
HARBISON COMMUNITY ASSOCIATION INC.

Financial Statements with Independent Auditor's Report
for the year ended December 31, 2022

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BROWN CPA, LLC

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Harbison Community Association, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of revenues and expenses, and change in fund balance, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harbison Community Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harbison Community Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Harbison Community Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harbison Community Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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.

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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

March 28, 2023

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Harbison Community Association, Inc.
Balance Sheet
12/31/2022

	Operating Fund	Replacement Fund	Total
Assets			
Cash			
Cash - undesignated	\$ 656,623	\$ -	\$ 656,623
Cash - designated for future repairs and replacements	-	633,773	633,773
	656,623	633,773	1,290,396
Assessments receivable - members			
Assessments receivable	293,941	-	293,941
Assessments receivable, allowance	(134,554)	-	(134,554)
Assessments receivable, net of allowance	159,387	-	159,387
Prepaid insurance and other expenses	73,270	-	73,270
Property and equipment, net of depreciation	1,347,217	-	1,347,217
	\$ 2,236,497	\$ 633,773	\$ 2,870,270
Liabilities			
Accounts payable	\$ 70,099	\$ -	\$ 70,099
Employee compensation	45,369	-	45,369
Employee payroll taxes and related liabilities	855	-	855
Assessments received in advance	29,663	-	29,663
Other post employment benefits	32,417	-	32,417
Contract liabilities (Assessments received in advance replacement fund)	-	633,773	633,773
	178,403	633,773	812,176
Fund Balance	2,058,094	-	2,058,094
	\$ 2,236,497	\$ 633,773	\$ 2,870,270

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

Harbison Community Association
Statement of Revenues, Expenses, and Change in Fund Balance
For the Year Ended
12/31/2022

	Operating Fund	Replacement Fund	Total
Revenues			
Property assessments residence	\$ 839,105	\$ -	\$ 839,105
Property assessments apartment	646,158	-	646,158
Property assessments commercial	1,073,526	-	1,073,526
Property assessments other	140	-	140
Property assessments allocated for replacement	(2,614)	2,614	-
Recreational facilities	189,594	-	189,594
Interest income	53,868	-	53,868
Rental facilities	8,662	-	8,662
Other income	1,299	-	1,299
	<u>2,809,738</u>	<u>2,614</u>	<u>2,812,352</u>
Expenditures			
Employee			
Salaries and wages	916,222	-	916,222
Retirement contributions	8,094	-	8,094
Other employee benefits	68,920	-	68,920
Payroll taxes	79,228	-	79,228
Fees for services, non-employee	41,144	-	41,144
Advertising and promotion	1,966	-	1,966
Office expenses	277,866	-	277,866
Occupancy	943,590	-	943,590
Travel	19,626	-	19,626
Conference and meeting	3,890	-	3,890
Interest	1,403	-	1,403
Depreciation and amortization	130,190	-	130,190
Insurance	369,824	-	369,824
Other	88	-	88
Major repairs and replacements	-	2,614	2,614
	<u>2,862,051</u>	<u>2,614</u>	<u>2,864,665</u>
Excess of operating revenues over (under) expenses	(52,313)	-	(52,313)
Other income (expense)			
Gain on sale of asset	-	-	-
Net income	(52,313)	-	(52,313)
Fund balance beginning of year	<u>2,110,407</u>	<u>-</u>	<u>2,110,407</u>
Fund balance end of year	<u>\$ 2,058,094</u>	<u>\$ -</u>	<u>\$ 2,058,094</u>

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

Harbison Community Association
Statement of Cash Flows
For the Year Ended
12/31/2022

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities			
Excess of revenues over expenses	\$ (52,313)	-	\$ (52,313)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities			
Depreciation	130,190	-	130,190
(Increase) decrease in:			
Assessments receivable	32,269	-	32,269
Prepaid insurance	(27,072)	-	(27,072)
Increase (decrease) in:			
Accounts payable	40,773	-	40,773
Employee compensation	5,391	-	5,391
Payroll taxes and related liabilities	(114)	-	(114)
Assessments received in advance	2,026	-	2,026
Other post employment benefit	(4,406)	-	(4,406)
Contract liabilities (Assessments received in advance replacement fund)	-	2,614	2,614
	126,744	2,614	129,358
Net Cash Provided by Operating Activities			
Cash Flows From Investing Activities			
Proceeds from sale of property and equipment	2,593	-	2,593
Purchase of property and equipment	(155,308)	-	(155,308)
	(152,715)	-	(152,715)
Net Cash Used by Investing Activities			
Net Increase (Decrease) in Cash	(25,971)	2,614	(23,357)
Cash at beginning of year	682,594	631,159	1,313,753
Cash at end of year	\$ 656,623	\$ 633,773	\$ 1,290,396
Supplemental disclosures			
Interest paid			\$ 1,403
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, 2,268 apartment units, 150 assisted living units, an enclosed mall, two strip malls, a large open mall and approximately 120 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 \$631,159 and \$633,773, 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.

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, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2022</u>
Land	n/a	\$ 87,365	\$ -	\$ -	\$ 87,365
Land improvement	20	72,536	-	-	72,536
Community property	8 - 20	728,288	-	-	728,288
Building & pool	15 - 40	3,265,361	132,172	-	3,397,533
Outdoor facilities	10 - 40	887,777	-	(2,593)	885,184
Equipment	5 - 20	223,241	5,103	-	228,344
Auto	5	74,156	-	-	74,156
Furniture & fixtures	5 - 20	678,921	18,033	-	696,954
		<u>6,017,645</u>	<u>\$ 155,308</u>	<u>\$ (2,593)</u>	<u>6,170,360</u>
<i>Accumulated depreciation</i>					
Land improvement		(72,536)	-	-	(72,536)
Community property		(589,372)	(20,613)	-	(609,985)
Building & pool		(2,606,708)	(54,814)	-	(2,661,522)
Outdoor facilities		(556,386)	(24,688)	-	(581,074)
Equipment		(198,650)	(6,575)	-	(205,225)
Auto		(73,656)	(500)	-	(74,156)
Furniture & fixtures		(595,645)	(23,000)	-	(618,645)
		<u>(4,692,953)</u>	<u>\$ (130,190)</u>	<u>\$ -</u>	<u>(4,823,143)</u>
Net value		<u>\$ 1,324,692</u>			<u>\$ 1,347,217</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, 2022 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 \$633,773 and \$631,159 at December 31, 2022 and 2021, respectively, are held in separate accounts and are generally not available for operating purposes. During the year ended December 31, 2022 the Association transferred \$2,614 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. In March 2022 one of the individuals passed away.

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, 2022 the Association paid \$4,600 towards the

Harbison Community Association, Inc.
Notes to Financial Statements
December 31, 2022

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, 2022 and 2021 based upon the expected life expectancy of the participant, through internet research, and the expected future payments. The remaining plan participant was born July 15, 1935. A discount rate of 4.75% was used to measure the net present value of the liability along with a 3.75% rate of inflation for premium increases.

OPEB liability at beginning of year	\$ 36,823
Change in benefit calculation	194
Benefit payments	<u>(4,600)</u>
OPEB liability at end of year	<u>\$ 32,417</u>

Sensitivity Analysis

The following table presents the sensitivity of the OPEB liability as of December 31, 2021 to changes in the discount rate, calculated using the discount rate of 1.0%

	1% Decrease	Current Discount Rate 3.75%	1% Increase
OPEB Liability	\$ 34,954	\$ 32,417	\$ 32,417

Note 8: Retirement Plan

Effective January 1, 2022 the Association established a retirement plan for eligible employees. The Association makes discretionary contributions of 3% of eligible compensation. For the year ended December 31, 2022 and 2021 the Association incurred expense association with this plan of \$8,094 and \$0, respectively.

Note 9: Subsequent Events Review

Subsequent events have been evaluated through March 28, 2023, 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. No items were identified.H

SUPPLEMENTARY INFORMATION

HARBISON COMMUNITY ASSOCIATION INC.

Supplementary Information on Future Major Repairs and Replacements (Unaudited)

December 31, 2022

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate approximately \$633,773 at December 31, 2022, which are intended for this purpose, are generally not available for operating purposes.

The Association's management conducted a study in 2022 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
Office Equipment	5 – 10	\$ 60,000
Athletic Equipment	15	70,000
Pool Equipment	5 – 15	409,000
Grounds Maintenance	5 – 25	433,000
Maintenance Equipment	5	65,000
Facility – Main Building	5 – 15	757,000
Facility – 2nd Building	20	100,000
Covenants Equipment	0	20,000
		<u>\$ 1,914,000</u>