

Hollingsworth Funds, Inc. and Subsidiaries

Report on Consolidated Financial Statements

For the year ended December 31, 2019

Hollingsworth Funds, Inc. and Subsidiaries

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Independent Auditor's Report

The Board of Directors
Hollingsworth Funds, Inc. and Subsidiaries
Greenville, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Hollingsworth Funds, Inc. and Subsidiaries ("Consolidated Funds") as of December 31, 2019, and the related consolidated statements of activities and functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 modified audit opinion.

Basis for Modified Opinion

As described in Note 1 to the consolidated financial statements, Consolidated Funds has recorded its investment in two wholly-owned subsidiaries on the equity method of accounting. Accounting principles generally accepted in the United States of America require that these investments be consolidated. If the financial statements of these subsidiaries had been consolidated, total assets would decrease by approximately \$3.7 million, total liabilities would increase by approximately \$1.4 million, and total net assets without donor restrictions would decrease by approximately \$5.1 million at December 31, 2019. Revenues and expenses would increase by approximately \$3.5 million and \$2.4 million, respectively, for the year ended December 31, 2019. Equity in net income (loss) from unconsolidated subsidiaries would increase by approximately \$438,000.

Modified Opinion

In our opinion, except for the effects of the matter disclosed in the Basis for Modified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hollingsworth Funds, Inc. and Subsidiaries as of December 31, 2019, and the results of its activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Greenville, South Carolina
April 23, 2020

Hollingsworth Funds, Inc. and Subsidiaries

Consolidated Statement of Financial Position

As of December 31, 2019

Assets

Cash and cash equivalents		\$ 12,343,088
Marketable investment securities		228,458,429
Notes receivable		868,905
Due from related parties		16,748
Other receivable - subsidiary		4,104,215
Income producing real estate, net		34,349,292
Real estate held for sale		74,836,057
Accrued rental income		2,273,950
Deferred leasing costs		279,175
Other assets		319,731
Investment in unconsolidated subsidiaries		
Bonaventure I & II, LLC	1,596,288	
John D. Hollingsworth on Wheels, Inc.	8,866,118	
Verdae Development, Inc.	12,333,407	22,795,813
Total assets		<u>\$ 380,645,403</u>

Liabilities

Accrued expenses and other liabilities	\$ 1,106,148
Investment margin account	987
Total liabilities	<u>1,107,135</u>

Uncertainties, commitments, and contingencies (Notes 8 and 10)

Net assets without donor restrictions

Total liabilities and net assets without donor restrictions	<u>379,538,268</u>
	<u>\$ 380,645,403</u>

See Notes to Consolidated Financial Statements

Hollingsworth Funds, Inc. and Subsidiaries

Consolidated Statement of Activities and Functional Expenses

For the year ended December 31, 2019

	Grantmaking	Portfolio Investments	Real Estate	Management and General	Total
Revenues and gains					
Rental income	\$ -	\$ -	\$ 4,031,924	\$ -	\$ 4,031,924
Interest and dividend income from investments	-	4,163,304	-	-	4,163,304
Realized gains on marketable investment securities	-	2,861,605	-	-	2,861,605
Unrealized gains on marketable investment securities	-	24,881,798	-	-	24,881,798
Gain on sale of real estate	-	-	2,917,365	-	2,917,365
Gain on release of mitigation bank credits	-	-	30,538	-	30,538
Total revenues and gains	-	31,906,707	6,979,827	-	38,886,534
Expenses and losses					
Grants	8,613,670	-	-	-	8,613,670
Salaries and payroll taxes	386,368	-	432,575	282,478	1,101,421
Property taxes and licenses	-	-	1,110,957	-	1,110,957
Depreciation and amortization	4,297	-	442,831	2,483	449,611
Professional services	29,319	-	388,220	92,537	510,076
Property maintenance	526	-	196,105	304	196,935
Investment fees	-	397,051	-	-	397,051
Employee benefits	86,676	-	40,284	29,873	156,833
Rental	51,623	-	36,312	29,835	117,770
Insurance	-	-	84,424	22,950	107,374
Property manager fees	-	-	106,361	-	106,361
Utilities	4,264	-	79,157	2,464	85,885
Commissions	-	-	3,474	-	3,474
Director fees	-	-	-	50,000	50,000
Interest expense	-	24,921	-	-	24,921
Other	101,608	17,178	86,252	31,756	236,794
Total expenses and losses	9,278,351	439,150	3,006,952	544,680	13,269,133
Revenues over (under) expenses	(9,278,351)	31,467,557	3,972,875	(544,680)	25,617,401
Equity in net loss from unconsolidated subsidiaries	-	-	(168,640)	-	(168,640)
Increase (decrease) in net assets without donor restrictions	(9,278,351)	31,467,557	3,804,235	(544,680)	25,448,761
Net assets without donor restrictions, beginning of year					354,089,507
Net assets without donor restrictions, end of year					\$ 379,538,268

See Notes to Consolidated Financial Statements

Hollingsworth Funds, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

Operating activities

Increase in net assets without donor restrictions	\$ 25,448,761
Adjustments to reconcile increase in net assets without donor restrictions to net cash used for operating activities:	
Depreciation and amortization	449,611
Gain on sale of real estate	(2,917,365)
Gain on release of mitigation bank credits	(30,538)
Equity in net loss from unconsolidated subsidiaries	168,640
Realized gains on marketable investment securities	(2,861,605)
Unrealized gains on marketable investment securities	(24,881,798)
Changes in deferred and accrued amounts:	
Due from related parties	9,223
Other receivable - subsidiary	195,843
Accrued rental income	67,220
Other assets	8,371
Accrued expenses and other liabilities	(74,733)
Net cash used for operating activities	<u>(4,418,370)</u>

Investing activities

Collections on notes receivable	327,313
Collections on note receivable - related party	2,272,720
Purchases of real estate	(1,134,143)
Proceeds from sale of real estate, net of fees	14,410,867
Proceeds from release of mitigation bank credits, net of fees	36,217
Purchases of marketable investment securities	(50,553,965)
Proceeds from sale of marketable investment securities, net of fees	47,140,764
Payment of deferred leasing costs	(107,362)
Distributions from unconsolidated subsidiaries	2,260,000
Net cash provided by investing activities	<u>14,652,411</u>

Financing activities

Net repayments of investment margin account	<u>(4,011,394)</u>
Net cash used for financing activities	<u>(4,011,394)</u>
Net increase in cash and cash equivalents	6,222,647

Cash and cash equivalents, beginning of year

6,120,441

Cash and cash equivalents, end of year

\$ 12,343,088

Supplemental cash flow information

Cash paid for interest	<u>\$ 24,921</u>
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See Notes to Consolidated Financial Statements

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 1. Summary of Significant Accounting Policies and Activities

Economic activity:

Hollingsworth Funds, Inc. ("Funds") is a nonprofit corporation organized to conduct activities for the benefit of religious, charitable, scientific, literary, and educational institutions within Greenville County, South Carolina. Specifically, Furman University will receive approximately 45 percent of the annual income distribution of Funds and the YMCA will receive approximately 10 percent of the annual income distribution, with the remainder going to various other charitable organizations.

Funds' subsidiary, Verdae Properties, LLC ("Verdae Properties"), is engaged in the management and rental of real estate. All of Verdae Properties' business activities are conducted in Greenville County, South Carolina.

Funds' subsidiary, Buckfield Plantations, LLC ("Buckfield Plantations"), owns forestry land in South Carolina. Buckfield Plantations generates substantially all of its revenues from the sale of real estate and timber on its land.

Funds' subsidiary, John D. Hollingsworth on Wheels, Inc. ("HOW") and its subsidiaries, manufactured, sold and serviced textile machinery, accessories and parts. HOW's fiscal year ends on the Sunday nearest to November 30th and customarily consists of four 13-week quarters for a total of 52 weeks. Every sixth year includes 53 weeks. HOW's current fiscal year ends on December 1, 2019. Funds uses this fiscal year end in determining its investment in HOW, as well as subsequent distributions. HOW closed its textile business and officially ceased its operations on December 31, 2009. HOW has accrued all costs associated with the close of business, but has not dissolved the corporation. HOW has not been consolidated into these consolidated financial statements as discussed on the following page.

Funds' subsidiary, Verdae Development, Inc. ("VDI"), is engaged in the development of real estate it owns as well as real estate owned by Funds and its other subsidiaries. VDI has not been consolidated into these consolidated financial statements as discussed on the following page.

Verdae Properties' subsidiary, Bonaventure I & II, LLC ("Bonaventure"), owns 30 percent of two office buildings located in Greenville, South Carolina. Verdae Properties has recorded its investment in Bonaventure under the equity method of accounting.

Throughout the financial statements, the consolidation of Funds, Verdae Properties, and Buckfield Plantations will be referred to as "Consolidated Funds".

Functional expenses:

The costs of grantmaking, portfolio investments, real estate, and management and general have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the functions ratably. Such allocations are determined by management on an equitable basis, typically based on specific time and resources spent within each function. Certain other costs have been allocated based on the specific identification of assets.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

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

Financial statement presentation:

Funds 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. All net assets of Funds are considered net assets without donor restrictions. Net assets without donor restrictions 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 Consolidated Funds' management.

The consolidated financial statements include the accounts of Funds, Verdae Properties, and Buckfield Plantations, of which Funds is the sole member of each with 100 percent of financial and voting rights (collectively referred to, herein, as "Consolidated Funds"). Funds has elected this financial statement presentation to align the consolidated financial statement presentation to tax and internal financial reporting. All significant intra-entity transactions and balances have been eliminated between Consolidated Funds.

Consolidated Funds has recorded its investment in two wholly-owned subsidiaries (HOW and VDI) on the equity method of accounting. Accounting principles generally accepted in the United States of America ("U.S. GAAP") require that these investments be consolidated. If the financial statements of these subsidiaries had been consolidated, total assets would decrease by approximately \$3.7 million, total liabilities would increase by approximately \$1.4 million, and total net assets without donor restrictions would decrease by approximately \$5.1 million at December 31, 2019. Revenues and expenses would increase by approximately \$3.5 million and \$2.4 million, respectively, for the year ended December 31, 2019. Equity in net income from unconsolidated subsidiaries would increase by approximately \$438,000 for the year ended December 31, 2019.

Cash and cash equivalents:

Consolidated Funds considers all cash equivalents to be highly liquid investments with a maturities of three months or less. Consolidated Funds places its temporary cash investments with high quality financial institutions. At times, such investments may be in excess of Federal Deposit Insurance Corporation insurance limits. Consolidated Funds has not experienced, nor does it anticipate, any losses with respect to such accounts.

Marketable investment securities:

Marketable investment securities are comprised of equity securities, corporate bonds and notes and mutual funds investing in debt and equity securities. These investments are recorded at fair value. Investments in private equity funds and hedge funds are valued based on the net asset value per share of the investment fund, or its equivalent. It is adjusted, if necessary, by management if the net asset value per share is not calculated in a manner consistent with the measurement principles used to determine fair value as prescribed by U.S. GAAP or the investment is not expected to be redeemable at the net asset value per share. Investments in entities that calculate net asset value ("NAV") per share or its equivalent are not categorized within the fair value hierarchy. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

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

Notes receivable:

Notes receivable consist of two notes due from customers related to real estate sales. Notes receivable are stated at estimated collectible amounts which approximate fair value. Interest income is recognized as earned using the interest method. At December 31, 2019, notes receivable totaled approximately \$869,000. The notes receivable are due in quarterly principal and interest installments with interest accruing at 4 percent. The notes receivable are secured by real estate and mature from April 2022 to April 2023. Consolidated Funds evaluates the collectability of both interest and principal of its notes receivable to determine whether any valuation allowance is necessary. Management believes there are no collectability issues with notes receivable at December 31, 2019, and no allowance has been recorded.

Income producing real estate, net:

Income producing real estate is recorded at estimated fair market value at the date of donation if contributed to Consolidated Funds, or at cost if purchased, net of accumulated depreciation. Consolidated Funds' leases all of the real estate categorized as income producing. Major renewals and betterments are capitalized, while maintenance and repairs, which do not improve or extend the useful lives of the assets, are expensed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Consolidated Funds reviews the carrying value of income producing real estate for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the estimated fair value of assets. Management believes there are no impairment issues with income producing real estate at December 31, 2019, and no losses have been recorded.

Real estate held for sale:

Real estate held for sale is stated at the lower of cost or estimated net realizable value. Consolidated Funds' intentions are to either develop the property themselves or to sell this undeveloped real estate to an affiliated company or other third parties who would continue future development.

Production costs relating to mitigation bank credits are capitalized and allocated to individual mitigation bank credits based on estimated total costs and estimated total mitigation bank credits to be produced. Estimates are reviewed periodically and revised as needed.

The first \$10,000 of reforestation costs per year relating to timber held by Consolidated Funds is capitalized and amortized over seven years. Reforestation costs over \$10,000 per year are capitalized and charged to operations in computing the gain on sale of timber. Capitalized reforestation costs are included within real estate held for sale on the consolidated statement of financial position and are presented net of accumulated amortization.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

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

Real estate held for sale, continued:

Consolidated Funds reviews the carrying value of real estate held for sale for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the estimated fair value of assets. Management believes there are no impairment issues with real estate held for sale at December 31, 2019, and no losses have been recorded.

Accrued rental income:

Accrued rental income represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

Deferred leasing costs:

Leasing commissions are capitalized as deferred leasing costs and amortized on a straight-line basis over the life of the related leases. Lease commissions expense charged to earnings totaled approximately \$64,000 during 2019 and are included in depreciation and amortization in the consolidated statement of activities.

Estimated future leasing expense at December 31, 2019 is as follows:

2020	\$	51,692
2021		50,951
2022		46,212
2023		33,455
2024		19,744
Thereafter		<u>77,121</u>
	\$	<u>279,175</u>

Revenue recognition:

Sales of real estate are recognized when title to the real property passes to the buyer at a formal closing, and there is no continuing involvement in the real property. Management concluded that Accounting Standard Codification ("ASC") 606 did not have a significant impact on the amount, timing or classification of real estate sales in the consolidated financial statements. This conclusion was based on Consolidated Fund's current business mix and general approach to sales of real estate which are generally completed without seller financing or continuing involvement that would indicate that a performance obligation is not met at the time the transaction closes. Consolidated Funds will continue to recognize the entire gain upon formal closing. The cost of the real estate is accumulated and charged to cost of sales at the time revenue is recognized, and is included when determining the gain on sale of real estate in the consolidated statement of activities.

Certain properties are leased pursuant to noncancelable, fixed-term operating leases with expiration dates through 2046. The leases typically provide for guaranteed minimum rent, plus contingent rent based on a percentage of gross receipts and other miscellaneous charges to cover certain operating costs. Some of the leases contain renewal options and escalation clauses. Most of Consolidated Funds' operating lease agreements include scheduled rent increases. Rental income is recognized on a straight-line basis over the terms of the related lease.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

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

Revenue recognition, continued:

Consolidated Funds recognizes revenue from the sale of mitigation bank credits when the mitigation bank credits have been completely and properly released and is included in revenues and gains on the consolidated statement of activities.

Consolidated Funds reports contributions of cash and other assets at estimated fair market value and such contributions are recorded as increases in net assets depending on the existence and/or nature of any donor restrictions. All of Consolidated Funds' net assets are considered to be without donor restrictions under the terms of the entity's resolutions, bylaws and the Last Will and Testament of John D. Hollingsworth.

Capitalization policies:

Incidental costs related to the acquisition and development of real estate are deferred until the properties become operational. When the properties become operational, the costs are capitalized as part of the cost of the property. Interest costs are capitalized while development and construction is in progress. Direct costs incurred to facilitate leasing real estate are amortized over the life of the related lease. Direct costs incurred in connection with obtaining loans are amortized over the life of the related loan.

Income taxes:

Consolidated Funds is qualified under Internal Revenue Service Code Section 501(c)(3) and is therefore generally exempt from income taxes, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. Consolidated Funds has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. Management is not aware of any material uncertain tax positions, and no liability has been recognized at December 31, 2019. If incurred, interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statement of activities.

Grants:

Grants are recorded as expenses when they are approved by the Board of Directors.

Financial estimates and assumptions:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect Consolidated Funds' consolidated financial position and changes in net assets and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

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

Fair value of assets and liabilities:

The carrying values of all of Consolidated Funds' financial instruments approximate their fair values. Consolidated Funds accounts for its financial assets and liabilities at fair value on a recurring basis. Consolidated Funds evaluates fair value for its non-financial assets and liabilities on a non-recurring basis.

Availability of financial assets and liquidity:

The Fund's working capital and cash flows result from real estate sales, rental income, and liquidation of investments. All cash is received without restriction and limitations are not imposed. All amounts received are available to meet cash needs upon receipt. Consolidated Funds' current financial assets at December 31, 2019, as shown below, are available to meet general expenditures, liabilities and other obligations due within one year.

Cash and cash equivalents	\$ 12,343,088
Marketable investment securities	163,380,276
Current portion of notes receivable	337,879
Due from related parties	16,748
	<u>\$ 176,077,991</u>

Recently issued accounting pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018. Consolidated Funds adopted ASC 606 using the modified retrospective method with a date of the initial application of January 1, 2019 and applied to all customer contracts. The effect of adopting ASC 606 did not result in an adjustment to the opening balance of net assets without donor restrictions.

In February 2016, the FASB amended the *Leases* topic of the ASC to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the statement of income. The amendments will be effective for fiscal years beginning after December 15, 2020. Consolidated Funds is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Subsequent events:

Consolidated Funds has evaluated subsequent events through April 23, 2020, the date on which the consolidated financial statements were available for issuance.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 2. Marketable Investment Securities

Consolidated Funds' estimate of fair value for its financial instruments is composed primarily of marketable investment securities held by a third party fund manager. The following framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect Consolidated Funds' significant market assumptions.

The three levels of the hierarchy are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Consolidated Funds has the ability to access at the measurement date;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3: Inputs that are unobservable and significant to the fair value measurement.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Consolidated Funds' fund manager generally uses the capital balance reported by each investment manager as the primary input to its valuation; however, adjustments to the reported capital balance may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity on such interests, and the fair value of the investment's portfolio or other assets and liabilities.

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the fund manager. The fund manager considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the fund manager's perceived risk of that investment.

Investment managers use the "market approach" valuation technique to value their investments in private equity and hedge funds. Most private equity funds are structured as closed-end, commitment-based investment funds where Consolidated Funds commits a specified amount of capital upon inception of the fund (i.e., committed capital) which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit subscriptions by new or existing investors. Accordingly, Consolidated Funds generally holds interests in such funds for which there is no active market, although, in some situations, a transaction may occur in the "secondary market" where an investor purchases a unit holder's existing interest and remaining commitment.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 2. Marketable Investment Securities, Continued

The following table summarizes financial instruments recorded at fair value on a recurring basis as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds (b)	\$ 86,499,461	\$ -	\$ -	\$ 86,499,461
Common stocks (c)	75,823,381	-	-	75,823,381
REIT (c)	<u>1,057,434</u>	-	-	<u>1,057,434</u>
Total	<u>\$ 163,380,276</u>	<u>\$ -</u>	<u>\$ -</u>	163,380,276
Investments measured at NAV (a)				<u>65,078,153</u>
Investments at fair value				<u>\$ 228,458,429</u>

- (a) Certain investments that were measured at NAV per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.
- (b) Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by Consolidated Funds are deemed to be actively traded.
- (c) Common stock and real estate investment trust ("REIT"): Valued at the daily closing price of stock on the active market on which the individual securities are traded.

The following table for December 31, 2019 sets forth a summary of Consolidated Funds' investments reported at NAV as a practical expedient to estimate fair value:

<u>Investment</u>	<u>Fair value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Hedge funds (d)	\$ 38,736,061	\$ -	(d)	(d)
Private equity funds (e)	<u>26,342,092</u>	<u>9,254,052</u>	(e)	(e)
	<u>\$ 65,078,153</u>	<u>\$ 9,254,052</u>		

- (d) Hedge funds: Valued at NAV on a monthly basis. This category includes investments in hedge funds that primarily invest in both U.S. and foreign equities, bonds, derivatives, and futures. Management of the hedge fund has the ability to allocate capital to new hedge funds, eliminate existing hedge funds and reallocate to existing hedge funds. Management of the underlying hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks and from a net long position to a net short position. All hedge fund investments are redeemable on a daily, weekly, or monthly basis with a notice period of up to 45 days.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 2. Marketable Investment Securities, Continued

- (e) Private equity funds: Valued at NAV on a quarterly basis. This category includes private equity funds that invest primarily in investment companies specializing in global and domestic equities, real estate, and lending portfolios. Private equity funds are structured as closed-end, commitment-based investment funds where Consolidated Funds commits a specified amount of capital upon inception of the fund which is then drawn down over a specified period of the fund's life. Such funds generally do not provide redemption options for investors and, subsequent to final closing, do not permit subscriptions by new or existing investors. Accordingly, Consolidated Funds generally holds interests in such funds for which there is no active market, although, in some situations, a transaction may occur in the "secondary market" where an investor purchases a unit holder's existing interest and remaining commitment. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. It is probable that all of the investments in this category will be sold at an amount different from the net asset value of Consolidated Funds' ownership interest. Consolidated Funds has valued its investments based on its proportional share of the net asset valuations reported by the private equity funds.

Note 3. Other Receivable - Subsidiary

In May 2010, Consolidated Funds reimbursed VDI for certain development infrastructure costs totaling approximately \$3.5 million. In addition, Consolidated Funds purchased certain land totaling approximately \$3.7 million at VDI's book value. In July 2008, the City of Greenville (the "City") agreed to reimburse VDI for certain development costs and land. In 2010, the City approved reimbursement of approximately \$9.3 million, including approximately \$5.0 million of land and land improvements reimbursed by Consolidated Funds in May 2010. Reimbursement is derived from a formula based on a percentage of property taxes paid by taxpayers within the development area collected by the City. On May 10, 2011, VDI reached an agreement for the City to assume control of certain land related to a park within the development that is part of the 2008 reimbursement agreement. Consolidated Funds received City payments from VDI of \$195,843 during 2019 based on its proportionate share of the total reimbursement costs. A receivable for reimbursement of infrastructure costs and land to be reimbursed by VDI totaling \$4,104,215 is classified as an other receivable on the accompanying consolidated statement of financial position at December 31, 2019.

Note 4. Income Producing Real Estate, Net

Land and land improvements	\$ 102,969,332
Buildings	12,743,117
Mitigation bank	649,202
Timber	405,187
Furniture and fixtures	85,086
	<u>116,851,924</u>
Less accumulated depreciation	<u>(7,666,575)</u>
	109,185,349
Less real estate held for sale	<u>(74,836,057)</u>
	<u>\$ 34,349,292</u>

Depreciation expense for the year ended December 31, 2019 amounted to approximately \$386,000.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 5. Investment Margin Account

Consolidated Funds has an outstanding investment margin account balance of \$987 at December 31, 2019. The balance has no stated repayment date and bears interest at 2.79 percent at December 31, 2019.

Note 6. Leases

Consolidated Funds' rental income is primarily derived from non-cancelable operating leases. The leases typically provide for guaranteed minimum rent, plus contingent rent based on a percentage of gross receipts and other miscellaneous charges to cover certain operating costs. Some of the leases contain renewal options and escalation clauses. Most of Consolidated Funds' operating lease agreements include scheduled rent increases. Income on leases with scheduled rent increases is recognized on a straight-line basis over the lease term.

The accompanying consolidated statement of financial position reflects accrued rental income of approximately \$2,274,000 for rent recognized on the straight-line basis in excess of the amounts currently paid under the terms of the lease. Accrued rental income includes approximately \$2,139,000 from one lessee whose individual balance represents 94 percent of the total accrued rental income.

Approximate future minimum lease payments receivable under the non-cancelable operating leases are due as follows:

2020	\$ 3,216,800
2021	2,577,626
2022	2,280,801
2023	1,880,978
2024	1,609,923
Thereafter	<u>13,476,082</u>
	25,042,210
Less amounts previously recognized as income	<u>(2,273,950)</u>
	<u>\$ 22,768,260</u>

Total rental income of approximately \$4,032,000 for 2019 includes approximately \$1,123,000 from two lessees whose individual balances represents 28 percent of rental income for the year ended December 31, 2019.

Note 7. Investment in Unconsolidated Subsidiaries

As described in Note 1, Funds has several wholly-owned subsidiaries at December 31, 2019. These subsidiaries include HOW, Verdae Properties, Buckfield Plantations, and VDI. Funds consolidates Verdae Properties and Buckfield Plantations.

As described in Note 1, Funds accounts for two of the wholly-owned subsidiaries (VDI and HOW) under the equity method of accounting.

During 2014, Verdae Properties sold 70 percent of two office buildings to a third party. In conjunction with this sale, Verdae Properties contributed its remaining 30 percent of the property to Bonaventure I & II, LLC. The office buildings are unconsolidated due to Verdae Properties no longer controlling the property.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 7. Investment in Unconsolidated Subsidiaries, Continued

Summarized financial information for HOW, VDI, and Bonaventure as of and for the year ended December 31, 2019, except for HOW, which is presented as of and for the year ended November 25, 2019, is as follows:

	<u>Bonaventure</u> (unaudited)	<u>HOW</u> (unaudited)	<u>VDI</u>
Total assets	\$ 5,034,221	\$ 3,627,770	\$ 18,949,197
Liabilities	\$ 3,437,933	\$ 406,792	\$ 5,705,903
Equity	<u>1,596,288</u>	<u>3,220,978</u>	<u>13,243,294</u>
Total liabilities and equity	<u>\$ 5,034,221</u>	<u>\$ 3,627,770</u>	<u>\$ 18,949,197</u>
	<u>Bonaventure</u> (unaudited)	<u>HOW</u> (unaudited)	<u>VDI</u>
Revenue and gains	\$ 1,046,206	\$ 264,654	\$ 1,731,599
Expenses and losses	<u>776,713</u>	<u>1,189,464</u>	<u>1,244,922</u>
Net income (loss)	269,493	(924,810)	486,677
Distributions	(260,000)	(500,000)	(1,500,000)
Equity value of investment, beginning of year	<u>1,586,795</u>	<u>10,290,928</u>	<u>13,346,730</u>
Equity value of investment, end of year	<u>\$ 1,596,288</u>	<u>\$ 8,866,118</u>	<u>\$ 12,333,407</u>

The difference in the equity recorded by HOW and the equity value of the investment by Consolidated Funds relates to the step-up in basis Consolidated Funds received from the revocable trust, which is reduced as related assets in HOW are sold. The difference in the equity recorded by VDI and the equity value of the investment by Consolidated Funds relates to the recognition of gains and losses on the sale of real estate between the two companies.

Note 8. Uncertainties

Certain land owned by HOW has been contaminated by hazardous materials. HOW, in cooperation with federal and state authorities, has been engaged in removing hazardous materials, monitoring contamination levels and other remedial actions. In 1992, HOW and the previous owner of the land reached an agreement which established a trust for the costs of the clean-up. The agreement specified the percentages for allocating past and future clean-up costs between HOW (31.25 percent) and the previous owner (68.75 percent). HOW has accrued an estimate of the maximum liability based on currently available information. The total future costs of environmental cleanup at the site are estimated to be approximately \$1.1 million.

Based on the information currently available, HOW estimates the present value of its share of the future costs over the next 30 years to be approximately \$380,000. This present value calculation is determined using a 5 percent discount rate and a 2 percent inflation rate at November 24, 2019. This amount has been recorded by HOW.

Hollingsworth Funds, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019

Note 9. Related Party Transactions

At December 31, 2019, Consolidated Funds had \$11,071 due from HOW and \$5,677 due from VDI related to shared services. The amount is included in due from related parties on the accompanying consolidated statement of financial position. Consolidated Funds also has a receivable due from VDI for approximately \$4,100,000 as described in Note 3.

In March 2016, Consolidated Funds financed a sale of land to VDI for \$4,977,720 with annual interest at a fixed rate of 4 percent, with interest only payments due quarterly. Principal payments were due upon the sale of certain real estate as defined in the original agreement. The amount outstanding on the note totaled \$2,272,720 at December 31, 2018, and was fully repaid during 2019. Total interest of \$28,568 was earned during 2019 related to the note.

Consolidated Funds paid \$455,050 to VDI during 2019 for fees related to real estate consulting, negotiating, and project management services on behalf of Consolidated Funds.

Consolidated Funds received an accounting fee from VDI during 2019 for accounting services provided to VDI. Accounting fees received for 2019 were \$54,000 and are included as a reduction of professional services expenses on the accompanying consolidated statement of activities.

Consolidated Funds paid marketing fees to VDI during 2019 for marketing services provided to Consolidated Funds. Marketing fees paid for 2019 were \$18,000 and are included in other expenses and losses on the accompanying consolidated statement of activities.

Note 10. Commitments and Contingencies

Certain private equity funds that Consolidated Funds' invests in require capital commitments. Outstanding capital commitments on these investments total approximately \$9,254,000 at December 31, 2019.

Note 11. Employee Benefit Plans

Consolidated Funds established a 401(k) plan and a 457(b) employee benefit plan in 2015 for all employees meeting certain eligibility requirements. Consolidated Funds may make discretionary employer matching contributions on behalf of all qualified employees for the 457(b) plans. The 401(k) plan has a 4.5% employer match and a 4.5% profit sharing component. The total employer contributions for the 401(k) plan and 457(b) plan were \$89,741 and \$57,000, respectively, for the year ended December 31, 2019.

Note 12. Subsequent Event

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 spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact Consolidated Funds, its investment in real estate, the U.S. economy as a whole, and thus the Consolidated Fund's investments. These conditions could adversely affect Consolidated Fund's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of Consolidated Fund's operations, which could significantly disrupt Consolidated Fund's operations. The extent of the adverse impact of the COVID-19 outbreak on Consolidated Funds cannot be predicted at this time.

Hollingsworth Funds, Inc. and Subsidiaries
Combining Statement of Financial Position (Unaudited)
As of December 31, 2019

	Hollingsworth Funds, Inc.	Verdae Properties, LLC	Buckfield Plantations, LLC	Consolidating Entries	Hollingsworth Funds, Inc. and Subsidiaries	John D. Hollingsworth on Wheels, Inc. *	Verdae Development, Inc.	Combining Entries	Combined
Assets									
Cash and cash equivalents	\$ 11,032,297	\$ 1,119,828	\$ 190,963	\$ -	\$ 12,343,088	\$ 2,044,509	\$ 4,729,980	\$ -	\$ 19,117,577
Marketable investment securities	228,458,429	-	-	-	228,458,429	-	-	-	228,458,429
Notes receivable	-	-	868,905	-	868,905	-	-	-	868,905
Due from related parties	16,748	-	-	-	16,748	-	-	(16,748)	-
Other receivable - subsidiary	3,405,504	698,711	-	-	4,104,215	615,514	7,263,781	(4,719,729)	7,263,781
Income producing real estate, net	759,674	33,589,618	-	-	34,349,292	-	21,646	-	34,370,938
Real estate held for sale	20,530,007	45,159,571	9,146,479	-	74,836,057	514,649	6,921,361	(387,789)	81,884,278
Accrued rental income	-	2,273,950	-	-	2,273,950	-	-	-	2,273,950
Deferred leasing costs	576	278,599	-	-	279,175	-	-	-	279,175
Other assets	43,368	276,363	-	-	319,731	453,098	12,429	-	785,258
Investment in unconsolidated subsidiaries	115,581,015	1,596,288	-	(94,381,490)	22,795,813	-	-	(21,199,525)	1,596,288
Total assets	<u>\$ 379,827,618</u>	<u>\$ 84,992,928</u>	<u>\$ 10,206,347</u>	<u>\$ (94,381,490)</u>	<u>\$ 380,645,403</u>	<u>\$ 3,627,770</u>	<u>\$ 18,949,197</u>	<u>\$ (26,323,791)</u>	<u>\$ 376,898,579</u>

* HOW ceased operations on December 31, 2009. As a result, the entity's operations have been presented as a discontinued operation and certain assets including inventory, property, plant, and equipment, and real estate have been reclassified as assets held for sale on the combining statement of financial position.

NOTE: The supplemental schedules are not intended to combine under the basis as presented in the consolidated financial statements.

See Independent Auditor's Report

Hollingsworth Funds, Inc. and Subsidiaries
Combining Statement of Financial Position (Unaudited)
As of December 31, 2019

	Hollingsworth Funds, Inc.	Verdae Properties, LLC	Buckfield Plantations, LLC	Consolidating Entries	Hollingsworth Funds, Inc. and Subsidiaries	John D. Hollingsworth on Wheels, Inc.	Verdae Development, Inc.	Combining Entries	Combined
Liabilities									
Accrued expenses and other liabilities	\$ 288,363	\$ 817,785	\$ -	\$ -	\$ 1,106,148	\$ 15,721	\$ 387,817	\$ (5,677)	\$ 1,504,009
Investment margin account	987	-	-	-	987	-	-	-	987
Deferred tax liability	-	-	-	-	-	-	5,525	-	5,525
Income tax payable	-	-	-	-	-	-	86,220	-	86,220
Due to related parties	-	-	-	-	-	11,071	4,719,729	(4,730,800)	-
Other deferred liabilities	-	-	-	-	-	380,000	506,612	-	886,612
Total liabilities	<u>289,350</u>	<u>817,785</u>	<u>-</u>	<u>-</u>	<u>1,107,135</u>	<u>406,792</u>	<u>5,705,903</u>	<u>(4,736,477)</u>	<u>2,483,353</u>
Net Assets									
Capital stock	-	-	-	-	-	250,700	11,500,000	(11,750,700)	-
Capital in excess of par value	-	-	-	-	-	7,487,436	-	(7,487,436)	-
Member's equity	-	84,175,143	10,206,347	(94,381,490)	-	-	-	-	-
Net assets without donor restrictions	379,538,268	-	-	-	379,538,268	-	-	(5,123,042)	374,415,226
Retained earnings (deficit)	-	-	-	-	-	(4,517,158)	1,743,294	2,773,864	-
Total net assets	<u>379,538,268</u>	<u>84,175,143</u>	<u>10,206,347</u>	<u>(94,381,490)</u>	<u>379,538,268</u>	<u>3,220,978</u>	<u>13,243,294</u>	<u>(21,587,314)</u>	<u>374,415,226 *</u>
Total liabilities and net assets	<u>\$ 379,827,618</u>	<u>\$ 84,992,928</u>	<u>\$ 10,206,347</u>	<u>\$ (94,381,490)</u>	<u>\$ 380,645,403</u>	<u>\$ 3,627,770</u>	<u>\$ 18,949,197</u>	<u>\$ (26,323,791)</u>	<u>\$ 376,898,579</u>

* Net assets of Hollingsworth Funds, Inc. and Subsidiaries differs from the combining net assets due to differences between the investment cost of Funds and book values of HOW and Verdae Development (Note 7).

NOTE: The supplemental schedules are not intended to combine under the basis as presented in the consolidated financial statements.

See Independent Auditor's Report

Hollingsworth Funds, Inc. and Subsidiaries

Combining Statement of Activities (Unaudited)

For the year ended December 31, 2019

	Hollingsworth Funds, Inc.	Verdae Properties, LLC	Buckfield Plantations, LLC	Consolidating Entries	Hollingsworth Funds, Inc. and Subsidiaries	John D. Hollingsworth On Wheels, Inc.	Verdae Development, Inc.	Combining Entries	Combined
Revenues and gains									
Rental income	\$ 186,386	\$ 3,845,538	\$ -	\$ -	\$ 4,031,924	\$ -	\$ -	\$ -	\$ 4,031,924
Commission income	-	-	-	-	-	-	858,974	(455,050)	403,924
Interest and dividend income from investments	4,120,324	-	42,980	-	4,163,304	48,365	46,453	(28,568)	4,229,554
Realized gains on marketable investment securities	2,861,605	-	-	-	2,861,605	-	-	-	2,861,605
Unrealized gains on marketable investment securities	24,881,798	-	-	-	24,881,798	-	-	-	24,881,798
Gain on sale of real estate	495,768	2,421,597	-	-	2,917,365	-	785,021	1,996,949	5,699,335
Reduction in environmental liabilities	-	-	-	-	-	212,000	-	-	212,000
Gain on release of mitigation bank credits	30,538	-	-	-	30,538	-	-	-	30,538
Other	-	-	-	-	-	4,289	41,151	-	45,440
Total revenues and gains	32,576,419	6,267,135	42,980	-	38,886,534	264,654	1,731,599	1,513,331	42,396,118
Expenses and losses									
Grants	8,613,670	-	-	-	8,613,670	-	-	-	8,613,670
Salaries and payroll taxes	1,101,421	-	-	-	1,101,421	196,077	328,587	-	1,626,085
Property taxes and licenses	361,632	752,525	(3,200)	-	1,110,957	14,676	155,664	-	1,281,297
Depreciation and amortization	9,996	439,615	-	-	449,611	-	11,381	-	460,992
Professional services	138,440	371,636	-	-	510,076	91,044	125,732	-	726,852
Property maintenance	5,640	177,955	13,340	-	196,935	-	-	-	196,935
Investment fees	397,051	-	-	-	397,051	-	-	-	397,051
Employee benefits	156,833	-	-	-	156,833	21,759	92,645	-	271,237
Rental	117,770	-	-	-	117,770	10,000	70,505	-	198,275
Insurance	22,950	69,776	14,648	-	107,374	166,684	19,743	-	293,801
Property manager fees	-	97,361	9,000	-	106,361	-	-	-	106,361
Utilities	9,727	76,158	-	-	85,885	5,772	-	-	91,657
Commissions	-	3,474	-	-	3,474	-	-	-	3,474
Director fees	50,000	-	-	-	50,000	-	30,000	-	80,000
Interest expense	24,921	-	-	-	24,921	-	-	-	24,921
Other	179,684	57,110	-	-	236,794	251,452	231,481	-	719,727
Total expenses and losses	11,189,735	2,045,610	33,788	-	13,269,133	757,464	1,065,738	-	15,092,335
Income tax provision	-	-	-	-	-	432,000	179,184	-	611,184
Total expenses and losses	11,189,735	2,045,610	33,788	-	13,269,133	1,189,464	1,244,922	-	15,703,519
Revenues over (under) expenses	21,386,684	4,221,525	9,192	-	25,617,401	(924,810)	486,677	1,513,331	26,692,599
Equity in net income (loss) from unconsolidated subsidiaries	4,062,077	269,493	-	(4,500,210)	(168,640)	-	-	438,133	269,493
Distributions to Funds	-	(11,715,805)	(250,000)	11,965,805	-	(500,000)	(1,500,000)	2,000,000	-
Increase (decrease) in net assets	25,448,761	(7,224,787)	(240,808)	7,465,595	25,448,761	(1,424,810)	(1,013,323)	3,951,464	26,962,092
Net assets without donor restrictions, beginning of year	354,089,507	91,399,930	10,447,155	(101,847,085)	354,089,507	4,645,788	14,256,617	(25,538,778)	347,453,134
Net assets without donor restrictions, end of year	\$ 379,538,268	\$ 84,175,143	\$ 10,206,347	\$ (94,381,490)	\$ 379,538,268	\$ 3,220,978	\$ 13,243,294	\$ (21,587,314)	\$ 374,415,226

NOTE: The supplemental schedules are not intended to combine under the basis as presented on the consolidated financial statements.

See Independent Auditor's Report