises to give. The Foundation maintains its cash balances at two separate financial institutions. All accounts maintained at each financial institution are guaranteed in aggregate up to \$250,000 under coverage by the Federal Deposit Insurance Corporation ("FDIC"). At times, such deposits may be in excess of the FDIC insurance limits.

The Foundation maintains its investments at one brokerage firm. Accounts maintained at the brokerage firm are insured up to \$500,000 for securities, including a limit of \$250,000 on claims for cash under the Securities Investor Protection Corporation ("SIPC"). Under SIPC coverage, money market funds are considered securities and are covered up to \$250,000 per financial institution. In addition, the brokerage firm has purchased additional insurance coverage to apply to losses above the SIPC protection level up to \$750 million firm-wide with no per client limit for securities and a \$1,900,000 per client limit for cash and cash equivalents for the wrongful abstraction of customer funds.

Note 14. Designations and Restrictions on Net Assets

The Foundation's Board of Trustees has chosen to place limitations on net assets without donor restrictions for future preservation and conservation initiatives at December 31, 2020 and 2019. In addition to designated investments, as of December 31, 2020 and 2019, the following cash and cash equivalent funds have been specifically designated:

	<u>2020</u>	<u>2019</u>
Edmunds Endangered Properties Fund	\$ 1,149,849	\$ 1,149,849
Aiken Rhett House Fund	466,390	466,390
Deferred Maintenance Fund	481,731	481,731
Collections Fund	10,000	10,000
John's Island Projects	<u>57,676</u>	<u>60,664</u>
Total Board Designated cash and cash equivalents	<u>\$ 2,165,646</u>	<u>\$ 2,168,634</u>
Unrestricted - Designated for future preservation and conservation initiatives:		
Designated cash and cash equivalents	\$ 2,165,646	\$ 2,168,634
Designated investments	<u>6,946,277</u>	<u>6,971,265</u>
	<u>\$ 9,111,923</u>	<u>\$ 9,139,899</u>

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Note 14. Designations and Restrictions on Net Assets, Continued

Net assets with donor restrictions as of December 31, 2020 are held for the following:

	<u>Held in Perpetuity</u>	<u>Held with Temporary Restrictions</u>	<u>Net Assets With Donor Restrictions</u>
Preservation initiatives	\$ 870,724	\$ 858,876	\$ 1,729,600
Museum houses	113,005	1,033,901	1,146,906
Edmunds Endangered Properties Fund	110,400	557,434	667,834
Professional development/awards	67,008	136,592	203,600
Other preservation projects	94,680	265,517	360,197
Collection	-	10,562	10,562
Capital campaign	-	1,849,535	1,849,535
Retirement	623,990	105,928	729,918
	<u>\$ 1,879,807</u>	<u>\$ 4,818,345</u>	<u>\$ 6,698,152</u>

Net assets with donor restrictions as of December 31, 2019 are held for the following:

	<u>Held in Perpetuity</u>	<u>Held with Temporary Restrictions</u>	<u>Net Assets With Donor Restrictions</u>
Preservation initiatives	\$ 834,699	\$ 838,351	\$ 1,673,050
Museum houses	111,005	1,022,370	1,133,375
Edmunds Endangered Properties Fund	110,400	526,740	637,140
Professional development/awards	67,008	131,854	198,862
Other preservation projects	94,680	312,913	407,593
Collection	-	10,468	10,468
Capital campaign	-	1,895,674	1,895,674
Retirement	623,990	87,933	711,923
	<u>\$ 1,841,782</u>	<u>\$ 4,826,303</u>	<u>\$ 6,668,085</u>

Note 15. Gross Profit from Retail Stores

The gross profit from the retail stores consisted of the following for the year ended December 31, 2020:

	<u>Revenue, Net</u>	<u>Cost of Revenue</u>	<u>Gross Profit</u>
Nathaniel Russell House Shop	\$ 23,677	\$ 11,482	\$ 12,195
Aiken-Rhett House Shop	14,582	6,563	8,019
Online Shop	59,705	22,995	36,710
Market Shop	456,728	228,533	228,195
Shops of Historic Charleston	538,623	290,811	247,812
	<u>\$ 1,093,315</u>	<u>\$ 560,384</u>	<u>\$ 532,931</u>

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Note 15. Gross Profit from Retail Stores, Continued

The gross profit from the retail stores consisted of the following for the years ended December 31, 2019:

	<u>Revenue, Net</u>	<u>Cost of Revenue</u>	<u>Gross Profit</u>
Nathaniel Russell House Shop	\$ 75,835	\$ 36,539	\$ 39,296
Aiken-Rhett House Shop	41,337	20,229	21,108
Online Shop	56,404	24,034	32,370
Market Shop	1,205,307	597,519	607,788
Shops of Historic Charleston	<u>945,835</u>	<u>511,871</u>	<u>433,964</u>
	<u>\$ 2,324,718</u>	<u>\$ 1,190,192</u>	<u>\$ 1,134,526</u>

Note 16. Fair Value of Financial Instruments

Fair Value Measurements defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. *Fair Value Measurements* also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

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

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

In determining the appropriate levels, the Foundation performs an analysis of the assets and liabilities that are subject to *Fair Value Measurements*. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following is a description of the valuation methodologies used for assets measured at fair value:

U.S. government securities, government-sponsored enterprise securities, corporate bonds, and mortgage-backed securities: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities and corporate debt securities.

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Note 16. Fair Value of Financial Instruments, Continued

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Exchange traded funds: Valued at the closing price reported on the active market on which the funds are traded.

Money market funds, mutual funds, and real estate investment trusts: Valued at the net asset value ("NAV") of shares held by the Foundation at year end. Fair values are based on the NAV that can be validated with a sufficient level of observable activity (i.e. purchases and sales at NAV) and are therefore classified within Level 1 of the fair value hierarchy.

Certificates of deposit: Valued using the rates currently offered for deposits of similar remaining maturities.

The table below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2020 and 2019.

	2020			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 6,141,051	\$ 6,141,051	\$ -	\$ -
Exchange traded funds	123,754	123,754	-	-
U.S. government securities	1,018,316	-	1,018,316	-
Corporate bonds	1,156,168	-	1,156,168	-
Mortgage-backed securities	473,711	-	473,711	-
Real estate investment trusts	200,512	200,512	-	-
Mutual funds	1,100,638	1,100,638	-	-
Money market funds and cash equivalents	589,804	589,804	-	-
Certificates of deposit	301,295	-	301,295	-
Total assets in the fair value hierarchy	<u>\$ 11,105,249</u>	<u>\$ 8,155,759</u>	<u>\$ 2,949,488</u>	<u>\$ -</u>

	2019			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 6,163,974	\$ 6,163,974	\$ -	\$ -
Exchange traded funds	213,393	213,393	-	-
U.S. government securities	1,672,137	-	1,672,137	-
Corporate bonds	912,376	-	912,376	-
Mortgage-backed securities	27,507	-	27,507	-
Real estate investment trusts	366,158	366,158	-	-
Mutual funds	661,373	661,373	-	-
Money market funds and cash equivalents	633,368	633,368	-	-
Certificates of deposit	330,354	-	330,354	-
Total assets in the fair value hierarchy	<u>\$ 10,980,640</u>	<u>\$ 8,038,266</u>	<u>\$ 2,942,374</u>	<u>\$ -</u>

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Note 17. Related Party Transactions

During the year ended December 31, 2020, the Foundation made payments totaling \$5,928 for website design services to a company owned by a board member. The Foundation had \$13,389 of outstanding unconditional promises to give related to the capital campaign due from board members as of December 31, 2020.

During the year ended December 31, 2019, the Foundation made payments totaling \$1,091, \$34,234, and \$22,586 for architecture and design services, construction services, and website design services, respectively, to companies owned by three different board members. The Foundation had \$59,044 of outstanding unconditional promises to give related to the capital campaign due from board members as of December 31, 2019.

Note 18. Revenue Recognition from Contracts with Customers

In the following table, revenue subject to ASC 606 is disaggregated by timing of satisfaction of performance obligations for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Performance obligations satisfied at a point in time	\$ 2,188,450	\$ 4,829,917
Performance obligations satisfied over time	<u>7,625</u>	<u>21,353</u>
	<u>\$ 2,196,075</u>	<u>\$ 4,851,270</u>

Contract liabilities:

The following table presents the beginning and ending balances of contract liabilities as of December 31, 2019 and 2020:

Contract liabilities (deferred revenue and advanced deposits) as of December 31, 2018	\$ 286,006
Revenue recognized for performance obligations completed in 2019	(272,325)
Revenues deferred until performance obligations are completed	<u>274,928</u>
Contract liabilities (deferred revenue and advanced deposits) as of December 31, 2019	\$ 288,609
Revenue recognized for performance obligations completed in 2020	(240,935)
Revenues deferred until performance obligations are completed	<u>51,967</u>
Contract liabilities (deferred revenue and advanced deposits) as of December 31, 2020	<u>\$ 99,641</u>

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Note 19. Uncertainties

The 2019 novel coronavirus (or “COVID-19”) has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may continue to have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Foundation’s financial condition and results of operations. The full extent of the adverse impact of the COVID-19 outbreak on the Foundation cannot be predicted at this time.

The Foundation’s management and Board of Trustees are following the impact of COVID-19 very closely to monitor and mitigate adverse financial impact to whatever extent possible in this unprecedented economic environment.

Note 20. Subsequent Events

Subsequent to year end, on March 4, 2021, the Foundation received notification from its lender and the SBA regarding the 100% forgiveness of its full PPP loan in the amount of \$457,112 (see Note 9).

In March 2021, the Foundation received funding from the second round of paycheck protection program funding in the amount of \$338,015 to alleviate the impact of COVID-19. The paycheck protection program loan has a two-year term with a 1% interest rate. Payments are deferred for the first 6 months. The Foundation intends to use the funds in the manner which will qualify the loan to be forgiven.