

AUDITED FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

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Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harbison Community Association, Inc
Columbia, South Carolina

I have audited the accompanying financial statements of Harbison Community Association, Inc. (the Association for property owners and residents of the new communities project, Harbison) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbison Community Association, Inc. as of December 31, 2015 and 2014, 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.

David N. Wirth, CPA, PA

Columbia, South Carolina
September 23, 2016

STATEMENTS OF FINANCIAL POSITION

HARBISON COMMUNITY ASSOCIATION, INC.

	December 31,	
ASSETS	2015	2014
CURRENT ASSETS		
Cash	\$ 12,628	\$ 8,365
Assessment fees receivable, less allowance for doubtful accounts of \$325,221, 2015; \$404,000, 2014	443,687	457,007
Prepaid expenses	27,743	8,956
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	484,058	474,328
PROPERTY AND EQUIPMENT		
Buildings and recreational facilities--Note C	996,984	1,016,533
Community property--Note D	187,893	210,141
	<hr/>	<hr/>
	1,184,877	1,226,674
OTHER ASSETS		
Replacement reserve - cash and investments - Note B	456,449	298,214
	<hr/>	<hr/>
	\$ 2,125,384	\$ 1,999,216
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 25,636	\$ 24,937
Note payable	..	1,657
Employee compensation--Note E	16,031	42,950
Payroll taxes withheld and accrued	8,244	13,779
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	49,911	83,323
UNRESTRICTED NET ASSETS	<hr/>	<hr/>
	2,075,473	1,915,893
	<hr/>	<hr/>
	\$ 2,125,384	\$ 1,999,216
	<hr/> <hr/>	<hr/> <hr/>
CONTINGENCY--Note F		
SUBSEQUENT EVENTS--Note G		

See auditor's report and notes to financial statements.

STATEMENTS OF ACTIVITIES

HARBISON COMMUNITY ASSOCIATION, INC.

	Year Ended December 31,	
	2015	2014
Support and revenue		
Property assessment revenue, net	\$ 1,758,109	\$ 1,529,385
Recreational facilities' revenue	183,955	173,824
Interest and other	120,914	2,919
	<u>2,062,978</u>	<u>1,706,128</u>
Expenditures		
Personnel and training	1,035,723	1,030,147
Supplies	111,003	103,029
Utilities	195,099	147,066
Outside services	366,800	407,437
Other operating costs	45,677	107,414
Depreciation	149,094	147,318
	<u>1,903,398</u>	<u>1,942,411</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	159,580	(236,283)
Unrestricted net assets at beginning of year	<u>1,915,893</u>	<u>2,152,176</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 2,075,473</u>	<u>\$ 1,915,893</u>

See auditor's report and notes to financial statements.

STATEMENTS OF CASH FLOWS

HARBISON COMMUNITY ASSOCIATION, INC.

	Year Ended December 31,	
	2015	2014
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$ 271,452	\$ 18,092
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment assets	(107,297)	(100,842)
Replacement reserve decrease (increase)	<u>(158,235)</u>	<u>63,365</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(265,532)	(37,477)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of note payable	<u>(1,657)</u>	<u>(3,643)</u>
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(1,657)</u>	<u>(3,643)</u>
NET INCREASE (DECREASE) IN CASH	4,263	(23,028)
Cash at beginning of year	<u>8,365</u>	<u>31,393</u>
CASH AT END OF YEAR	<u>\$ 12,628</u>	<u>\$ 8,365</u>

Schedule reconciling change in net assets to net cash flows from operating activities:

Change in net assets	\$ 159,580	\$ (236,283)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	149,094	147,318
Increase (decrease) in allowances from doubtful accounts	(78,779)	72,076
(Increase) decrease in assessment fees receivable	90,078	55,245
(Increase) decrease in prepaid expenses	(18,787)	(2,857)
Increase (decrease) in accounts payable	699	(10,065)
Increase (decrease) in payroll taxes withheld and accrued	(5,535)	13,779
Increase (decrease) in employee compensation payable	<u>(26,919)</u>	<u>(21,121)</u>
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 271,452</u>	<u>\$ 18,092</u>
Supplemental disclosures		
Interest paid	<u>\$ 34</u>	<u>\$ 459</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

See auditor's report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting principles followed by Harbison Community Association, Inc. (The Association) and the methods of applying those principles which materially affect the determination of financial position and results of operations, are summarized below:

Organization and General

Harbison Community Association, Inc. is a nonprofit corporation, organized August 15, 1975 to manage community property for property owners and residents of Harbison, a new communities project near Columbia, South Carolina. Currently, facilities include approximately 2,007 individual residences, 2,410 apartment units, 118 assisted living units, an enclosed mall, two strip malls, a large open mall and approximately 109 free-standing commercial entities. Policy is set by a nine member Board of Directors who are elected by the owners and residents of Harbison according to specified terms as contained in the August 21, 1975 Association Declaration of Covenants, Restrictions, Easements, Charges and Liens for Harbison, South Carolina. Objectives and powers of the Association include, among others:

1. Maintain and operate recreational facilities for use by residents of Harbison and the general public.
2. Maintain common property of Harbison.
3. Assess the valuation of residential and commercial property annually to enable the Association to raise operating funds to perform its designated objectives.

Basis of Accounting

The financial statements of Harbison Community Association, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Cash Equivalents

For purposes of the statement of cash flows, cash is considered to be all demand deposits, as well as all highly liquid debt instruments (certificates of deposit, money market funds, Treasury bills).

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(continued)

Allowance for Doubtful Accounts

The Organization provides an allowance for doubtful receivables equal to the estimated future losses on year-end receivables. The estimated losses are based on local experience along with a review of the current status of the existing receivables.

Inventories

Maintenance, operating, and office supplies are not inventoried but are charged to operations when the expense is incurred.

Property and Equipment

Property and equipment assets are stated at cost less allowance for depreciation. Depreciation is charged to operations on a straight-line method over the estimated useful lives of the respective property assets. The costs of maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized. The costs of property assets retired or otherwise disposed of and the related allowance for depreciation are eliminated from the respective accounts. Gains or losses resulting from such dispositions are reflected in current income.

Leases

The Organization records assets (property equities) and the present value of the related obligation liabilities (discounted to cover applicable interest) on non-cancelable lease agreements that are essentially equivalent to installment purchases of property. Neither assets nor obligations are recorded for operating leases in which case rental expense is charged to operations as incurred. Amortization of capital leases is included in depreciation expense.

Assessment Income

All property owners of Harbison are assessed an annual fee on the first day of the year, or pro rata for new property owners, based on the most recent purchase price of the property or most recent county appraisal. These fees are used for maintenance of lake properties, pathways and other common property, maintenance of equipment for play lots and picnic areas, insurance, and other activities associated with maintaining property values. Property owners current with assessment payments have free use of a recreation center. The Association recognizes these fees on the accrual basis.

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(continued)

Income Taxes

The Organization is exempt from federal income taxes under Section 501 (c) (4) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have any income it considers to be subject to tax on unrelated business income. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Concentration of Credit Risk

The Association receives assessment revenue and recreational facility fees primarily from residents and commercial businesses of Harbison and business localities proximate to Columbia, South Carolina. Also, financial instruments that potentially subject the Association to credit risk include cash maintained in excess of the FDIC insured limits of \$250,000, or in sweep accounts associated with demand deposit accounts which invest in temporary investments which are not a bank deposit and are not FDIC insured. The total amounts at risk were \$241,354, 2015 and \$68,817, 2014.

Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires the Association to make estimates and assumptions that affect certain reported amounts and disclosures. The major estimates and assumptions involve the allowance for doubtful accounts and the lives of property and equipment assets.

Basis of Presentation

Under accounting standards for not-for-profit entities, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Harbison Community Association, Inc. had only unrestricted net assets in 2015 and 2014.

Fair Value Measurements

The Organization follows professional standards (Codification ASC 820), Fair Value Measurements and Disclosures. This valuation method establishes a fair value hierarchy that prioritizes the

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(continued)

Fair Value Measurements--(continued)

inputs to valuation techniques used to measure financial assets and liabilities. This hierarchy consists of three broad levels: Level 1 inputs consists of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority, Level 2 is based upon observable inputs other than quoted market prices and Level 3 is based on unobservable inputs.

Under professional standards (Codification ASC 825-10), Financial Instruments, an entity may make an irrevocable option to carry most financial assets and liabilities at fair value that are not required to be measured at fair value under Codification ASC 820. The Organization did not elect this option to measure any additional financial assets or liabilities at fair value. This has no significant effect on the Organization's results of operations or financial position.

Cash and cash equivalents, accounts receivables, accrued liabilities and other liabilities are reflected at cost, which approximates fair value because of the near-term maturity of these assets and liabilities.

Subsequent Events

Subsequent events are events or transactions that take place after the reporting period balance sheet date of the financial statements. Certain of these events or transactions, recognized subsequent events, provide additional evidence about conditions and estimates that existed at the date of the balance sheet and retroactively revise those amounts reflected in the financial statements. Other subsequent events, not recognized subsequent events, did not exist at the date of the balance sheet, but arose after that date and are reported as additional disclosures in the notes to the financial statements. Management evaluates all significant subsequent events from the balance sheet date through the date the financial statements are available to be issued.

NOTE B - REPLACEMENT RESERVE

Replacement reserve consists of board-designated restricted savings being accumulated for future major repairs, additions and replacements. The funds, which are being accumulated as excess cash becomes available from normal operations, consist of demand deposits and certificate of deposit maintained in banks or an investment account, in the total amount of \$456,449, 2015 and \$298,214, 2014.

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE C - BUILDINGS AND RECREATIONAL FACILITIES

Buildings and recreational facilities consist of the following:

	Estimated useful life	December 31,	
		2015	2014
Building facilities and pool	15-40 years	\$ 2,859,767	\$ 2,768,564
Land improvements	20 years	72,536	72,536
Outdoor recreation facilities	8 years	577,463	577,463
Equipment	10 years	907,468	891,374
		<u>4,417,234</u>	<u>4,309,937</u>
Allowance for depreciation (deduction)		<u>(3,420,250)</u>	<u>(3,293,404)</u>
		<u>\$ 996,984</u>	<u>\$ 1,016,533</u>

NOTE D - COMMUNITY PROPERTY

In 1978, Harbison Development Corporation deeded certain components of community property and the underlying land, which it had purchased or constructed, to the Association. These assets, excluding the underlying land which was recorded at no value, were recorded by the Association at Harbison's cost.

The following reflects the assets deeded to the Association in 1978 (\$125,796 cost, fully depreciated), as well as other improvements to community property made by the Association.

	Estimated useful life	December 31,	
		2015	2014
Tennis courts and related equipment	8 years	\$ 182,044	\$ 182,044
Amphitheater, bike paths, playlots and other amenities	20 years	469,696	469,696
		<u>651,740</u>	<u>651,740</u>
Allowance for depreciation (deduction)		<u>(463,847)</u>	<u>(441,599)</u>
		<u>\$ 187,893</u>	<u>\$ 210,141</u>

NOTES TO FINANCIAL STATEMENTS

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015 and 2014

NOTE E - EMPLOYEE COMPENSATION

Employee compensation consists of the following:

	December 31,	
	2015	2014
Accrued salaries and wages	\$ 10,944	\$ 38,803
Accrued vacation payable	<u>5,087</u>	<u>4,147</u>
	<u>\$ 16,031</u>	<u>\$ 42,950</u>

NOTE F - CONTINGENCY

In pursuing collection efforts against property owners who are delinquent in paying assessments, or to enforce certain property use limitations, the Association has had nearly continuous legal challenges since the beginning of its existence. In the past, these challenges have progressed to the South Carolina Supreme Court; the Association has never ultimately lost.

During the current audit period, Management has pursued routine actions against several homeowners. Foreclosure of homeowner's property remains an option in these and future collection efforts. No actions against the Association have been initiated during this same period. If a future action against the Association prevails, the ability of the Association to collect assessments or to file liens upon the homes of non-paying homeowners would be impaired.

The Association is no longer subject to Federal or State tax examinations by either tax authority for years before year end December 31, 2012.

NOTE H - SUBSEQUENT EVENTS

Events occurring after December 31, 2015 were evaluated by management on September 23, 2016 to ensure that any subsequent events that met the criteria for recognition and/or disclosure in these financial statements have been included. There are no significant subsequent events needing disclosure.

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (COMPILED)

HARBISON COMMUNITY ASSOCIATION, INC.

December 31, 2015

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. However, the Association has accumulated funds which aggregate \$456,499 at December 31, 2015, which are intended for this purpose, although these funds would also be available for operating purposes.

In prior years, the Association had funded actual major repair and replacement expenses from excess operating fund assessments as the expenses were incurred. In 2016, a study was performed by Association management to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were based on knowledge of original costs.

The Association does not have a formal plan for funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of replacement costs. Also, actual expenses may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the option of increasing regular assessments, borrowing funds, or it may delay major repairs and replacements until funds are available.

The following information is based on the study and represents significant information about the components of common property. (Amounts are rounded to the nearest thousand dollars.)

Component	Estimated Remaining Useful Life (Years)	Estimated Future Replacement Cost
Play ground/Community property and amenities	0 - 25	\$ 249,000
Equipment, tools, etc.	0 - 10	188,000
Administrative equipment	1 - 10	55,000
Pool fixtures & equipment	0 - 10	80,000
Roof & building components	0 - 20	815,000
		<u>\$ 1,387,000</u>