

**CHARLESTON AREA CONVENTION
AND VISITORS BUREAU**

FINANCIAL REPORT

JUNE 30, 2023 AND 2022

CHARLESTON AREA CONVENTION AND VISITORS BUREAU
Charleston, South Carolina

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Independent Auditor's Report

To the Board of Governors
Charleston Area Convention and Visitors Bureau
Charleston, South Carolina

Opinion

We have audited the accompanying financial statements of **Charleston Area Convention and Visitors Bureau** (the Organization) which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charleston Area Convention and Visitors Bureau as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization'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.

A handwritten signature in black ink that reads "Webster Rogues LLP". The signature is written in a cursive, flowing style.

Charleston, South Carolina
October 18, 2023

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,168,675	\$ 7,833,847
Cash and cash equivalents - restricted	7,682,791	5,996,298
Accounts receivable, net of allowance of \$43,000 and \$35,000 in 2023 and 2022, respectively	1,207,069	891,461
Reimbursement due from governments	-	1,446,139
Inventories	79,129	67,098
Prepaid expenses	1,059,603	821,441
Total current assets	<u>18,197,267</u>	<u>17,056,284</u>
Property and Equipment		
Furniture and fixtures	252,293	210,979
Office equipment	136,240	121,724
Vehicle	102,508	26,212
Website and digital assets	1,290,601	1,226,321
Leasehold improvements	97,742	83,353
	1,879,384	1,668,589
Less accumulated depreciation	<u>1,597,040</u>	<u>1,514,415</u>
Total property and equipment, net	<u>282,344</u>	<u>154,174</u>
Other Assets		
Operating lease right-of-use asset	<u>2,636,698</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 21,116,309</u></u>	<u><u>\$ 17,210,458</u></u>

(Continued)

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

STATEMENTS OF FINANCIAL POSITION (CONTINUED)
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,696,291	\$ 1,339,853
Restricted deposits payable	816,136	783,917
Accrued expenses	777,902	1,128,680
Deferred revenue	98,775	91,885
Operating lease liabilities, current portion	356,610	-
Line of credit	-	1,805,000
Total current liabilities	<u>3,745,714</u>	<u>5,149,335</u>
Long-term Liabilities		
Operating lease liabilities, net of current portion	2,307,774	-
Deferred rent liability	-	66,913
Total long-term liabilities	<u>2,307,774</u>	<u>66,913</u>
Total liabilities	<u>6,053,488</u>	<u>5,216,248</u>
Net Assets		
Without donor restrictions	6,452,189	6,352,799
With donor restrictions	8,610,632	5,641,411
Total net assets	<u>15,062,821</u>	<u>11,994,210</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 21,116,309</u></u>	<u><u>\$ 17,210,458</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Net Assets Without Donor Restrictions		
Revenue, Support and Gains		
Accommodations tax	\$ 11,417,142	\$ 8,487,853
Regional funding, SCPRT	528,175	515,391
Travel Council support	618,610	577,520
Publication, advertising and program revenues	5,046,065	4,763,793
Lodging Cooperative	4,824,617	4,523,033
Contribution - nonfinancial asset	220,000	195,639
Other income	746,695	18,218
Investment return	189,331	56,473
Total revenue, support and gains	23,590,635	19,137,920
Net assets released from restrictions	5,630,779	7,937,884
Total unrestricted revenues, support and gains and net assets released from restrictions	29,221,414	27,075,804
Expenses		
Program services	27,394,396	23,244,614
Supporting services	1,727,628	1,476,512
Total expenses	29,122,024	24,721,126
Change in net assets from operations	99,390	2,354,678
Other Changes and Unrestricted Nonoperating Activity		
Grants		
PPP forgiveness	-	919,452
Employee retention credits	-	227,928
Total other changes and unrestricted nonoperating activity	-	1,147,380
Increase in net assets without donor restrictions	99,390	3,502,058
Net Assets With Donor Restrictions		
Destination specific marketing funding, SCPRT	8,600,000	9,950,000
Net assets released from restrictions	(5,630,779)	(7,937,884)
Increase in net assets with donor restrictions	2,969,221	2,012,116
Increase in net assets	3,068,611	5,514,174
Net Assets, Beginning of Year	11,994,210	6,480,036
Net Assets, End of Year	\$ 15,062,821	\$ 11,994,210

The accompanying Notes to Financial Statements are an integral part of these statements.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

**STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
Functional Expenses						
Destination advertising and promotion	\$ 18,911,801	\$ 4,852	\$ 18,916,653	\$ 14,286,094	\$ 2,449	\$ 14,288,543
Personnel costs, including taxes and benefits	6,079,752	632,973	6,712,725	5,501,086	524,033	6,025,119
Business expense/postage	482,904	239,661	722,565	352,973	195,098	548,071
Tourism research	562,944	-	562,944	526,681	-	526,681
Building, equipment and utilities	664,685	298,945	963,630	2,086,584	241,320	2,327,904
Depreciation	28,552	54,073	82,625	67,986	19,619	87,605
Industry training and development	490,413	15,421	505,834	239,686	10,140	249,826
Professional services	25,838	124,449	150,287	4,642	88,591	93,233
Information technology	147,507	238,046	385,553	178,882	268,111	446,993
Insurance	-	66,725	66,725	-	72,891	72,891
Interest	-	52,483	52,483	-	54,260	54,260
Total functional expenses	<u>\$ 27,394,396</u>	<u>\$ 1,727,628</u>	<u>\$ 29,122,024</u>	<u>\$ 23,244,614</u>	<u>\$ 1,476,512</u>	<u>\$ 24,721,126</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 3,068,611	\$ 5,514,174
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Bad debt expense	22,089	1,435
Depreciation	82,625	87,603
Grant - PPP funds	-	(919,452)
Amortization of operating lease right-of-use asset	420,704	-
(Increase) decrease in assets:		
Accounts receivable	(337,697)	(213,528)
Reimbursements due from governments	1,446,139	1,500,000
Prepaid expenses	(248,004)	(382,879)
Inventories	(12,031)	(590)
Increase (decrease) in liabilities:		
Accounts payable, accrued expenses and restricted deposits	37,879	88,265
Deferred revenue	6,890	(178,815)
Operating lease liabilities	(383,176)	-
Deferred rent liability	(66,913)	(15,348)
Net cash provided by operating activities	<u>4,037,116</u>	<u>5,480,865</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(210,795)</u>	<u>(38,691)</u>
Net cash used in investing activities	<u>(210,795)</u>	<u>(38,691)</u>
Cash Flows From Financing Activities		
Payments on line of credit	(1,805,000)	(1,000,000)
Payments on long-term debt	<u>-</u>	<u>(150,000)</u>
Net cash used in financing activities	<u>(1,805,000)</u>	<u>(1,150,000)</u>
Net increase in cash and cash equivalents	2,021,321	4,292,174
Cash and Cash Equivalents - Beginning of Period	<u>13,830,145</u>	<u>9,537,971</u>
Cash and Cash Equivalents - End of Period	<u>\$ 15,851,466</u>	<u>\$ 13,830,145</u>

(Continued)

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Reconciliation to Statements of Financial Position		
Cash and cash equivalents	\$ 8,168,675	\$ 7,833,847
Cash and cash equivalents - restricted	<u>7,682,791</u>	<u>5,996,298</u>
Total cash and cash equivalents	<u>\$ 15,851,466</u>	<u>\$ 13,830,145</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 54,852</u>	<u>\$ 56,629</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies

Organization

The Charleston Area Convention and Visitors Bureau (the "Organization") was established in July 2002. The Organization's mission is to unify and lead the local travel industry in marketing the Charleston, South Carolina, area as an individual, incentive, and group destination to both the domestic and international markets. The Organization partners with local businesses, municipalities, and regional alliances to allow for maximum exposure of the area as a destination.

The Organization markets the Charleston area through targeted advertising and marketing campaigns. These efforts often involve print, television, and digital advertising; presence at tradeshows for group travel; and development of relationships with media outlets. In addition, the Organization maintains multiple websites and publishes several guides for distribution to visitors in the leisure, wedding, and group travel markets. At its four area visitor centers, the Organization assists visitors with tour and accommodation reservations as well as providing area information and guidebooks.

Basis of accounting

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities. Under this basis, revenue is recognized when earned, and expenditures are recognized when incurred (see treatment of accommodations tax under Revenue and Support). Program service fees received in advance are deferred to the applicable period in which the related services are performed. Contributions/grants are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor/grantor restrictions.

Financial statement presentation

The Organization prepares its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of the two net assets categories follows:

- Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions also include funds designated for specific purposes by action of the Board of Directors.
- Net assets with donor restrictions - net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions reported in the statements of activities as net assets released from donor restrictions.

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The actual outcome of the estimates could differ from the estimates made in the preparation of the financial statements. Areas requiring significant estimates include the allowance for doubtful accounts, economic useful lives of capital assets for depreciation purposes, and the value of donated nonfinancial assets, such as the use of facilities.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

For purposes of reporting, cash and cash equivalents include cash on hand, restricted cash, amounts on deposit with banks, and other highly liquid instruments with a maturity of less than three months from the date of purchase.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. The allowance for doubtful accounts is calculated based on management's review of the current accounts receivable outstanding, including trends in historical loss experience, specific impaired accounts, economic conditions, and other risks inherent in unsecured receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts are considered delinquent when they are 30 days past due. Interest is not charged on past due accounts receivable.

Amounts due for non-trade receivables are due on demand with no specified terms of repayments or interest.

Inventories

Inventories consist of retail store inventory, maps, various publications, guidebooks, and destination branded items and are stated at the lower of cost or market (first-in, first-out basis). Supplies are expensed as acquired.

Property and equipment, net

Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Property and equipment transferred on July 1, 2002, when the Organization became an independent organization is recorded at its net book value on that date and is being depreciated over its remaining useful life. Property and equipment is capitalized if its expected service life is in excess of one year and its cost is in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2023 and 2022, was approximately \$82,600 and \$87,600, respectively.

Maintenance and repairs are expensed as incurred; expenditures that result in substantial betterment of assets are capitalized.

Contribution – Nonfinancial asset

During 2022, the Organization received the non-cash donation of free use of facilities where the Organization maintains its administrative offices and a visitor center. Such donation has been reflected in the accompanying financial statements as operating revenues and building, equipment, and utilities expenses under supporting services at the fair market value of the use of the facilities (\$220,000 and \$195,639 for the years ended June 30, 2023 and 2022, respectively). The fair market value was derived from a comparison with similar spaces in the downtown Charleston area. A portion of the operating and maintenance expenses for the facilities are the responsibility of the Organization.

The donation of use of the facility was considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Leases (as of July 1, 2022)

Effective July 1, 2022, the Organization accounts for its lease agreements in accordance with Financial Accounting Standards Board (FASB) ASU 2016-02, *Leases* (Topic 842).

Lease liabilities represent the Organization's obligation to make lease payments arising from the lease and are recognized as the present value of the future minimum lease payments over the lease term as of the commencement date.

Right of Use (ROU) assets represent the Organization's right to use an underlying asset for the lease term and are recognized as the present value of future minimum lease payments over the lease term as of the commencement date, plus any initial direct costs incurred and lease payments made, less any lease incentives received.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Organization determines if an arrangement contains a lease at inception. In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if the Organization has obtained substantially all of the rights to the underlying asset through exclusivity, if the Organization can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. The evaluation may require significant judgement.

If an arrangement is considered a lease, the Organization determines at the commencement date whether the lease is an operating or finance lease. Finance leases are leases that meet any of the following criteria: the lease transfers ownership of the underlying asset at the end of the lease term; the lessee is reasonably certain to exercise an option to purchase the underlying asset; the lease term is for the major part of the remaining economic life of the underlying asset (except when the commencement date falls at or near the end of such economic life); the present value of the sum of the lease payments and any additional residual value guarantee by the lessee equals or exceeds substantially all of the fair value of the underlying asset; or the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. A lease that does not meet any of these criteria is considered an operating lease. After the commencement date, lease cost for an operating lease is recognized over the remaining lease term on a straight-line basis, while lease cost for a finance lease is based on the amortization of the lease asset and interest on the lease liability. All of the Organization's leases were considered to be operating leases as of and for the year ended June 30, 2023.

The terms of the Organization's lease arrangements vary, and certain leases include one or more of the following: renewal option(s), a cancellation option, a residual value guarantee, a purchase option, or an escalation clause. An option to extend or terminate a lease is accounted for when assessing a lease term when it is reasonably certain that the Organization will exercise such option. The Organization has made a policy election to classify leases with an initial lease term of 12 months or less as short-term leases, and these leases are not recorded in the accompanying statements of financial position unless the lease contains a purchase option that is reasonably certain to be exercised. Lease cost related to short-term leases is recognized on a straight-line basis over the lease term.

Determinations with respect to lease term (including any extension thereof), discount rate, variable lease cost, and future minimum lease payments require the use of judgment based on the facts and circumstances related to each lease. The Organization considers various factors, including economic incentives and penalties and business need, to determine the likelihood that a renewal option will be exercised. Unless a renewal option is reasonably certain to be exercised, which is typically at the Organization's sole discretion, the initial non-cancelable lease term is used.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Leases (as of July 1, 2022) (continued)

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization uses the rates implicit in the lease, or if not readily available, the Organization has elected to use a risk-free rate. The risk-free rate is considered to equal the rate of a zero-coupon U.S. Treasury instrument for the same period as the term of the lease and is used for all major classes underlying assets.

Leases (prior to July 1, 2022)

Prior to the adoption of Topic 842, the Organization accounted for its lease agreements in accordance with Topic 840 under which each lease was classified as either operating or capital depending on the specifics in the underlying lease agreement.

Revenue and support

Grants, contributions and support

Revenue and support include contributions of certain accommodations taxes and fees from Charleston County and the following municipalities:

- City of Charleston
- City of Isle of Palms
- Town of Kiawah Island
- Town of Mount Pleasant
- City of North Charleston
- Town of Seabrook Island
- City of Folly Beach
- Town of Sullivan's Island
- Berkeley County
- City of Goose Creek

The accommodations taxes passed through the local governments represent amounts received by those entities for the sales within the 12 months ended each March as these funds are received during the fiscal year and are available to provide for expenses of that fiscal year. The revenues are to be used for destination marketing, visitor services, and related media and operational support.

The state of South Carolina provides regional funding and destination specific marketing funding through the Department of Parks, Recreation and Tourism (SCPRT).

The Lodging Cooperative, formed in early 2008, is comprised of voluntarily participating Charleston area hotels. Members of the group collect a daily rented unit fee from their guests in order to continue growth of advertising opportunities for the Charleston area. The fee is remitted to the Organization in the subsequent month. The fees are used for expanded marketing efforts of the destination.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue and support (continued)

Revenue contracts with customers

The Organization recognizes revenue from contracts with customers in accordance with ASU Topic 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as the performance obligations are satisfied

The Organization recognizes revenues from contracts with customers when the related performance obligation is satisfied at transaction amounts expected to be received as described below. Amounts received for future periods are deferred and recognized as income in the period to which they apply.

Contracts with customers and performance obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. Revenue is allocated to each performance obligation as the related performance obligation is satisfied as discussed below.

The Organization receives revenue and support through advertising and program sales to fund convention and visitor programs.

Travel Council support, primarily from membership dues, represents funds received from businesses in the Charleston tourism industry to help raise promotional dollars to match public sector funding to ensure that the local hospitality industry continues to thrive.

Contract balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable on the statements of financial position. Amounts billed as services are performed in accordance with agreed upon contractual terms at periodic intervals. Generally, billing occurs simultaneously to revenue recognition resulting in contract receivables. As of June 30, 2023 and 2022, the contract receivables were approximately \$1,250,000 and \$927,000, respectively, and \$744,000 as of July 1, 2021, and are included in accounts receivable on the statements of financial position.

Contract liabilities represent billings in advance and payments received in advance for providing services under contracts with customers and are included in unearned revenue on the accompanying statements of financial position. The balances of deferred revenue at June 30, 2023 and 2022, were approximately \$98,800 and \$91,900, respectively, and \$270,700 as of July 1, 2021.

Deferred revenue

Deferred revenue consists of membership dues and advertising fees received in advance is deferred and recognized over the periods to which the dues and fees relate.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Expenses for advertising are recognized as incurred as it is not practical to determine the future benefit of advertising efforts. As the Organization's mission is to market the Charleston area, virtually all non-supporting expenses are directly or indirectly related to advertising.

Foreign currency transactions

Although the financial statements are stated in U.S. dollars, certain commitments are transacted in foreign currencies, specifically British pound sterling (GBP). The Organization's policy is to record all transactions in U.S. dollars at the exchange rate in effect on the date of the transaction or the date the liability is recognized and to recognize gains and losses as the obligations are paid.

Functionalized expense allocation

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated in building, equipment and utilities, and depreciation, are allocated on a square footage basis. Expenses for personnel costs, business expenses/postage, training and development, professional services, and information technology, are allocated on the basis of estimates of time and effort.

Income taxes

Under Section 501(c)(6) of the Internal Revenue Code, the Organization is exempt from federal income tax on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code.

Internal Revenue Code 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The Organization's advertising income is considered unrelated business income. Because related expenses exceeded the advertising income for the years ended 2023 and 2022 and no taxes were due, no provision for income taxes has been accrued related to advertising income.

Recently adopted accounting standards

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statements of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard using the optional, alternative transition method effective July 1, 2022, and recognized and measured leases existing at July 1, 2022, (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022, are made under prior lease guidance in FASB ASC 840.

The Organization elected the available practical expedients to account for the existing operating lease as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under Topic 842, (b) whether classification of operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 1. Summary of Significant Accounting Policies (Continued)

Recently adopted accounting standards (continued)

The adoption of the new standard resulted in the recording of an operating lease ROU asset of \$2,953,238 and an operating lease liability of \$2,943,397 as of July 1, 2022. There was no adjustment to net assets resulting from the implementation of the new standard.

The standard had a material impact on the Organization's statements of financial position but did not have a significant impact on the statements of activities and cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Note 2. Significant Concentrations and Credit Risks

The Organization's major sources of revenue and support are related to the tourism industry in the Charleston area. Accommodations tax revenue is generated by hotel fees collected by the state of South Carolina and Charleston County and allocated to the municipalities that the Organization serves. Participants in the Lodging Cooperative are hoteliers in the Charleston area and rely on tourism. Travel Council support is received from businesses that depend on tourism.

The Organization holds its cash accounts at three financial institutions in South Carolina. All accounts are insured by the Federal Deposit Insurance Corporation (FDIC) to the maximum amount allowed by law. Uninsured cash balances as of June 30, 2023 and 2022, were \$15,338,771 and \$13,575,086, respectively.

Financial instruments that potentially subject the Organization to credit risk are primarily accounts receivable. The Organization extends unsecured credit to participants in marketing programs.

Note 3. Employee Benefits

The Organization offers its employees participation in a 401(k) retirement plan. The plan is a defined contribution plan covering all employees meeting certain age and length of service requirements. Employees qualifying for the plan can make a pre-tax contribution of no less than 1% of their compensation and up to the maximum allowed by law. The Organization may make a matching contribution of 100% up to a maximum of 8% of the employees' eligible compensation if employed prior to January 1, 2015. The Organization may make a matching contribution of 100% up to a maximum of 6% of the employees' eligible compensation if employed after January 1, 2015. For the fiscal years ended June 30, 2023 and 2022, the Organization contributed \$310,533 and \$303,767, respectively, to the plan.

The Organization offers its employees participation in a Section 125 Cafeteria Plan. Under the plan, employees are able to pay for group insurance benefits, medical reimbursements, and dependent care reimbursements through a salary reduction plan. In addition, the Organization offers a health insurance plan that provides employees an allowance of at least \$7,800 for the 2022-2023 and 2021-2022 plan years for health and ancillary benefits. The related expense for this plan was \$532,301 and \$523,924 for the years ended June 30, 2023 and 2022, respectively.

Note 4. Line of Credit

During the year ended June 30, 2020, the Organization received a \$2,805,000 non-revolving line of credit from a bank. The line matured on April 20, 2022, and was renewed for \$1,805,000. The renewed line of credit matured on June 20, 2023, and was not renewed. Borrowings under the line accrued interest at the bank's indexed rate minus 1.00%. The bank's indexed rate at June 30, 2022, was 4.75%. Outstanding borrowings on the line at June 30, 2022, were \$1,805,000. The line required monthly payments of interest only. Total interest expense incurred for the years ended June 30, 2023 and 2022, was \$52,483 and \$54,260, respectively.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 5. Long-Term Debt

In April 2020, the Organization received an Economic Injury Disaster Loan (EIDL) as provided under the CARES (Coronavirus Aid, Relief, and Economic Security) Act, and administered by the federal Small Business Administration (SBA) in the amount of \$150,000. This unsecured loan carried interest at 2.75% and was repayable beginning May 2022 over 30 years. The principal and accrued interest of \$7,380 was paid in full in March 2022.

Note 6. Leases

On March 1, 2014, the Organization exercised the first of two five-year renewal options for office space, and in January 2018, exercised the second of the two five-year renewal options with a lease term beginning March 1, 2019. Under the new lease agreement, the rent obligation of \$17,319 per month increased annually over the term of the lease, although the rent expense would be recognized on the straight-line basis over the 60-month term in accordance with generally accepted accounting principles. The lease was terminated in August 2021, then rented on a month-to-month basis through November 2021. Rent expense under the lease for the year ended June 30, 2022, was \$49,958. The Organization was responsible for insurance, utilities, maintenance, and repairs.

In September 2021, the Organization entered into a lease for a parking lot. Under the lease agreement, the rent obligation of \$19,167 per month increases annually by 7.50% over the term of the lease which expires in June 2030. The Organization entered into an agreement with a third party to manage and operate the parking lot space. Under the agreement, the lessee will pay the Organization 80% of the monthly gross parking lot revenue. In 2023, the Organization received \$439,081 from leasing revenue and paid \$244,375 under the terms of the lease. In 2022, the Organization received \$330,999 from leasing revenue and paid \$191,667 under the terms of the lease.

In October 2021, the Organization entered into a lease for a building to be used for mail operations. Under the lease agreement, the rent obligation of \$1,650 per month, plus common area maintenance, increases annually by approximately \$50 over the term of the lease which expires in September 2026, and includes one renewal option for three additional years, which the Organization plans to exercise. Lease expense relating to the building was \$23,190 and \$17,959 during 2023 and 2022, respectively.

The Organization rents office equipment under noncancelable operating lease agreements with terms in excess of one year. Lease expense relating to this equipment was \$112,140 and \$124,127 during 2023 and 2022, respectively, with monthly lease payments ranging from \$263 to \$5,180, ending in February 2028.

In January 2021, the Organization entered into an agreement to lease additional parking spaces through June 2030. Under the agreement, the lease obligation is \$3,625 per month. Lease expense for the years ended June 30, 2023 and 2022, was \$43,500 and \$43,500, respectively.

The components of the leases in the accompanying statements of financial position are as follows:

Leases	Classification	Amount
Assets:		
Operating lease right-of-use assets	Noncurrent assets	\$ 2,636,698
Liabilities:		
Operating lease liabilities, current portion	Current liabilities	\$ 356,610
Operating lease liabilities, net of current portion	Long-term liabilities	\$ 2,307,774

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**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

Note 6. Leases (Continued)

The components of lease cost in the accompanying statements of activities are as follows:

<u>Lease cost</u>	<u>Classification</u>	<u>Amount</u>
Operating lease cost		
	Program services - Destination, advertising & promotion	\$ 317,000
	Program services - Building, equipment & utilities	118,922
	Supporting services - Building, equipment & utilities	65,737
		<u>\$ 501,659</u>

Supplemental cash flow information:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases \$ 464,132

Right-of-use assets obtained in exchange for lease liabilities:

Operating leases (upon implementation) \$ 2,953,238

Operating leases - fiscal year ended June 30, 2023 \$ 104,163

The following summarizes the weighted average remaining lease term and discount rate as of June 30, 2023:

Weighted average remaining lease term

Operating leases 6.63 years

Weighted average discount rate

Operating leases 2.92%

Future minimum lease payments for non-cancelable operating leases are as follows for the years ending June 30:

	<u>Facilities and parking spaces</u>	<u>Parking lot</u>	<u>Equipment</u>	<u>Total</u>
2024	\$ 64,353	\$ 262,703	\$ 101,576	\$ 428,632
2025	64,978	282,406	59,939	407,323
2026	65,623	303,586	20,788	389,997
2027	66,286	326,355	20,788	413,429
2028	66,970	350,832	5,288	423,090
Thereafter	117,263	765,741	-	883,004
Total future minimum lease payments	445,473	2,291,623	208,379	2,945,475
Less: interest	40,907	231,780	8,404	281,091
Present value of lease liabilities	<u>\$ 404,566</u>	<u>\$ 2,059,843</u>	<u>\$ 199,975</u>	<u>\$ 2,664,384</u>

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022

Note 6. Leases (Continued)

Present value of lease liabilities reported as:

Operating lease liabilities, current portion	\$ 356,610
Operating lease liabilities, net of current portion	2,307,774
	<u>\$ 2,664,384</u>

Leases (prior to July 1, 2022)

Lease expense under related and non-related party leases was approximately \$374,000 during the year ended June 30, 2022.

Note 7. Other Commitments

On October 17, 2018, the Organization entered into an agreement with an air carrier to provide financial support up to 1,400,000 GBP, or \$2,003,458, per biannual operating season (April to September and October to March) for the purpose of route support and joint marketing activities, as well as a one-time support payment of up to \$150,000. On October 18, 2018, the Organization entered into a third-party agency agreement with the State and County to obtain the funding necessary to satisfy the above-referenced commitment with the air carrier. The actual liability of the Organization is dependent upon route performance per biannual operating season and, at the date of this report, is not expected to exceed the amount provided by the agency agreement. As of June 30, 2020, the arrangement had been suspended due to COVID-19 related shutdowns. Other than exchange rate valuation adjustments, there was no activity related to the agreement during the years ended June 30, 2023 and 2022.

Note 8. COVID-19

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization declared the outbreak constituted a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting global and national economies and affecting donors of all types. The extent of the impact of COVID-19 on the Organization's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, impact on the Organization's grantors, donors, employees, and related organizations, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 has or may impact the Organization's financial position and changes in its net assets is uncertain.

In response to the coronavirus (COVID-19) pandemic in 2020, the U.S. Federal Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act that, among other economic stimulus measures, established the Paycheck Protection Program (PPP) to provide small business loans and the Employee Retention Credit (ERC) program. Laws and regulations concerning government programs are complex and subject to varying interpretations. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the PPP and ERC, and it is not possible to determine the impact (if any) this would have upon the Organization.

In March 2021, the Organization received a Paycheck Protection Program (PPP) Second Draw loan, in the amount of \$919,452. The loan carried interest at 1% with repayment over a 24-month period. In November 2021, the PPP loan amount was forgiven and recognized as grant revenue of \$919,452 on the statements of activities for the year ended June 30, 2022.

During 2022, the Organization received \$227,928 in Employee Retention Credit funds, which is reflected as grant revenue on the statements of activities for the year ended June 30, 2022.

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**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

Note 9. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are held in checking and savings accounts at financial institutions to be utilized as needed.

Financial assets available for general expenditures (that is, without donor or other restrictions limiting their use), within one year of the date of the statements of financial position, comprise of the following:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents - restricted and unrestricted	\$ 15,851,466	\$ 13,830,145
Accounts receivable, net	1,207,069	891,461
Reimbursement due from governments	-	1,446,139
Total financial assets	<u>17,058,535</u>	<u>16,167,745</u>
Less amounts not available to be used within one year		
Designated for air carrier agreement (See Note 7)	(848,501)	(816,282)
Net assets with donor restrictions	<u>(8,610,632)</u>	<u>(5,641,411)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,599,402</u>	<u>\$ 9,710,052</u>

Note 10. Net Assets with Donor Restrictions

During the years ended June 30, 2023 and 2022, the Organization received funds from the SCPRT to be used for restricted purposes. The Organization incurred expenses in each year related to these awards resulting in net assets being released from donor restrictions. The activity of the donor restricted net assets during the years ended June 30, 2023 and 2022, are as follows:

Purpose restriction	June 30, 2023			
	Balance at June 30, 2022	Receipts	Released from donor restrictions	Balance at June 30, 2023
Destination specific tourism marketing	\$ 5,594,985	\$ 8,500,000	\$ (5,540,128)	\$ 8,554,857
Explore Black Charleston	46,426	100,000	(90,651)	55,775
Renovation of Visitor Center	-	-	-	-
	<u>\$ 5,641,411</u>	<u>\$ 8,600,000</u>	<u>\$ (5,630,779)</u>	<u>\$ 8,610,632</u>

Purpose restriction	June 30, 2022			
	Balance at June 30, 2021	Receipts	Released from donor restrictions	Balance at June 30, 2022
Destination specific tourism marketing	\$ 3,629,295	\$ 8,400,000	\$ (6,434,310)	\$ 5,594,985
Explore Black Charleston	-	50,000	(3,574)	46,426
Renovation of Visitor Center	-	1,500,000	(1,500,000)	-
	<u>\$ 3,629,295</u>	<u>\$ 9,950,000</u>	<u>\$ (7,937,884)</u>	<u>\$ 5,641,411</u>

CHARLESTON AREA CONVENTION AND VISITORS BUREAU

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

Note 11. Pending Financial Accounting Standards Board Standards Updates

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Current Expected Credit Losses* (CECL), which will require companies to identify losses based on expected losses rather than incurred losses. ASU 2016-13 is effective for non-public companies for fiscal years beginning after December 15, 2022. The Organization is evaluating the impact the pronouncement may have on the financial statements.

Note 12. Subsequent Events

The Organization was awarded \$7,540,000 in August 2023 by the South Carolina Department of Parks, Recreation and Tourism for destination specific tourism marketing.

Subsequent events have been evaluated through October 18, 2023, which is the date the financial statements were available to be issued. There were no further subsequent events requiring disclosure as of this date.