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***Harbison Community Association Inc.***

Financial Statements with Independent Auditor's Report  
for the years ended December 31, 2019 and 2018

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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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, 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.

## ***Emphasis of Matters***

***Change in Accounting Principle*** – As discussed in Note 7 to the financial statements, the Association adopted Accounting Standards (ASU) No. 2014-09, (Topic 606) – *Revenue from Contracts with Customers* related to certain changes in revenue recognition requirements. The ASU has been applied retroactively to the reserve fund balances as of December 31, 2018 as previously reported. Our opinion is not modified with respect to this matter.

***Correction of Error*** – As discussed in Note 8 to the financial statements, during the current year it was discovered that post employment benefits being paid to the former executive director were not properly accounted for in the past. Opening fund balance has been adjusted to correct for this error.

## ***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 12 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  
July 28, 2020

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MEMBER:  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



Harbison Community Association, Inc.  
Balance Sheet  
December 31, 2019

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
<b>Cash</b>			
Cash - undesignated	\$ 138,677	\$ -	\$ 138,677
Cash - designated for future repairs and replacements	-	701,546	701,546
	<u>138,677</u>	<u>701,546</u>	<u>840,223</u>
<b>Assessments receivable - members</b>			
Assessments receivable	378,029	-	378,029
Assessments receivable, allowance	(164,839)	-	(164,839)
Assessments receivable, net of allowance	<u>213,190</u>	<u>-</u>	<u>213,190</u>
Prepaid insurance and other expenses	66,381	-	66,381
Property and equipment, net of depreciation	1,248,441	-	1,248,441
	<u>\$ 1,666,689</u>	<u>\$ 701,546</u>	<u>\$ 2,368,235</u>
<b>Liabilities</b>			
Accounts payable	\$ 27,610	\$ -	\$ 27,610
Employee compensation	34,128	-	34,128
Employee payroll taxes and related liabilities	13,726	-	13,726
Assessments received in advance	27,951	-	27,951
Other post employment benefits	84,650	-	84,650
Contract liabilities (Assessments received in advance replacement fund)	-	701,546	701,546
	<u>188,065</u>	<u>701,546</u>	<u>889,611</u>
<b>Fund Balance</b>	<u>1,478,624</u>	<u>-</u>	<u>1,478,624</u>
	<u>\$ 1,666,689</u>	<u>\$ 701,546</u>	<u>\$ 2,368,235</u>

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

Harbison Community Association  
Statement of Revenues, Expenses, and Changes in Fund Balance  
For the Year Ended  
December 31, 2019

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Property assessments residence	\$ 815,370	\$ -	\$ 815,370
Property assessments apartment	572,247	-	572,247
Property assessments commercial	946,183	-	946,183
Property assessments other	350	-	350
Property assessments allocated for replacement	(187,600)	187,600	-
Recreational facilities	211,154	-	211,154
Interest income	62,907	6,403	69,310
Rental facilities	65,732	-	65,732
Other income	7,071	-	7,071
	<u>2,493,414</u>	<u>194,003</u>	<u>2,687,417</u>
<b>Expenditures</b>			
Employee			
Salaries and wages	1,093,686	-	1,093,686
Other employee benefits	128,816	-	128,816
Payroll taxes	92,912	-	92,912
Fees for services, non-employee	70,449	-	70,449
Advertising and promotion	1,410	-	1,410
Office expenses	237,333	-	237,333
Occupancy	578,976	-	578,976
Travel	17,775	-	17,775
Conference and meeting	11,338	-	11,338
Interest	13	-	13
Depreciation and amortization	155,426	-	155,426
Insurance	205,724	-	205,724
Other	31	-	31
Major repairs and replacements	-	194,003	194,003
	<u>2,593,889</u>	<u>194,003</u>	<u>2,787,892</u>
Excess of revenues over (under) expenses	(100,475)	-	(100,475)
Fund balance beginning of year (as restated)	<u>1,579,099</u>	-	<u>1,579,099</u>
Fund balance end of year	<u>\$ 1,478,624</u>	<u>\$ -</u>	<u>\$ 1,478,624</u>

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

Harbison Community Association  
Statement of Cash Flows  
For the Year Ended  
December 31, 2019

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities			
Excess of revenues over expenses	\$ (100,475)	-	\$ (100,475)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities			
Depreciation	155,426	-	155,426
(Increase) decrease in:			
Assessments receivable	(19,710)	-	(19,710)
Prepaid insurance	(3,578)	-	(3,578)
Increase (decrease) in:			
Accounts payable	4,571	-	4,571
Employee compensation	4,233	-	4,233
Payroll taxes and related liabilities	1,485	-	1,485
Assessments received in advance	26,264	-	26,264
Other post employment benefit	(9,195)	-	(9,195)
Contract liabilities (Assessments received in advance replacement fund)	-	194,003	194,003
	59,021	194,003	253,024
Net Cash Provided by Operating Activities	59,021	194,003	253,024
Cash Flows From Investing Activities			
Purchase of property and equipment	(57,051)	-	(57,051)
Net Cash Used by Investing Activities	(57,051)	-	(57,051)
Net Increase (Decrease) in Cash	1,970	194,003	195,973
Cash at beginning of year	136,707	507,543	644,250
Cash at end of year	\$ 138,677	\$ 701,546	\$ 840,223
Supplemental disclosures			
Interest paid			\$ 13
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 is recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution. The Association has a \$2,000 capitalization threshold.

Depreciation

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

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) of the beginning and end of the year are \$0 and \$701,546, respectively.

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, 2019

**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:

	<u>Life (years)</u>	<u>Dec. 31, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2018</u>
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>
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	<u>Life (years)</u>	<u>Dec. 31, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2019</u>
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	3,181,526	22,050	-	3,203,576
Outdoor facilities	10 - 40	654,014	-	-	654,014
Equipment	5 - 20	218,260	-	-	218,260
Auto	5	145,404	6,500	-	151,904
Furniture & fixtures	5 - 20	636,709	28,501	-	665,210
		<u>5,692,977</u>	<u>\$ 57,051</u>	<u>\$ -</u>	<u>5,750,028</u>

*Accumulated depreciation*

Land improvement	(72,536)	-	-	(72,536)
Community property	(528,669)	(20,763)	-	(549,432)
Building & pool	(2,416,340)	(77,116)	-	(2,493,456)
Outdoor facilities	(490,431)	(20,818)	-	(511,249)
Equipment	(180,338)	(6,446)	-	(186,784)
Auto	(134,644)	(5,290)	-	(139,934)
Furniture & fixtures	(523,203)	(24,993)	-	(548,196)
	<u>(4,346,161)</u>	<u>\$ (155,426)</u>	<u>\$ -</u>	<u>(4,501,587)</u>

Net value	<u>\$ 1,346,816</u>	<u>\$ 1,248,441</u>
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**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, 2019 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 \$701,546 and \$507,543 at December 31, 2019 and 2018, respectively, are held in separate accounts and are generally not available for operating purposes. During the year ended December 31, 2019 the Association transferred \$187,600 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,

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: FASB 606 New Accounting Guidance Implementation**

The Financial Accounting Standards Board (“FASB”) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (“ASC”). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities (assessments received in advance-replacement fund), as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Fund balance, as previously reported, at January 1, 2019	\$ 2,180,487
Adjustment for FASB 606	<u>(507,543)</u>
Fund balance, as adjusted, at January 1, 2019, prior to Note 8	<u>\$ 1,672,944</u>

The Association has no customer contract modifications that had an effect on the Association’s transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our December 31, 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance.

Harbison Community Association Inc.  
Notes to Financial Statements  
December 31, 2019

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Liabilities:</u>			
Contract liabilities (Assessments received in advance-replacement reserves)	\$ 0	\$ 701,546	\$ 701,546
Total liabilities	103,415	701,546	804,961
<u>Fund Balance:</u>			
Ending fund balances (see Note 8)	2,264,820	(701,546)	1,563,274

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Revenue and Expenses:</u>			
Excess of revenues over expenses	\$ 84,333	\$ (194,003)	\$(109,670)
<u>Cash Flows:</u>			
Excess of revenues over expenses	84,333	(194,003)	(109,670)
Increase in contract liabilities (Assessments received in advance-replacement reserve)	0	194,003	194,003

**Note 8: Correction of Error – Other Post-Employment Benefit (Significant Estimate)**

During the current year it was discovered that Other Post-Employment Benefits (OPEB) were not properly accounted for in the past. Opening fund balance has been adjusted as follows to correct for this error.

Fund balance, as previously reported, at January 1, 2019	\$ 2,180,487
Adjustment for FASB 606 – See Note 7	(507,543)
Correction of error for OPEB liability	(93,845)
Fund balance, as adjusted, at January 1, 2019	<u>\$ 1,579,099</u>

**Background**

The Association entered into a retirement transition agreement October 26, 1999 with a former executive director. This agreement was modified by vote of the board of directors November 27, 2018. Under the revised terms of the agreement the former employee and his spouse receive full reimbursement on an annual basis for Medicare Gap Insurance until such time as both individuals become deceased.

**Funding Policy and Liability Calculation**

The plan is not administered thru a trust; rather the Association administers this benefit. The plan is closed to new participants. The Association has not separately set aside assets to fund this obligation. Rather, the Association pays for this benefit on a pay-as-you-go basis as a single-employer plan. During the year ended December 31, 2019 the Association paid \$9,195 towards the cost of retiree health insurance coverage. The Association has measured the liability using the alternative valuation method rather than an actuarial valuation. The liability was measured as of December 31, 2019 and 2018 based upon the expected life expectancy of the participants, through internet research, and the expected future payments. Plan participants were born July 15, 1935 and April 30, 1931. A discount rate of 0.5% was used to measure the net present value of the liability along with a 4.5% rate of inflation for premium increases.

OPEB liability at beginning of year	\$ 93,845
Benefit payments	<u>(9,195)</u>
OPEB liability at end of year	<u>\$ 84,650</u>

**Sensitivity Analysis**

The following table presents the sensitivity of the OPEB liability as of December 31, 2019 to changes in the discount rate, calculated using the discount rate of 0.5%

	1% Decrease	Current Discount Rate 0.5%	1% Increase
OPEB Liability	\$ 88,378	\$ 84,650	\$ 81,158

**Note 9: Subsequent Events Review**

Subsequent events have been evaluated through July 28, 2020, 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. Except as follows, no items were identified. In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial position of the Association and future operation and the impact on its financial investments is not reasonably estimable at this time.

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SUPPLEMENTARY INFORMATION

Harbison Community Association Inc.  
 Supplementary Information on Future Major Repairs and Replacements (Unaudited)  
 December 31, 2019

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate approximately \$701,546 at December 31, 2019, 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>