

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2016 and 2015**

Malvin, Riggins & Company, P.C.
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South Riding Proprietary, Inc.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of South Riding Proprietary, Inc., which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses, changes in fund balance and cash flows for the year 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 audit. We conducted our audit 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, 2016, 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.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Schedule of Future Major Repairs and Replacement on page 18 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.

Malvin, Diggins + Company, P.C.

Ashburn, Virginia
May 17, 2017

South Riding Proprietary, Inc.

Balance Sheets

December 31, 2016 with Comparative Totals for 2015

	ASSETS					
	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2016	2015
Assets						
Cash and cash equivalents	\$ 863,186	\$ 73,132	\$ 670,920	\$ 494,022	\$ 2,101,260	\$ 1,858,116
Interest bearing deposits	-	485,000	2,650,274	6,688,000	9,823,274	9,274,782
Investments	-	-	-	230,861	230,861	235,034
Assessments receivable (net of allowance for doubtful accounts of \$67,744 for 2016 and \$57,442 for 2015)	46,069	-	-	-	46,069	63,300
Accrued interest receivable	822	-	1,199	15,199	17,220	21,928
Prepaid expenses	98,093	-	-	-	98,093	86,002
Land	475,000	-	-	-	475,000	475,000
Property and equipment-net	92,100	-	-	-	92,100	94,440
Interfund borrowings	6,974	10,976	8,805	(26,755)	-	-
Total assets	<u>\$ 1,582,244</u>	<u>\$ 569,108</u>	<u>\$ 3,331,198</u>	<u>\$ 7,401,327</u>	<u>\$ 12,883,877</u>	<u>\$ 12,108,602</u>
	LIABILITIES AND FUND BALANCE					
Liabilities						
Accounts payable	\$ 177,319	\$ -	\$ -	\$ 61,099	\$ 238,418	\$ 291,998
Deferred revenue	70,962	-	-	-	70,962	91,099
Prepaid assessments	333,552	-	-	-	333,552	304,872
Total liabilities	<u>581,833</u>	<u>-</u>	<u>-</u>	<u>61,099</u>	<u>642,932</u>	<u>687,969</u>
Fund balance						
General operating reserve	-	569,108	-	-	569,108	530,979
Replacement reserve fund	-	-	-	7,340,228	7,340,228	6,627,992
Capital improvement fund	-	-	3,331,198	-	3,331,198	2,093,630
Unappropriated fund balance	1,000,411	-	-	-	1,000,411	2,168,032
Total fund balance	<u>1,000,411</u>	<u>569,108</u>	<u>3,331,198</u>	<u>7,340,228</u>	<u>12,240,945</u>	<u>11,420,633</u>
Total liabilities and fund balance	<u>\$ 1,582,244</u>	<u>\$ 569,108</u>	<u>\$ 3,331,198</u>	<u>\$ 7,401,327</u>	<u>\$ 12,883,877</u>	<u>\$ 12,108,602</u>

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2016	2015
Revenues						
Assessments	\$ 5,010,311	\$ -	\$ 131,334	\$ 1,092,000	\$ 6,233,645	\$ 6,232,632
Disclosure packets	-	-	70,575	-	70,575	74,865
Late fees	42,100	-	-	-	42,100	51,591
Legal fees	24,121	-	-	-	24,121	25,297
Violation fees	20,585	-	-	-	20,585	17,378
Advertising	208,642	-	-	-	208,642	206,702
Celebrate South Riding	-	-	-	-	-	211,556
Oktoberfest	4,112	-	-	-	4,112	5,715
Triathlon	23,722	-	-	-	23,722	26,331
Community activities	73,445	-	-	-	73,445	110,021
Interest	120,290	-	17,254	-	137,544	132,148
Other income	77,516	-	-	-	77,516	79,725
Other income - capital improvement/easement	4,410	-	125,000	2,203	131,613	269,057
Total revenues	5,609,254	-	344,163	1,094,203	7,047,620	7,443,018
Expenses						
Administrative (common)						
Management staff and related	657,441	-	-	-	657,441	674,323
Financial management	154,628	-	-	-	154,628	140,714
Legal and audit	144,563	-	-	-	144,563	112,168
Professional consultation	3,850	-	-	-	3,850	7,511
Insurance	95,151	-	-	-	95,151	124,369
Administrative	71,239	-	-	-	71,239	81,131
Office supplies and equipment	10,923	-	-	-	10,923	13,381
Magazine	150,305	-	-	-	150,305	155,479
Information technology	50,053	-	-	-	50,053	44,877
Community events	138,967	-	-	-	138,967	60,387
Election committee	12,658	-	-	-	12,658	10,932
Committee and task force	33,292	-	-	-	33,292	39,818
Celebrate South Riding	-	-	-	-	-	261,491
Oktoberfest	16,608	-	-	-	16,608	14,443
Summer concerts	22,712	-	-	-	22,712	19,191
Star spangled	53,382	-	-	-	53,382	19,305

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses (Continued)

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2016	2015
Triathlon	25,207	-	-	-	25,207	26,592
Bad debt	14,576	-	-	-	14,576	20,883
Depreciation	34,523	-	-	-	34,523	39,465
Total administrative (common)	1,690,078	-	-	-	1,690,078	1,866,460
Operating (common)						
Community common area	1,039,628	-	81,582	44,236	1,165,446	1,142,108
Community roadsides	206,668	-	-	17,272	223,940	237,068
Maintenance facility	-	-	209,701	-	209,701	470,934
Streets	-	-	-	91,078	91,078	-
Fence	-	-	-	896	896	-
Signage	-	-	-	3,970	3,970	13,986
Other	56,951	-	55,312	8,116	120,379	116,084
Total operating (common)	1,303,247	-	346,595	165,568	1,815,410	1,980,180
Recreation facilities						
Payroll and related	315,027	-	-	-	315,027	319,460
Pool	366,408	-	-	131,622	498,030	510,107
Town hall	35,372	-	-	-	35,372	22,027
Tennis courts	1,197	-	-	-	1,197	10,048
Utilities	89,910	-	-	-	89,910	94,084
Other	35,465	-	-	48,284	83,749	76,681
Total recreation facilities	843,379	-	-	179,906	1,023,285	1,032,407
Operating (general)						
Single family homes	849,012	-	-	-	849,012	826,412
Townhomes	630,959	-	-	68,676	699,635	643,479
Common driveway	25,756	-	-	-	25,756	13,004
Total operating (general)	1,505,727	-	-	68,676	1,574,403	1,482,895

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses (Continued)

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	<u>Operating</u>	<u>General</u>	<u>Capital</u>	<u>Replacement</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Operating</u>	<u>Improvement</u>	<u>Reserves</u>	<u>2016</u>	<u>2015</u>
		<u>Reserve</u>	<u>Fund</u>			
Other						
Amberlea trash removal	109,220	-	-	-	109,220	107,979
SR town center trash	4,912	-	-	-	4,912	4,898
Total other	<u>114,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,132</u>	<u>112,877</u>
Total expenses	<u>5,456,563</u>	<u>-</u>	<u>346,595</u>	<u>414,150</u>	<u>6,217,308</u>	<u>6,474,819</u>
Excess revenues over expenses (expenses over revenues)	<u>\$ 152,691</u>	<u>\$ -</u>	<u>\$ (2,432)</u>	<u>\$ 680,053</u>	<u>\$ 830,312</u>	<u>\$ 968,199</u>

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Changes in Fund Balance

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	<u>Operating Fund</u>	<u>General Operating Reserves</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total</u>
Balance as of December 31, 2014	\$ 1,866,226	\$ 530,979	\$ 2,228,489	\$ 5,826,740	\$ 10,452,434
Excess of revenues over expenses (expenses over revenues)	<u>301,806</u>	<u>-</u>	<u>(134,859)</u>	<u>801,252</u>	<u>968,199</u>
Balance as of December 31, 2015 as previously stated	2,168,032	530,979	2,093,630	6,627,992	11,420,633
Prior period adjustment	(10,000)	-	-	-	(10,000)
Balance as of December 31, 2015 as restated	<u>2,158,032</u>	<u>530,979</u>	<u>2,093,630</u>	<u>6,627,992</u>	<u>11,410,633</u>
Excess of revenues over expenses (expenses over revenues)	152,691	-	(2,432)	680,053	830,312
Transfers between funds	(1,310,312)	38,129	1,240,000	32,183	-
Balance as of December 31, 2016	<u>\$ 1,000,411</u>	<u>\$ 569,108</u>	<u>\$ 3,331,198</u>	<u>\$ 7,340,228</u>	<u>\$ 12,240,945</u>

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2016	2015
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ 152,691	\$ -	\$ (2,432)	\$ 680,053	\$ 830,312	\$ 968,199
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	34,523	-	-	-	34,523	39,465
Bad debt expense (recovery)	14,576	-	-	-	14,576	20,883
Decrease (Increase)						
Assessments receivable	7,092	-	-	-	7,092	163
Accounts receivable - other	-	-	-	-	-	2,775
Accounts receivable - bonds	-	-	-	-	-	25,500
Accrued interest	16,609	-	3,298	(15,199)	4,708	(7,427)
Prepaid expenses	(22,091)	-	-	-	(22,091)	(6,702)
Increase (decrease)						
Accounts payable	33,711	-	(141,612)	54,320	(53,581)	19,871
Deferred income	(20,137)	-	-	-	(20,137)	27,734
Prepaid assessments	28,680	-	-	-	28,680	17,003
Net cash provided by (used in) operating activities	245,654	-	(140,746)	719,174	824,082	1,107,464
Cash flows from investing activities						
Acquisition of property and equipment	(32,182)	-	-	-	(32,182)	(41,984)
Redemptions of investments	546,345	245,000	1,200,000	1,176,000	3,167,345	2,649,748
Purchases of investments	-	-	(1,930,274)	(1,785,827)	(3,716,101)	(4,219,147)
Net cash provided by (used in) investing activities	514,163	245,000	(730,274)	(609,827)	(580,938)	(1,611,383)
Cash flows from financing activities						
Interfund borrowings/repayments	90,507	(270,726)	140,389	39,830	-	-
Transfer between funds	(1,310,312)	38,129	1,240,000	32,183	-	-
Net cash provided by (used in) financing activities	(1,219,805)	(232,597)	1,380,389	72,013	-	-

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2016 with Comparative Totals for 2015

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2016	2015
Net change in cash and cash equivalents	(459,988)	12,403	509,369	181,360	243,144	(503,919)
Cash and cash equivalents - beginning of year	1,323,174	60,729	161,551	312,662	1,858,116	2,362,035
Cash and cash equivalents - end of year	<u>\$ 863,186</u>	<u>\$ 73,132</u>	<u>\$ 670,920</u>	<u>\$ 494,022</u>	<u>\$ 2,101,260</u>	<u>\$ 1,858,116</u>
Supplemental Information:						
Cash paid for interest					<u>\$ -</u>	
Cash paid for taxes					<u>\$ -</u>	

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 1 – Nature of Operations

South Riding Proprietary, Inc. (The “Corporation”), a non-profit membership Corporation was organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the commonly owned properties of the Corporation. The Corporation is located in South Riding, Virginia and consists of 6,564 units (including apartments). The Corporation administers the operations of the community.

NOTE 2 – Summary of Significant Accounting Policies

Fund Accounting

The Corporation’s governing documents provide certain guidelines pertaining to its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Corporation reports its accounts using fund accounting maintained under the accrual basis. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating fund – These funds are used to account for financial resources available for the general operations of the Corporation.

General operating reserve – These funds are used to account for financial resources available for unexpected contingencies.

Capital improvement fund – These funds are used to account for financial resources designated for new facilities, property and equipment, and new amenities that benefit the community.

Replacement reserves – These funds are used to accumulate financial resources designated for future repairs and replacements.

Member Assessments

Corporation members are subject to assessments to provide funds for the Corporation’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Corporation’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 Corporation for use in future years. The Corporation utilizes the allowance method to account for bad debt.

Common Property

Real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Corporation’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.

See the independent auditor’s report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 2 – Significant Accounting Policies (Continued)

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less or without a substantial penalty upon withdrawal to be cash equivalents.

Depreciation

Fixed assets are carried at cost and depreciated over the estimated useful lives using the straight-line method.

Investments

The Corporation'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 Corporation 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.

Allowance for Uncollectible Assessments

The Corporation's policy is to record an allowance for uncollectible assessments for those accounts which the owners has filed Chapter 7 bankruptcy, the property has been foreclosed, or accounts which are substantially delinquent that management feels are doubtful of collection.

NOTE 3 – Replacement Reserves

The Corporation's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally not available for expenditures for normal operations. As of December 31, 2016 and 2015, funds designated for future major repairs and replacements of the common property totaled \$7,340,228 and \$6,627,992, respectively.

During 2014, The Board of Directors hired an outside professional firm to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information of future major repairs and replacements is based on this study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based in part on the study's estimates of current replacement costs and considering

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 3 – Replacement Reserves (Continued)

amounts previously accumulated in the replacement fund. A replacement reserve funding requirement of \$1,092,000 has been included in the Corporations 2017 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements 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 fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Corporation has the right, under certain circumstances, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 4 – Income Taxes

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

The Corporation's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2016 and 2015, the Corporation did not incur any penalties and interest related to income taxes. The Corporations federal and state tax returns for the past four years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 5 – Contributed capital/builder assessments

Homeowners – At settlement, each original purchaser is required to contribute an initial assessment. These funds are designated for the capital improvement fund. For 2016 and 2015, the contributions were \$0 and \$0, respectively.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 6 – Cash and Interest-Bearing Deposits

As of December 31, 2016, the Corporation maintained its funds in the following manner:

<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	29,187		29,187
Mutual of Omaha	Checking	506,393		506,393
BB&T	Money Market	226,037		226,037
BB&T	Money Market	61,754		61,754
Sona Bank	Money Market	94,168		94,168
John Marshall	Money Market	101,320		101,320
Washington First	Money Market	218,067		218,067
American Bank	Money Market	204,150		204,150
Morgan Stanley	Money Markets (3)	417,664		417,694
John Marshall	Certificate of Deposit		142,458	142,458
Xenith Bank	Certificate of Deposit	242,270		242,270
First Virginia Community	Certificate of Deposit		252,816	252,816
BB&T (Various institutions)	Certificates of Deposit(2)		385,000	385,000
Morgan Stanley (Various institutions)	Certificates of Deposit (49)		9,043,000	9,043,000
Totals		<u>\$ 2,101,260</u>	<u>\$ 9,823,274</u>	<u>\$ 11,924,534</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 \$264,341 as of December 31, 2016.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

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 as of December 31, 2016 and 2015 are summarized below:

December 31, 2016

<u>Investment Category</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	\$230,861	\$-	\$ 6,937	\$223,924

December 31, 2015

<u>Investment Category</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	\$235,034	\$1,129	\$ -	\$236,163

The total investments in debt securities are due in 2021.

NOTE 8– Assessments Receivable-Net

The Corporation 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.

	<u>2016</u>	<u>2015</u>
Assessments receivable	\$ 113,813	\$ 120,722
Less: Allowance for doubtful accounts	(67,744)	(57,422)
Assessments receivable – net	<u>\$ 46,069</u>	<u>\$ 63,300</u>

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 9 – Fixed Assets-Net

Equipment is being depreciated over an estimated useful life of five years using the straight line method. The depreciation expense for 2016 and 2015 was \$32,662 and \$39,465, respectively.

	<u>2016</u>	<u>2015</u>
Automobiles/trucks	\$ 322,300	\$ 298,472
Furniture and equipment	84,744	76,389
Less: Accumulated Depreciation	(314,944)	(280,421)
Equipment - net	<u>\$ 92,100</u>	<u>\$ 94,440</u>

NOTE 10 – Capital improvement fund

During 2007, the Corporation established a capital improvement fund for new facilities, property and equipment, and amenities that benefit the community. During 2016 and 2015, the Corporation elected to contribute disclosure packet income of \$70,575 and \$74,865, respectively to this fund. During 2016 and 2015 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$17,254 and \$10,179 was contributed to the fund during 2016 and 2015, respectively. During 2016, the Corporation elected to transfer \$1,240,000 from unappropriated members' equity to the capital improvement fund. As of December 31, 2016 and 2015, the balance of this fund was \$3,331,198 and \$2,093,630, respectively. As of December 31, 2016 other income-capital improvement/easement was \$125,000. This fund was funded by cash and interest-bearing deposits.

NOTE 11 – General operating reserve

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2016 and 2015, the balance of this fund was \$569,108 and \$530,979, respectively. The general operating reserve was funded by cash and interest-bearing deposits.

NOTE 12 – Employee pension plan

The Corporation established a 401k plan for its employees. The agreement establishes a plan for the making of contributions by the Corporation 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 Corporation are subject to a three year vesting period.

For the years ended December 31, 2016 and 2015, the Corporation contributed \$52,966 and \$55,356, respectively to the plan.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 13 – Land Held for Investment

The Corporation 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 Corporation used the funds to purchase a parcel of land that the Corporation 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 – Comparative Information

The financial statements include certain prior-year summarized information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended December 31, 2015, from which summarized information was derived.

NOTE 15 – Contingencies and Uncertainties

The Corporation is, from time to time, involved in litigation incidental to its business. The Corporation believes that the results of ongoing and other pending legal proceedings will not have a material adverse effect on the financial condition, results of operations or liquidity of the Corporation.

NOTE 16 – Prior Year Adjustment

During 2016, management discovered financial statement errors that caused an overstatement of December 31, 2015's previously reported operating fund of \$\$2,168,032. The prior period adjustment pertains to prepaid expenses that should have been expensed.

	<u>As previously stated</u>	<u>Adjustment</u>	<u>As adjusted</u>
Prepaid expenses	\$ 2,168,032	\$ (10,000)	\$ 2,158,032

NOTE 17 – Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through May 17, 2017, the date the financial statements were available to be issued. During this time, the Company sold the land held for investment at a price of \$1,200,000.

See the independent auditor's report.

Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2016

Unaudited

The Board of Directors has reviewed, approved, and adopted the common property replacement analysis into their annual budget. Replacement costs amounts are determined by methods used by an architect firm specializing in such activities. A study was performed during 2014 by Reserve Advisors. Replacement costs were based on the estimated cost to repair and 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 table is based on the information contained in the study performed concerning the components of common property. The data contained below is for informational purposes only and has not been subjected to auditing procedures.

<u>Component</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Street signs	4	\$ 175,000
Street trees/land	1-21	769,500
Fences, walls, etc.	3-14	207,500
Asphalt trails	2-8	407,880
Maintenance equipment	2-11	263,500
CA pond dredge	3-11	90,000
Common - other	1-12	167,550
Office equipment and furniture	1-12	141,100
Tot lot/recreation equipment	1-14	537,900
Pool	1-34	1,783,235
Town hall	2-25	197,000
Tennis courts	1-21	219,720
South Riding community center	1-27	481,850
Recreation - other	1-26	127,800
Asphalt and concrete	2-26	1,045,220
Townhome pavement, mailboxes, etc.	1-29	6,666,949
Townhome - other	3-21	91,200
Common drives	2-30	2,940,235
		<u>\$ 16,313,139</u>

See the independent auditor's report and accompanying notes.