

**Principals**

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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, 2014 and 2013, 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, 2014 and 2013, 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
May 7, 2015

SOUTH RIDING PROPRIETARY, INC.
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total 2014</u>	<u>Total 2013</u>
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 1,041,122	\$ 54,273	\$ 691,179	\$ 575,461	\$ 2,362,035	\$ 1,724,069
Interest-Bearing Deposits	547,158	730,000	1,359,000	5,074,749	7,710,907	7,490,378
Investments				244,267	244,267	229,196
Due To/(From)	75,916	(253,294)	187,053	(9,675)		
Assessments Receivable - Net	76,360				76,360	87,563
Accounts Receivable - Amberlea						48,825
Accounts Receivable - Other	2,775				2,775	2,532
Accounts Receivable - Bonds	25,500				25,500	37,500
Accrued Interest	13,019		1,482		14,501	13,696
Prepaid Expenses	72,530				72,530	59,329
Land	475,000				475,000	475,000
Property and Equipment - Net	91,921				91,921	81,547
Total Assets	<u>\$ 2,421,301</u>	<u>\$ 530,979</u>	<u>\$ 2,238,714</u>	<u>\$ 5,884,802</u>	<u>\$ 11,075,796</u>	<u>\$ 10,249,635</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Accounts Payable	\$ 203,841	\$ -	\$ 10,225	\$ 58,062	\$ 272,128	\$ 135,654
Deferred Income	63,365				63,365	41,443
Prepaid Assessments	287,869				287,869	433,265
Total Liabilities	<u>\$ 555,075</u>	<u>\$ -</u>	<u>\$ 10,225</u>	<u>\$ 58,062</u>	<u>\$ 623,362</u>	<u>\$ 610,362</u>
Fund Balances	<u>\$ 1,866,226</u>	<u>\$ 530,979</u>	<u>\$ 2,228,489</u>	<u>\$ 5,826,740</u>	<u>\$ 10,452,434</u>	<u>\$ 9,639,273</u>
Total Liabilities and Fund Balances	<u>\$ 2,421,301</u>	<u>\$ 530,979</u>	<u>\$ 2,238,714</u>	<u>\$ 5,884,802</u>	<u>\$ 11,075,796</u>	<u>\$ 10,249,635</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, 2014 AND 2013

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Total 2014	Total 2013
<u>REVENUES:</u>						
Assessments	\$ 4,923,788	\$ -	\$ 100,000	\$ 869,603	\$ 5,893,391	\$ 5,711,477
Contributed Capital			5,277		5,277	29,108
Disclosure Packets			92,132		92,132	70,689
Late Fees	50,040				50,040	77,821
Legal Fees	36,792				36,792	42,627
Violation Fees	11,866				11,866	18,950
Advertising	175,827				175,827	229,642
Celebrate South Riding	230,460				230,460	230,722
Oktoberfest	15,582				15,582	18,980
Triathlon	32,382				32,382	34,169
Community Activities	90,234				90,234	101,090
Interest	120,568		18,503		139,071	125,388
Bad Debt Recovery						19,945
Other	69,539		1,576		71,115	86,358
Total Revenues	<u>\$ 5,757,078</u>	<u>\$ -</u>	<u>\$ 217,488</u>	<u>\$ 869,603</u>	<u>\$ 6,844,169</u>	<u>\$ 6,796,966</u>
<u>EXPENSES:</u>						
Administrative (Common):						
Management Staff and Related	\$ 924,479	\$ -	\$ -	\$ -	\$ 924,479	\$ 927,425
Financial Management	146,826				146,826	151,822
Legal and Audit	103,500				103,500	110,887
Professional Consultation	19,738		6,105		25,843	24,798
Insurance	97,138				97,138	95,953
Administrative	79,800		5,386		85,186	111,201
Office Supplies and Equipment	13,401			5,039	18,440	9,549
Magazine	145,693				145,693	195,898
Information Technology	49,902				49,902	47,781
Community Events	56,994				56,994	53,324
Election Committee	14,518				14,518	7,120
Committee and Task Force	38,770				38,770	38,500
Celebrate South Riding	244,676				244,676	225,036
Oktoberfest	11,279				11,279	23,833
Summer Concerts	18,177				18,177	27,580
Star Spangled	34,210				34,210	36,047
Triathlon	30,827				30,827	23,519
Bad Debt	4,170				4,170	
Depreciation	34,861				34,861	36,232
Total Administrative (Common)	<u>\$ 2,068,959</u>	<u>\$ -</u>	<u>\$ 11,491</u>	<u>\$ 5,039</u>	<u>\$ 2,085,489</u>	<u>\$ 2,146,505</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, 2014 AND 2013
(CONTINUED)

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Total 2014	Total 2013
Operating (Common):						
Community Common Area	\$ 1,136,739	\$ -	\$ -	\$ -	\$ 1,136,739	\$ 1,021,006
Community Roadsides	198,177				198,177	199,962
Reserve Study	20,350				20,350	
General Maintenance Equipment			5,823	18,446	24,269	8,075
Maintenance Facility			29,798		29,798	32,104
Streets			11,450		11,450	5,948
Fence				21,139	21,139	25,500
Lighting			14,866		14,866	
Signage			5,438	5,337	10,775	
Tot Lot				451	451	15,146
Other	56,205		4,000		60,205	70,999
Total Operating (Common)	\$ 1,411,471	\$ -	\$ 71,375	\$ 45,373	\$ 1,528,219	\$ 1,378,740
Recreation Facilities:						
Payroll and Related	\$ 5,307	\$ -	\$ -	\$ -	\$ 5,307	\$ 2,717
Pool	373,167		33,905	37,411	444,483	1,431,814
Parking						21,979
Town Hall	19,014			2,573	21,587	28,957
Community Center				8,321	8,321	
Tennis Courts	2,097				2,097	746
Fitness Equipment						20,491
Utilities	94,773				94,773	91,312
Other	32,776				32,776	27,620
Total Recreation Facilities	\$ 527,134	\$ -	\$ 33,905	\$ 48,305	\$ 609,344	\$ 1,625,636
Operating (General):						
Single Family Homes	\$ 822,562	\$ -	\$ -	\$ -	\$ 822,562	\$ 802,535
Townhomes	590,590			114,419	705,009	603,222
Common Driveway	21,760			147,475	169,235	11,696
Total Operating (General)	\$ 1,434,912	\$ -	\$ -	\$ 261,894	\$ 1,696,806	\$ 1,417,453
Other:						
Amberlea Trash Removal	\$ 106,191	\$ -	\$ -	\$ -	\$ 106,191	\$ 102,577
SR Town Center Trash	4,959				4,959	4,782
Total Other	\$ 111,150	\$ -	\$ -	\$ -	\$ 111,150	\$ 107,359

SOUTH RIDING PROPRIETARY, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total 2014</u>	<u>Total 2013</u>
Total Expenses	\$ 5,553,626	\$ -	\$ 116,771	\$ 360,611	\$ 6,031,008	\$ 6,675,693
Excess Revenues over (under) Expenses	\$ 203,452	\$ -	\$ 100,717	\$ 508,992	\$ 813,161	\$ 121,273
<u>FUND BALANCES:</u>						
Beginning Fund Balances	\$ 1,862,774	\$ 530,979	\$ 2,027,772	\$ 5,217,748	\$ 9,639,273	\$ 9,518,000
Inter-Fund Transfer	\$ (200,000)	\$ -	\$ 100,000	\$ 100,000	-	\$ -
Ending Fund Balances	<u>\$ 1,866,226</u>	<u>\$ 530,979</u>	<u>\$ 2,228,489</u>	<u>\$ 5,826,740</u>	<u>\$ 10,452,434</u>	<u>\$ 9,639,273</u>

SOUTH RIDING PROPRIETARY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Operating Fund	General Operating Reserves	Capital Improvement Fund	Replacement Reserves	Total 2014	Total 2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>						
Excess Revenues over Expenses	\$ 203,452	\$ -	\$ 100,717	\$ 508,992	\$ 813,161	\$ 121,273
Adjustments to Reconcile Excess Revenues over (under) Expenses to Net Cash Provided by Operating Activities:						
Depreciation	34,861				34,861	36,232
Bad Debt Expense (Recovery)	4,170				4,170	(19,945)
Due To/(From)	(236,576)	290,938	(225,642)	171,280		
Decrease (Increase) in:						
Assessments Receivable	7,033				7,033	(1,443)
Accounts Receivable - Amberlea	39,833		8,992		48,825	(12,792)
Accounts Receivable - Advertising						347
Income Taxes Receivable						15,219
Accounts Receivable - Other	(243)				(243)	3,623
Accounts Receivable - Bonds	12,000				12,000	
Accrued Interest	(258)		(547)		(805)	1,358
Prepaid Expenses	(13,201)				(13,201)	(2,399)
Increase (Decrease) in:						
Accounts Payable	117,733		(25,108)	43,849	136,474	(7,664)
Deferred Income	21,922				21,922	(12,474)
Prepaid Assessments	(145,396)				(145,396)	83,763
Net Cash Flows From Operating Activities	<u>\$ 45,330</u>	<u>\$ 290,938</u>	<u>\$ (141,588)</u>	<u>\$ 724,121</u>	<u>\$ 918,801</u>	<u>\$ 205,098</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>						
Received from Investments/Interest-Bearing Deposits	\$ 157,712	\$ 247,208	\$ 2,557,921	\$ 999,700	\$ 3,962,541	\$ 2,838,230
Disbursed for Investments/Interest-Bearing Deposits	(146,867)	(732,208)	(1,725,155)	(1,593,911)	(4,198,141)	(2,851,877)
Disbursed for Purchase of Fixed Assets	(45,235)				(45,235)	(9,657)
Net Cash Flows From Investing Activities	<u>\$ (34,390)</u>	<u>\$ (485,000)</u>	<u>\$ 832,766</u>	<u>\$ (594,211)</u>	<u>\$ (280,835)</u>	<u>\$ (23,304)</u>
Net Change in Cash and Cash Equivalents	\$ 10,940	\$ (194,062)	\$ 691,178	\$ 129,910	\$ 637,966	\$ 181,794
Cash and Cash Equivalents at Beginning of Year	1,030,182	248,335	1	445,551	1,724,069	1,542,275
Cash and Cash Equivalents at End of Year	<u>\$ 1,041,122</u>	<u>\$ 54,273</u>	<u>\$ 691,179</u>	<u>\$ 575,461</u>	<u>\$ 2,362,035</u>	<u>\$ 1,724,069</u>

See Accompanying Notes to Financial Statements

SOUTH RIDING PROPRIETARY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 consists of 6,564 units (including apartments). 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 assess late and interest charges and 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, 2014 AND 2013
(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) Investments - The Association's marketable securities have been classified and accounted for either as available-for-sale or held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale. The cost of securities sold is based upon the specific identification method.

H) Reclassification - Certain amounts have been reclassified in the accompanying 2013 financial statements to conform to the 2014 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 Association had an updated study conducted in 2014, but it has not been finalized.

The study recommends a contribution to reserves of \$1,000,720 for 2014. For 2014, the Association budgeted to contribute \$869,603 to reserves. In addition, the Association elected to transfer \$100,000 from unappropriated members' equity to reserves during 2014.

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

SOUTH RIDING PROPRIETARY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

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, 2014 and 2013, the Association had designated \$5,826,740 and \$5,217,748, respectively, for replacement reserves. These designated reserves were funded by cash, interest-bearing deposits and investments.

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, 2014 and 2013, 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 2014 and 2013, the contributions were \$5,277 and \$19,108, 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 2014 and 2013, assessments from declarant/builders were \$0 and \$10,000, respectively.

NOTE 6 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2014, the Association maintained its funds in the following manner:

SOUTH RIDING PROPRIETARY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(CONTINUED)

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

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Petty Cash	Imprest	\$ 250	\$ -	\$ 250
BB&T	Checking	20,244		20,244
Mutual of Omaha	Checking	277,188		277,188
BB&T	Money Market	225,652		225,652
BB&T	Money Market	36,875		36,875
Capital One	Money Market	240,362		240,362
Sona Bank	Money Market	93,531		93,531
John Marshall	Money Market	100,362		100,362
Washington First	Money Market	216,115		216,115
American Bank	Money Market	201,312		201,312
Morgan Stanley	Money Markets (5)	950,144		950,144
John Marshall	Certificate of Deposit		140,540	140,540
Sona Bank	Certificate of Deposit		100,000	100,000
Main Street	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
First Virginia Community	Certificate of Deposit		247,360	247,360
Stifel	Certificate of Deposit		159,259	159,259
BB&T				
(Various Institutions)	Certificates of Deposit (2)		385,000	385,000
Morgan Stanley				
(Various Institutions)	Certificates of Deposit (38)		6,018,000	6,018,000
	Totals	<u>\$ 2,362,035</u>	<u>\$ 7,710,907</u>	<u>\$ 10,072,942</u>

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 \$38,288 and \$16,285 as of December 31, 2014 and 2013, respectively.

NOTE 7 - INVESTMENTS:

Held-to-maturity debt securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. In accordance with ASC 820-10, the fair value of the debt securities was obtained using Level 1 Inputs. The amortized cost, gross unrealized gains and losses, and fair value of the held-to-maturity debt securities are summarized below:

SOUTH RIDING PROPRIETARY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

Held-to-Maturity Debt Securities

<u>December 31, 2014</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury and Obligations of U.S Government Agencies	<u>\$ 244,267</u>	<u>\$ 4,110</u>	<u>\$ -</u>	<u>\$ 248,377</u>
Total Held-to-Maturity Debt Securities	<u>\$ 244,267</u>	<u>\$ 4,100</u>	<u>\$ -</u>	<u>\$ 248,377</u>
<u>December 31, 2013</u>				
U.S. Treasury and Obligations of U.S Government Agencies	<u>\$ 229,196</u>	<u>\$ 17,579</u>	<u>\$ -</u>	<u>\$ 246,775</u>
Total Held-to-Maturity Debt Securities	<u>\$ 229,196</u>	<u>\$ 17,579</u>	<u>\$ -</u>	<u>\$ 246,775</u>

Contractual maturities of investments in debt securities as of December 31, 2014 and 2013 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Held-to-Maturity Debt Securities (Amortized Cost)

	<u>Amortized Cost as of 12/31/2014</u>	<u>Amortized Cost as of 12/31/2013</u>
Due in 1-5 Years	<u>\$ 244,267</u>	<u>\$ 229,196</u>
Total Investments in Debt Securities	<u>\$ 244,267</u>	<u>\$ 229,196</u>

NOTE 8 - 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, 2014 AND 2013
(CONTINUED)

NOTE 8 - ASSESSMENTS RECEIVABLE - NET: (CONTINUED)

	<u>2014</u>	<u>2013</u>
Assessments Receivable	\$ 120,905	\$ 140,697
Less: Allowance for Doubtful Assessments	<u>(44,545)</u>	<u>(53,134)</u>
Assessments Receivable - Net	<u>\$ 76,360</u>	<u>\$ 87,563</u>

NOTE 9 - 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 2014 and 2013 was \$34,861 and \$36,232, respectively.

	<u>2014</u>	<u>2013</u>
Automobiles/Trucks	\$ 256,488	\$ 244,904
Furniture and Equipment	76,389	76,389
Less: Accumulated Depreciation	<u>(240,956)</u>	<u>(239,746)</u>
Property and Equipment - Net	<u>\$ 91,921</u>	<u>\$ 81,547</u>

NOTE 10 - CAPITAL IMPROVEMENT FUND:

During 2007, the Association established a capital improvement fund for community center improvements and maintenance. During 2014 and 2013, the Association elected to contribute disclosure packet income of \$92,132 and \$70,689, respectively to this fund. During 2014 and 2013, the Association also elected to contribute capital contributions of \$5,277 and \$29,108, respectively, to this fund. Additionally, interest income of \$18,503 and \$21,414 was contributed to the fund during 2014 and 2013, respectively. During 2014, the Association elected to transfer \$100,000 from unappropriated members' equity to the capital improvement fund. As of December 31, 2014 and 2013, the balance of this fund was \$2,228,489 and \$2,027,772, respectively. This fund was funded by cash and interest-bearing deposits.

NOTE 11 - GENERAL OPERATING RESERVE:

The Association has established a general operating reserve for unexpected contingencies. As of December 31, 2014 and 2013, the balance of this fund was \$530,979. The general operating reserve was funded by cash and interest-bearing deposits.

SOUTH RIDING PROPRIETARY, INC.
NOTES TO FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 12 - 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, 2014 and 2013, the Association contributed \$58,375 and \$47,036, respectively, to this plan.

NOTE 13 - LAND:

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 facility. The sale price of the land was \$475,000. The land is recorded at cost in the financial statements.

NOTE 14 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 7, 2015, the date the financial statements were available to be issued.

Subsequent to year-end, the Association incurred approximately \$135,000 of replacement reserve expenditures through April 2015. In addition, the Association's planned maintenance facility project will be for approximately \$600,000. This project is being funded through the capital improvement fund.

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SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
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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. The estimated replacement costs presented below 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 Association had an updated study conducted in 2014, but it has not been approved and finalized.

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 Group 1	0-30	421,385
Pond Group 2	0-35	871,782
Pond 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