



**Principals**

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**Associate Principals**

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**Managers**

Allison A. Day, CPA  
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Independent Auditor's Report

To the Board of Directors of  
South Riding Proprietary, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of South Riding Proprietary, Inc., which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Riding Proprietary, Inc. as of December 31, 2013 and 2012, 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 information on future major repairs and replacements on page 15 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, who 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.

*Goldklang Group CPAs, P.C.*

Reston, Virginia  
June 16, 2014

SOUTH RIDING PROPRIETARY, INC.

BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total 2013</u>	<u>Total 2012</u>
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 1,030,182	\$ 248,335	\$ 1	\$ 445,551	\$ 1,724,069	\$ 1,542,275
Interest-Bearing Deposits		1,040,346	1,954,284	4,495,748	7,490,378	7,473,393
Investments				229,196	229,196	232,534
Due To/(From)	597,343	(757,702)	98,893	61,466		
Assessments Receivable - Net	87,563				87,563	66,175
Accounts Receivable - Amberlea	39,833		8,992		48,825	36,033
Accounts Receivable - Advertising						347
Income Taxes Receivable						15,219
Accounts Receivable - Other	2,532				2,532	6,155
Accounts Receivable - Bonds	37,500				37,500	37,500
Accrued Interest	12,761		935		13,696	15,054
Prepaid Expenses	59,329				59,329	56,930
Land	475,000				475,000	475,000
Property and Equipment - Net	81,547				81,547	108,122
<b>Total Assets</b>	<b><u>\$ 2,423,590</u></b>	<b><u>\$ 530,979</u></b>	<b><u>\$ 2,063,105</u></b>	<b><u>\$ 5,231,961</u></b>	<b><u>\$ 10,249,635</u></b>	<b><u>\$ 10,064,737</u></b>
<u>LIABILITIES AND FUND BALANCES</u>						
Accounts Payable	\$ 86,108	\$ -	\$ 35,333	\$ 14,213	\$ 135,654	\$ 143,318
Deferred Income	41,443				41,443	53,917
Prepaid Assessments	433,265				433,265	349,502
<b>Total Liabilities</b>	<b><u>\$ 560,816</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 35,333</u></b>	<b><u>\$ 14,213</u></b>	<b><u>\$ 610,362</u></b>	<b><u>\$ 546,737</u></b>
<b>Fund Balances</b>	<b><u>\$ 1,862,774</u></b>	<b><u>\$ 530,979</u></b>	<b><u>\$ 2,027,772</u></b>	<b><u>\$ 5,217,748</u></b>	<b><u>\$ 9,639,273</u></b>	<b><u>\$ 9,518,000</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 2,423,590</u></b>	<b><u>\$ 530,979</u></b>	<b><u>\$ 2,063,105</u></b>	<b><u>\$ 5,231,961</u></b>	<b><u>\$ 10,249,635</u></b>	<b><u>\$ 10,064,737</u></b>

See Accompanying Notes to Financial Statements

SOUTH RIDING PROPRIETARY, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Total 2013	Total 2012
<u>REVENUES:</u>						
Assessments	\$ 4,841,874	\$ -	\$ -	\$ 869,603	\$ 5,711,477	\$ 5,573,057
Contributed Capital			19,108		19,108	52,543
Declarant/Builder Contribution			10,000		10,000	36,188
Disclosure Packets			70,689		70,689	66,825
Late Fees	76,971				76,971	69,353
Legal Fees	42,627				42,627	59,249
Violation Fees	18,950				18,950	30,643
Advertising	229,642				229,642	202,724
Celebrate South Riding	230,722				230,722	207,747
Oktoberfest	18,980				18,980	26,029
Triathlon	34,169				34,169	35,082
Community Activities	101,090				101,090	48,517
Interest	103,974		21,414		125,388	156,283
Bad Debt Recovery	19,945				19,945	
Other	80,126				80,126	77,634
Total Revenues	<u>\$ 5,799,070</u>	<u>\$ -</u>	<u>\$ 121,211</u>	<u>\$ 869,603</u>	<u>\$ 6,789,884</u>	<u>\$ 6,641,874</u>
<u>EXPENSES:</u>						
Administrative (Common):						
Management Staff and Related	\$ 905,934	\$ -	\$ -	\$ -	\$ 905,934	\$ 787,263
Financial Management	158,033				158,033	178,584
Legal and Audit	110,887				110,887	126,379
Insurance	95,953				95,953	78,827
Consulting	24,798				24,798	13,944
Office	85,416		13,250	14,493	113,159	136,995
Postage and Printing	30,347				30,347	29,842
Newsletter	195,898				195,898	241,443
Community Events	57,426				57,426	38,260
Election Committee	7,120				7,120	14,101
Committee and Task Force	28,581				28,581	24,488
Celebrate South Riding	225,036				225,036	171,900
Oktoberfest	23,833				23,833	21,208
Summer Concerts	27,580				27,580	19,020
Star Spangled	36,047				36,047	37,571
Triathlon	23,519				23,519	22,249
Bad Debt						78,808
Depreciation	36,232				36,232	36,716
Other	46,122				46,122	46,974
Total Administrative (Common)	<u>\$ 2,118,762</u>	<u>\$ -</u>	<u>\$ 13,250</u>	<u>\$ 14,493</u>	<u>\$ 2,146,505</u>	<u>\$ 2,104,572</u>

See Accompanying Notes to Financial Statements

SOUTH RIDING PROPRIETARY, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Total 2013	Total 2012
Operating (Common):						
Community Common Area	\$ 990,251	\$ -	\$ 14,740	\$ 16,015	\$ 1,021,006	\$ 977,529
Community Roadsides	199,962				199,962	203,659
General Maintenance Equipment				8,075	8,075	
Maintenance Facility			32,104		32,104	
Streets				5,948	5,948	9,827
Fence			25,500		25,500	3,200
Piers						32,507
Tot Lot				15,146	15,146	4,417
Other	38,174		32,825		70,999	41,098
Total Operating (Common)	<u>\$ 1,228,387</u>	<u>\$ -</u>	<u>\$ 105,169</u>	<u>\$ 45,184</u>	<u>\$ 1,378,740</u>	<u>\$ 1,272,237</u>
Recreation Facilities:						
Payroll and Related	\$ 2,717	\$ -	\$ -	\$ -	\$ 2,717	\$ 4,425
Pool	327,952		1,017,049	86,813	1,431,814	1,501,878
Parking			21,979		21,979	68,712
Town Hall	15,350			13,607	28,957	16,879
Tennis Courts	746				746	15,576
Fitness Equipment			20,491		20,491	
Utilities	91,312				91,312	81,918
Other	20,538				20,538	34,218
Total Recreation Facilities	<u>\$ 458,615</u>	<u>\$ -</u>	<u>\$ 1,059,519</u>	<u>\$ 100,420</u>	<u>\$ 1,618,554</u>	<u>\$ 1,723,606</u>
Operating (General):						
Single Family Homes	\$ 802,535	\$ -	\$ -	\$ -	\$ 802,535	\$ 844,353
Townhomes	554,250			48,972	603,222	626,797
Common Driveway	11,696				11,696	737
Total Operating (General)	<u>\$ 1,368,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,972</u>	<u>\$ 1,417,453</u>	<u>\$ 1,471,887</u>
Other:						
Amberlea Trash Removal	\$ 102,577	\$ -	\$ -	\$ -	\$ 102,577	\$ 95,217
SR Town Center Trash	4,782				4,782	6,386
Total Other	<u>\$ 107,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,359</u>	<u>\$ 101,603</u>

See Accompanying Notes to Financial Statements

SOUTH RIDING PROPRIETARY, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(CONTINUED)

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total 2013</u>	<u>Total 2012</u>
Total Expenses	\$ 5,281,604	\$ -	\$ 1,177,938	\$ 209,069	\$ 6,668,611	\$ 6,673,905
Excess Revenues over (under) Expenses	\$ 517,466	\$ -	\$ (1,056,727)	\$ 660,534	\$ 121,273	\$ (32,031)
<u>FUND BALANCES:</u>						
Beginning Fund Balances	\$ 1,520,308	\$ 530,979	\$ 3,084,499	\$ 4,382,214	\$ 9,518,000	\$ 9,550,031
Inter-Fund Transfer	\$ (175,000)	\$ -	\$ -	\$ 175,000	-	\$ -
Ending Fund Balances	<u>\$ 1,862,774</u>	<u>\$ 530,979</u>	<u>\$ 2,027,772</u>	<u>\$ 5,217,748</u>	<u>\$ 9,639,273</u>	<u>\$ 9,518,000</u>

See Accompanying Notes to Financial Statements

SOUTH RIDING PROPRIETARY, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Operating Fund</u>	<u>General Operating Reserves</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total 2013</u>	<u>Total 2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>						
Excess Revenues over Expenses	\$ 517,466	\$ -	\$ (1,056,727)	\$ 660,534	\$ 121,273	\$ (32,031)
Adjustments to Reconcile Excess Revenues over (under) Expenses to Net Cash Provided by Operating Activities:						
Depreciation	36,232				36,232	36,716
Bad Debt Expense (Recovery)	(19,945)				(19,945)	78,808
Decrease (Increase) in:						
Due To/(From)	24,915	422,931	(641,092)	193,246		
Assessments Receivable	(1,443)				(1,443)	(59,830)
Accounts Receivable - Amberlea	(3,800)		(8,992)		(12,792)	(2,751)
Accounts Receivable - SRW						1,864
Accounts Receivable - Advertising	347				347	3,718
Income Taxes Receivable	15,219				15,219	(15,219)
Accounts Receivable - Other	3,623				3,623	(6,155)
Accounts Receivable - Bonds						(37,500)
Accrued Interest	(666)		2,024		1,358	13,687
Prepaid Expenses	(2,399)				(2,399)	(14,216)
Increase (Decrease) in:						
Accounts Payable	(40,932)		26,254	7,014	(7,664)	5,679
Deferred Income	(12,474)				(12,474)	(8,960)
Prepaid Assessments	83,763				83,763	(2,674)
Net Cash Flows From Operating Activities	<u>\$ 599,906</u>	<u>\$ 422,931</u>	<u>\$ (1,678,533)</u>	<u>\$ 860,794</u>	<u>\$ 205,098</u>	<u>\$ (38,864)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>						
Received from Investments/Interest-Bearing Deposits	\$ -	\$ 558,852	\$ 1,318,373	\$ 961,005	\$ 2,838,230	\$ 2,758,023
Disbursed for Investments/Interest-Bearing Deposits		(736,346)	(320,019)	(1,795,512)	(2,851,877)	(3,155,716)
Disbursed for Purchase of Fixed Assets	(9,657)				(9,657)	(18,294)
Net Cash Flows From Investing Activities	<u>\$ (9,657)</u>	<u>\$ (177,494)</u>	<u>\$ 998,354</u>	<u>\$ (834,507)</u>	<u>\$ (23,304)</u>	<u>\$ (415,987)</u>
Net Change in Cash and Cash Equivalents	\$ 590,249	\$ 245,437	\$ (680,179)	\$ 26,287	\$ 181,794	\$ (454,851)
Cash and Cash Equivalents at Beginning of Year	439,933	2,898	680,180	419,264	1,542,275	1,997,126
Cash and Cash Equivalents at End of Year	<u>\$ 1,030,182</u>	<u>\$ 248,335</u>	<u>\$ 1</u>	<u>\$ 445,551</u>	<u>\$ 1,724,069</u>	<u>\$ 1,542,275</u>

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the community. The Association is located in South Riding, Virginia and consisted of 6,542 units (including apartments) as of December 31, 2013. The Association administers the operations of the community.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the fund method of accounting in which 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.
- General Operating Reserve - This fund is used to account for financial resources available for unexpected contingencies.
- Capital Improvement Fund - This fund is used to account for financial resources available for community center improvements and maintenance.
- Replacement Reserves - This fund is used to accumulate financial resources designated for future repairs and replacements.

B) Member Assessments - Association members are subject to 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 represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The Association utilizes the allowance method to account for bad debt.

C) Common Property - Real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, land, recreational facilities, and other site improvements.

D) Depreciation - Depreciation expense for the Association is calculated using the straight-line method over useful lives of the assets.



SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

F) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

G) Reclassification - Certain amounts have been reclassified in the accompanying 2012 financial statements to conform to the 2013 presentation.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds held are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. in 2011. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution to reserves of \$1,000,720 for 2013. For 2013, the Association budgeted to contribute \$869,603 to reserves. In addition, the Association elected to transfer \$175,000 from unappropriated members' equity to reserves during 2013.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2013 and 2012, the Association had designated \$5,217,748 and \$4,382,214 respectively, for replacement reserves. These designated reserves were funded by cash, interest-bearing deposits and investments.

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 4 - INCOME TAXES:

The Association is a non-stock, nonprofit organization, which holds tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. The Association obtained this status in 2009. No provision for income taxes is required, since the Association has no unrelated business income.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2013 and 2012, the Association did not incur any penalties and interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 5 - CONTRIBUTED CAPITAL/BUILDER ASSESSMENTS:

A) Homeowners - At settlement, each original purchaser is required to contribute an initial assessment. These funds are designated for the capital improvement fund. For 2013 and 2012, the contributions were \$19,108 and \$52,543, respectively.

B) Declarant/Builders - Each builder is required to pay a one-time assessment for each unit. Additionally, the Declarant pays \$1,000 per lot. These funds are designated for the capital improvement fund. For 2013 and 2012, assessments from declarant/builders were \$10,000 and \$36,188, respectively.

C) Offsite Land Parcel Purchase - During 2011, the Association received a one time contribution of \$350,000 per the rezoning agreement reached with the declarant. See Note 12 related to the offsite parcel purchase.

NOTE 6 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS:

As of December 31, 2013, the Association maintained its funds in the following manner:

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 6 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS: (CONTINUED)

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Investments</u>	<u>Total</u>
Petty Cash	Imprest	\$ 250	\$ -	\$ -	\$ 250
BB&T	Checking	13,706			13,706
Bank United	Checking	184,738			184,738
Community Association Banc	Checking	214,215			214,215
BB&T	Money Market	225,313			225,313
BB&T	Money Market	24,438			24,438
First Trust	Savings	5,935			5,935
Bank United	Money Market	13,079			13,079
Capital One	Money Market	142,728			142,728
Sona Bank	Money Market	72,400			72,400
US Bank	Money Market	20,898			20,898
One West	Money Market	230,217			230,217
Morgan Stanley	Money Markets (5)	576,152			576,152
Sona Bank	Certificate of Deposit		100,000		100,000
Torrey Pines	Certificate of Deposit		248,000		248,000
Bank of Nevada	Certificate of Deposit		248,000		248,000
Western Alliance	Certificates of Deposit (2)		248,284		248,284
Main Street	Certificate of Deposit		240,000		240,000
Virginia Heritage	Certificate of Deposit		240,000		240,000
Access National	Certificate of Deposit		240,422		240,422
Mutual of Omaha	Certificate of Deposit		180,326		180,326
NCB	Certificate of Deposit		240,000		240,000
First Virginia Community	Certificate of Deposit		244,678		244,678
Eagle Bank	Certificate of Deposit		237,343		237,343
STIFEL	Certificate of Deposit		156,446		156,446
Millennium	Certificate of Deposit		156,879		156,879
BB&T					
(Various Institutions)	Certificates of Deposit (2)		385,000		385,000
Morgan Stanley					
(Various Institutions)	Certificates of Deposit (32)		4,325,000		4,325,000
U.S. Government	Treasury Note			229,196	229,196
	Totals	<u>\$ 1,724,069</u>	<u>\$ 7,490,378</u>	<u>\$ 229,196</u>	<u>\$ 9,443,643</u>

The Association had funds maintained in several Morgan Stanley Smith and Lara, Shull and May money funds. These money funds were subject to market fluctuation risk, although the value per share of these accounts had not changed since they were opened and their goal is to maintain a share value of \$1. Therefore, the market fluctuation risk as of December 31, 2013 and 2012 was \$0 and \$2,469, respectively.

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 6 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS: (CONTINUED)

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$16,285 and \$214,841 as of December 31, 2013 and 2012, respectively.

ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 - Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 - Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

<u>2013</u>	<u>Level 1</u>
U. S. Government Obligations	\$ 229,196
<u>2012</u>	<u>Level 1</u>
U. S. Government Obligations	\$ 232,534

It is the intent of the Association to hold the debt securities until maturity. Therefore, the U.S. Government obligations are recorded at cost or amortized cost. As of December 31, 2013 and 2012, the market value of the debt securities approximated cost or amortized cost.

NOTE 7 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 7 - ASSESSMENTS RECEIVABLE - NET: (CONTINUED)

	2013	2012
Assessments Receivable	\$ 140,697	\$ 144,726
Less: Allowance for Doubtful Assessments	<u>(53,134)</u>	<u>(78,551)</u>
Assessments Receivable - Net	<u>\$ 87,563</u>	<u>\$ 66,175</u>

NOTE 8 - PROPERTY AND EQUIPMENT - NET:

Property and equipment is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2013 and 2012 was \$36,232 and \$36,716, respectively.

	2013	2012
Automobiles/Trucks	\$ 244,904	\$ 235,247
Furniture and Equipment	76,389	76,389
Less: Accumulated Depreciation	<u>(239,746)</u>	<u>(203,514)</u>
Property and Equipment - Net	<u>\$ 81,547</u>	<u>\$ 108,122</u>

NOTE 9 - CAPITAL IMPROVEMENT FUND:

During 2007, the Association established a capital improvement fund for community center improvements and maintenance. During 2013 and 2012, the Association elected to contribute capital contributions of \$99,797 and \$88,731, respectively to this fund. Additionally, interest income of \$21,414 and \$46,810 was contributed to the fund during 2013 and 2012, respectively. As of December 31, 2013 and 2012, the balance of this fund was \$2,027,772 and \$3,084,499, respectively. This fund was funded by cash and interest-bearing deposits.

NOTE 10 - GENERAL OPERATING RESERVE:

The Association has established a general operating reserve for unexpected contingencies. As of December 31, 2013 and 2012, the balance of this fund was \$530,979 and \$530,979, respectively. The general operating reserve was funded by cash and interest-bearing deposits.

SOUTH RIDING PROPRIETARY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(CONTINUED)

NOTE 11 - EMPLOYEE PENSION PLAN:

The Association established a 401k plan for its employees. The agreement establishes a plan for the making of contributions by the Association to individual retirement trust accounts established by eligible employees. Annual contributions are based on a percentage of the employee's annual salary for the calendar year. Contributions from the Association are subject to a three year vesting period.

For the years ended December 31, 2013 and 2012, the Association contributed \$47,036 and \$44,917, respectively, to this plan.

NOTE 12 - LAND:

As mentioned in Note 5, the Association received \$350,000 from the declarant during 2011 as part of a rezoning agreement. The funds were contributed to the capital improvement fund. On December 28, 2011, the Association used the funds to purchase a parcel of land that the Association intends to use for a maintenance facility. The sales price of the land was \$475,000. The land is recorded at cost in the financial statements.

NOTE 13 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 16, 2014 the date the financial statements were available to be issued.

Subsequent to year-end, the Association changed management agents. Effective January 1, 2014, Service First Management and Consulting, Inc., became the new management company.

SOUTH RIDING PROPRIETARY, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2013  
(UNAUDITED)

The Association had a replacement reserve study conducted by Miller Dodson Associates, Inc. during 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2011 Estimated Remaining Useful Life (Years)</u>	<u>2011 Estimated Replacement Cost</u>
Office Equipment	0	\$ 47,000
General Site Improvements	0	120,000
Pond Dredging Group 1	0-30	421,385
Pond Dredging Group 2	0-35	871,782
Pond Dredging Group 3	0-43	3,084,908
Asphalt and Concrete Site Improvements	0	22,500
Asphalt and Concrete Roadside Re-Surface	6-19	392,288
Asphalt and Concrete Roadside Sealcoat	0	35,750
Street Sign Replacement	0	12,500
Street Trees	0	55,000
Park Site Improvements	0-28	119,858
Resurface Asphalt Pathways	0-9	535,168
Tot Lots	1-18	448,183
Grounds Equipment and Vehicles	0-6	64,500
Vehicles and Trailers	0-7	216,300
Pool-Hyland	0-47	891,028
Pool-Meadows	0-51	884,411
Pool-Town Hall	0-45	550,168
Swimming Pool Community Center	1-55	516,405
Swimming Pool Parking Re-Surface	0-11	36,784
Town Hall	0-20	185,000
Community Center Building	0-30	221,325
Tennis Court-Town Hall	2-18	115,160
Tennis Court-Murrey Drive	3-28	104,260
TH Site Improvements	0	49,015
TH Re-Surface	8-18	2,603,423
TH Seal Coat	0-3	445,708
SF Re-Surface	4-18	1,004,461
SF Seal Coat	0-26	193,438