
Harbison Community Association Inc.

Financial Statements with Independent Auditor's Report
for the years ended December 31, 2018 and 2017

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BROWN CPA, LLC

Independent Auditor's Report

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

We have audited the accompanying financial statements of Harbison Community Association Inc., which comprise the balance sheet as of December 31, 2018 and December 31, 2017, and the related statements of revenues and expenses, changes in fund balance, 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 the 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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MEMBER:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



Opinion

In our 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, 2018 and December 31, 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BROWN CPA, L.L.C.

Irmo, South Carolina
October 23, 2019

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MEMBER:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



Harbison Community Association, Inc.
Balance Sheets

Assets	December 31, 2018	December 31, 2017
Cash		
Cash - undesignated	\$ 136,707	\$ 521,175
Cash - designated for future repairs and replacements	507,543	537,309
	644,250	1,058,484
Assessments receivable - members		
Assessments receivable	364,778	543,778
Assessments receivable, allowance	(171,298)	(225,447)
Assessments receivable, net of allowance	193,480	318,331
Prepaid insurance and other expenses	62,803	59,483
Property and equipment, net of depreciation	1,346,816	1,386,683
Total assets	\$ 2,247,349	\$ 2,822,981
 Liabilities		
Accounts payable	\$ 23,039	\$ 41,369
Employee compensation	29,895	38,821
Employee payroll taxes and related liabilities	12,241	13,430
Assessments received in advance	1,687	604,547
Total liabilities	66,862	698,167
 Fund Balance		
Operating fund	1,672,944	1,587,505
Replacement fund	507,543	537,309
Total fund balance	2,180,487	2,124,814
Total liabilities and fund balance	\$ 2,247,349	\$ 2,822,981

See auditor's report and accompanying notes to financial statements.

Harbison Community Association
Statement of Revenues and Expenses
For the Year Ended

	December 31, 2018	December 31, 2017
Revenues		
Property assessments	\$ 2,227,451	\$ 1,984,748
Recreational facilities	194,901	249,197
Interest income	73,045	44,683
Rental facilities	62,130	68,535
Other income	10,534	4,757
	<u>2,568,061</u>	<u>2,351,920</u>
 Expenditures		
Employee		
Salaries and wages	1,123,646	1,126,630
Retirement contributions	8,664	17,473
Other employee benefits	147,850	136,084
Payroll taxes	93,066	96,426
Fees for services, non-employee	92,783	70,252
Advertising and promotion	869	9,365
Office expenses	248,998	383,880
Occupancy	397,925	261,296
Travel	27,606	19,422
Conference and meeting	11,600	9,351
Interest	-	64
Depreciation and amortization	158,063	155,384
Insurance	201,318	179,615
	<u>2,512,388</u>	<u>2,465,242</u>
 (Deficiency) excess of revenues over expenses	<u>\$ 55,673</u>	<u>\$ (113,322)</u>

See auditor's report and accompanying notes to financial statements.

Harbison Community Association
Statement of Change in Fund Balance
For the Year Ended

	Total	Operating Fund	Replacement Fund
December 31, 2016	\$ 2,238,136	\$ 1,827,387	\$ 410,749
Excess of revenues over expenses	(113,322)	(113,322)	-
Allocated to future repairs and replacements	-	(126,560)	126,560
December 31, 2017	<u>2,124,814</u>	<u>1,587,505</u>	<u>537,309</u>
(Deficiency) excess of revenues over expenses	55,673	55,673	-
Allocated to future repairs and replacements	-	29,766	(29,766)
December 31, 2018	<u>\$ 2,180,487</u>	<u>\$ 1,672,944</u>	<u>\$ 507,543</u>

See auditor's report and accompanying notes to financial statements.

Harbison Community Association
Statement of Cash Flows
For the Year Ended

	December 31, 2018	December 31, 2017
Cash Flows From Operating Activities		
Excess of revenues over expenses	\$ 55,673	\$ (113,322)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities		
Depreciation	158,063	155,384
(Increase) decrease in:		
Assessments receivable	124,851	224,350
Prepaid insurance	(3,320)	(16,899)
Increase (decrease) in:		
Accounts payable	(18,330)	20,700
Employee compensation	(8,926)	1,157
Payroll taxes and related liabilities	(1,189)	2,382
Assessments received in advance	(602,860)	585,500
	(296,038)	859,252
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities		
Purchase of property and equipment	(118,196)	(234,828)
	(118,196)	(234,828)
Net Cash Used by Investing Activities		
Net Increase (Decrease) in Cash	(414,234)	624,424
Cash at beginning of year	1,058,484	434,060
Cash at end of year	\$ 644,250	\$ 1,058,484
Cash classified as:		
Cash - undesignated	\$ 136,707	\$ 521,175
Cash - designated for future repairs and replacements	507,543	537,309
	\$ 644,250	\$ 1,058,484
Supplemental disclosures		
Interest paid	\$ -	\$ 64
Income taxes paid	\$ -	\$ -

See auditor's report and accompanying notes to financial statements.

Note 1: Nature of Organization

Harbison Community Association Inc. was incorporated on August 15, 1975, in the State of South Carolina, 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.

Note 2: Summary of Significant Accounting Policies

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Assessments received in advance of the period to which they relate or are otherwise earned by the Association are recorded as assessments received in advance.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Cash and Cash Equivalents

The Association records all highly liquid investments with an original maturity of three months or less at the time of purchase as cash and cash equivalents. The Association maintains its cash in bank deposit accounts at high quality financial institutions and generally limits its exposure to credit risk from balances on deposit with the financial institutions in excess of the Federal Deposit Insurance Corporation ("FDIC") insured limit. At times, such deposits may be in excess of FDIC insured limits.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

Depreciation

Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Harbison Community Association Inc.
Notes to Financial Statements
December 31, 2018

Note 3: Property and Equipment

It is the policy of the Association to depreciate assets using the straight-line method of depreciation over the estimated life of the asset. Property and equipment costs of the following:

	Life (years)	Dec. 31, 2017	Additions	Disposals	Dec. 31, 2018
Land	n/a	\$ 87,365	\$ -	\$ -	\$ 87,365
Land improvement	20	72,536	-	-	72,536
Community property	8 - 20	697,163	-	-	697,163
Building & pool	15 - 40	3,073,872	107,654	-	3,181,526
Outdoor facilities	10 - 40	654,014	-	-	654,014
Equipment	5 - 20	218,260	-	-	218,260
Auto	5	145,404	-	-	145,404
Furniture & fixtures	5 - 20	626,168	10,541	-	636,709
		<u>5,574,782</u>	<u>\$ 118,195</u>	<u>\$ -</u>	<u>5,692,977</u>
Accumulated depreciation					
Land improvement		(72,536)	-	-	(72,536)
Community property		(507,288)	(21,381)	-	(528,669)
Building & pool		(2,341,246)	(75,094)	-	(2,416,340)
Outdoor facilities		(467,894)	(22,537)	-	(490,431)
Equipment		(173,802)	(6,536)	-	(180,338)
Auto		(127,908)	(6,736)	-	(134,644)
Furniture & fixtures		(497,425)	(25,778)	-	(523,203)
		<u>(4,188,099)</u>	<u>\$ (158,062)</u>	<u>\$ -</u>	<u>(4,346,161)</u>
Net value		<u>\$ 1,386,683</u>			<u>\$ 1,346,816</u>
	Life (years)	Dec. 31, 2016	Additions	Disposals	Dec. 31, 2017
Land	n/a	\$ 87,365	\$ -	\$ -	\$ 87,365
Land improvement	20	72,536	-	-	72,536
Community property	8 - 20	659,340	37,823	-	697,163
Building & pool	15 - 40	2,954,843	119,029	-	3,073,872
Outdoor facilities	10 - 40	631,014	23,000	-	654,014
Equipment	5 - 20	197,853	20,407	-	218,260
Auto	5	135,404	10,000	-	145,404
Furniture & fixtures	5 - 20	601,599	24,569	-	626,168
		<u>5,339,954</u>	<u>\$ 234,828</u>	<u>\$ -</u>	<u>5,574,782</u>
Accumulated depreciation					
Land improvement		(72,536)	-	-	(72,536)
Community property		(485,654)	(21,634)	-	(507,288)
Building & pool		(2,271,365)	(69,881)	-	(2,341,246)
Outdoor facilities		(444,973)	(22,921)	-	(467,894)
Equipment		(168,197)	(5,605)	-	(173,802)
Auto		(120,476)	(7,432)	-	(127,908)
Furniture & fixtures		(469,514)	(27,911)	-	(497,425)
		<u>(4,032,715)</u>	<u>\$ (155,384)</u>	<u>\$ -</u>	<u>(4,188,099)</u>
Net value		<u>\$ 1,307,239</u>			<u>\$ 1,386,683</u>

Note 4: 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. The Association has timely filed all tax returns, with extensions, and such are open to examination by taxing authorities generally for three years subsequent to filing.

Note 5: Litigation

The Association from time to time involved in various litigation matters as either plaintiff or defendant. After considering known and potential litigation outstanding at December 31, 2018 management does not expect to have a material adverse effect on the Association's future financial position, or results of operations.

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 could be impaired.

Note 6: Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$507,543 and \$537,309 at December 31, 2018 and 2017, respectively, are held in separate accounts and are generally not available for operating purposes. During the year ended December 31, 2018 the Association transferred \$125,000 to the replacement reserve fund.

The funding program was based on a study performed by the board of directors in 2016 to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were based on knowledge of the original cost, expected replacement cost, and expected remaining life of property and equipment.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, 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,

Harbison Community Association Inc.
Notes to Financial Statements
December 31, 2018

however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 7: Subsequent Events Review

Subsequent events have been evaluated through October 23, 2019, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

SUPPLEMENTARY INFORMATION

Harbison Community Association Inc.
 Supplementary Information on Future Major Repairs and Replacements (Unaudited)
 December 31, 2018

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate approximately \$507,543 at December 31, 2018, which are intended for this purpose, are generally not available for operating purposes.

The Association's board of directors conducted a study in 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on knowledge of original costs. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents 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
Community property & 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>