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***Harbison Community Association Inc.***

Financial Statements with Independent Auditor's Report  
for the years ended December 31, 2020

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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, 2020, 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, 2020, 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

April 22, 2021

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MEMBER:

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



Harbison Community Association, Inc.  
Balance Sheet  
December 31, 2020

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash			
Cash - undesignated	\$ 540,692	\$ -	\$ 540,692
Cash - designated for future repairs and replacements	-	600,126	600,126
	<u>540,692</u>	<u>600,126</u>	<u>1,140,818</u>
Assessments receivable - members			
Assessments receivable	436,467	-	436,467
Assessments receivable, allowance	(189,906)	-	(189,906)
Assessments receivable, net of allowance	<u>246,561</u>	<u>-</u>	<u>246,561</u>
Prepaid insurance and other expenses	19,344	-	19,344
Property and equipment, net of depreciation	1,219,769	-	1,219,769
	<u>\$ 2,026,366</u>	<u>\$ 600,126</u>	<u>\$ 2,626,492</u>
<b>Liabilities</b>			
Accounts payable	\$ 18,879	\$ -	\$ 18,879
Employee compensation	39,202	-	39,202
Employee payroll taxes and related liabilities	460	-	460
Assessments received in advance	24,568	-	24,568
Other post employment benefits	68,772	-	68,772
Contract liabilities (Assessments received in advance replacement fund)	-	600,126	600,126
	<u>151,881</u>	<u>600,126</u>	<u>752,007</u>
<b>Fund Balance</b>	<u>1,874,485</u>	<u>-</u>	<u>1,874,485</u>
	<u>\$ 2,026,366</u>	<u>\$ 600,126</u>	<u>\$ 2,626,492</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, 2020

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Property assessments residence	\$ 863,843	\$ -	\$ 863,843
Property assessments apartment	596,038	-	596,038
Property assessments commercial	1,037,759	-	1,037,759
Property assessments other	210	-	210
Property assessments allocated for replacement	104,305	(104,305)	-
Recreational facilities	39,633	-	39,633
Interest income	48,643	2,885	51,528
Rental facilities	47,066	-	47,066
Other income	9,263	-	9,263
	<u>2,746,760</u>	<u>(101,420)</u>	<u>2,645,340</u>
<b>Expenditures</b>			
Employee			
Salaries and wages	811,878	-	811,878
Other employee benefits	66,471	-	66,471
Payroll taxes	67,551	-	67,551
Fees for services, non-employee	48,209	-	48,209
Advertising and promotion	720	-	720
Office expenses	301,146	-	301,146
Occupancy	634,865	-	634,865
Travel	19,118	-	19,118
Conference and meeting	3,674	-	3,674
Interest	-	-	-
Depreciation and amortization	137,692	-	137,692
Insurance	259,575	-	259,575
Other	-	-	-
Major repairs and replacements	-	(101,420)	(101,420)
	<u>2,350,899</u>	<u>(101,420)</u>	<u>2,249,479</u>
Excess of revenues over (under) expenses	395,861	-	395,861
Fund balance beginning of year	<u>1,478,624</u>	<u>-</u>	<u>1,478,624</u>
Fund balance end of year	<u>\$ 1,874,485</u>	<u>\$ -</u>	<u>\$ 1,874,485</u>

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

Harbison Community Association  
Statement of Cash Flows  
For the Year Ended  
December 31, 2020

	Operating Fund	Replacement Fund	Total
<b>Cash Flows From Operating Activities</b>			
Excess of revenues over expenses	\$ 395,861	-	\$ 395,861
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities			
Depreciation	137,692	-	137,692
(Increase) decrease in:		-	-
Assessments receivable	(33,371)	-	(33,371)
Prepaid insurance	47,037	-	47,037
Increase (decrease) in:		-	-
Accounts payable	(8,731)	-	(8,731)
Employee compensation	5,074	-	5,074
Payroll taxes and related liabilities	(13,266)	-	(13,266)
Assessments received in advance	(3,383)	-	(3,383)
Other post employment benefit	(15,878)	-	(15,878)
Contract liabilities (Assessments received in advance replacement fund)	-	(101,420)	(101,420)
	511,035	(101,420)	409,615
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of property and equipment	6,676	-	6,676
Purchase of property and equipment	(115,696)	-	(115,696)
	(109,020)	-	(109,020)
Net Increase (Decrease) in Cash	402,015	(101,420)	300,595
Cash at beginning of year	138,677	701,546	840,223
Cash at end of year	\$ 540,692	\$ 600,126	\$ 1,140,818
<b>Supplemental disclosures</b>			
Interest paid			\$ -
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 \$701,546 and \$600,126, 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, 2020

**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, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2020</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	3,203,576	8,618	-	3,212,194
Outdoor facilities	10 - 40	654,014	99,302	-	753,316
Equipment	5 - 20	218,260	7,776	-	226,036
Auto	5	151,904	-	(44,591)	107,313
Furniture & fixtures	5 - 20	665,210	-	-	665,210
		<u>5,750,028</u>	<u>\$ 115,696</u>	<u>\$ (44,591)</u>	<u>5,821,133</u>
<b><i>Accumulated depreciation</i></b>					
Land improvement		(72,536)	-	-	(72,536)
Community property		(549,432)	(19,824)	-	(569,256)
Building & pool		(2,493,456)	(62,225)	-	(2,555,681)
Outdoor facilities		(511,249)	(20,582)	-	(531,831)
Equipment		(186,784)	(6,524)	-	(193,308)
Auto		(139,934)	(2,120)	36,242	(105,812)
Furniture & fixtures		(548,196)	(24,744)	-	(572,940)
		<u>(4,501,587)</u>	<u>\$ (136,019)</u>	<u>\$ 36,242</u>	<u>(4,601,364)</u>
Net value		<u>\$ 1,248,441</u>			<u>\$ 1,219,769</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, 2020 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 \$600,126 and \$701,546 at December 31, 2020 and 2019, respectively, are held in separate accounts and are generally not available for operating purposes. During the year ended December 31, 2020 the Association transferred (\$104,305) to the replacement reserve fund as a result of ongoing repairs and revised estimates of ultimate replacement costs.

The funding program was based on a study performed by management in 2020 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: Other Post-Employment Benefit (Significant Estimate)**

##### **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, 2020 the Association paid \$9,350 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

Harbison Community Association Inc.  
Notes to Financial Statements  
December 31, 2020

December 31, 2020 and 2019 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 1.0% 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	\$ 84,650
Change in benefit calculation	(6,528)
Benefit payments	(9,350)
OPEB liability at end of year	<u>\$ 68,772</u>

**Sensitivity Analysis**

The following table presents the sensitivity of the OPEB liability as of December 31, 2020 to changes in the discount rate, calculated using the discount rate of 1.0%

	1% Decrease	Current Discount Rate 0.5%	1% Increase
OPEB Liability	\$ 70,890	\$ 68,772	\$ 66,770

**Note 8: Subsequent Events Review**

Subsequent events have been evaluated through April 22, 2021, 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, 2020

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate approximately \$600,126 at December 31, 2020, which are intended for this purpose, are generally not available for operating purposes.

The Association's management conducted a study in 2020 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
Building – Daycare	15	\$ 75,000
Building – Recreation Center	15 – 20	150,000
Building – Recreation Center Roof	20	327,000
Common Areas	20	223,000
Office Equipment	5	20,000
Pool	6 – 7	49,000
		<hr/>
		\$ 844,000