

***South Riding Proprietary, Inc.***

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**Audited Financial Statements  
December 31, 2017 and 2016**

**Malvin, Riggins & Company, P.C.**  
Certified Public Accountants  
20130 Lakeview Center Plaza  
Ashburn, VA 20147  
(703) 723-7827

***South Riding Proprietary, Inc.***

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**MALVIN RIGGINS+COMPANY<sup>PC</sup>**  
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2017, 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, 2017, 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.

**Licensed  
Certified Public Accountants**  
Virginia  
Washington DC  
Maryland  
North Carolina  
West Virginia

[www.MalvinRiggins.com](http://www.MalvinRiggins.com)

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**Professional Organizations**

Community Associations  
Institute

Center for Nonprofit  
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**Chambers of Commerce**

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Commerce

DC Chamber of Commerce

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Commerce

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Chapel Hill Carrboro Chamber  
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Chamber of Commerce

Baltimore City Chamber of  
Commerce

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Commerce

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Commerce

***Report on Summarized Comparative Information***

In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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  
July 13, 2018



**South Riding Proprietary, Inc.**

## Statements of Revenues and Expenses

For the Year Ended December 31, 2017 with Comparative Totals for 2016

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2017	2016
Assessments	\$ 5,126,448	\$ -	\$ 120,000	\$ 1,092,000	\$ 6,338,448	\$ 6,233,645
Disclosure packets	-	-	66,569	-	66,569	70,575
Late fees	37,124	-	-	-	37,124	42,100
Legal fees	49,961	-	-	-	49,961	24,121
Violation fees	5,888	-	-	-	5,888	20,585
Advertising	184,443	-	-	-	184,443	208,642
Celebrate South Riding	131,331	-	-	-	131,331	-
Oktoberfest	13,551	-	-	-	13,551	4,112
Triathlon	25,050	-	-	-	25,050	23,722
Community activities	84,628	-	-	-	84,628	73,445
Interest	137,932	-	41,543	-	179,475	137,544
Other income	75,007	-	-	-	75,007	77,516
Other income - capital improvement/easement	-	-	661,570	-	661,570	131,613
<b>Total revenues</b>	<b>5,871,363</b>	<b>-</b>	<b>889,682</b>	<b>1,092,000</b>	<b>7,853,045</b>	<b>7,047,620</b>
<b>Expenses</b>						
<b>Administrative (common)</b>						
Management staff and related	616,663	-	-	-	616,663	657,441
Financial management	154,628	-	-	-	154,628	154,628
Legal and audit	112,803	-	-	-	112,803	144,563
Professional consultation	1,863	-	-	-	1,863	3,850
Insurance	94,266	-	-	-	94,266	95,151
Administrative	75,930	-	-	-	75,930	71,239
Office supplies and equipment	9,342	-	-	-	9,342	10,923
Magazine	134,295	-	-	-	134,295	150,305
Information technology	56,470	-	-	-	56,470	50,053
Community events	107,681	-	-	-	107,681	138,967
Election committee	12,360	-	-	-	12,360	12,658
Committee and task force	49,255	-	-	-	49,255	33,292
Celebrate South Riding	205,909	-	-	-	205,909	-
Oktoberfest	13,808	-	-	-	13,808	16,608
Summer concerts	22,873	-	-	-	22,873	22,712
Star spangled	46,631	-	-	-	46,631	53,382

*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, 2017 with Comparative Totals for 2016

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2017	2016
Triathlon	22,581	-	-	-	22,581	25,207
Bad debt	(10,146)	-	-	-	(10,146)	14,576
Depreciation	21,275	-	-	-	21,275	34,523
<b>Total administrative (common)</b>	<b>1,748,487</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,748,487</b>	<b>1,690,078</b>
<b>Operating (common)</b>						
Community common area	1,011,851	-	447,844	148,355	1,608,050	1,165,446
Community roadsides	220,765	-	-	-	220,765	223,940
Maintenance facility	-	-	3,568	-	3,568	209,701
Streets	-	-	-	56,264	56,264	91,078
Fence	-	-	-	-	-	896
Signage	-	-	-	9,094	9,094	3,970
Other	56,221	-	59,505	43,910	159,636	120,379
<b>Total operating (common)</b>	<b>1,288,837</b>	<b>-</b>	<b>510,917</b>	<b>257,623</b>	<b>2,057,377</b>	<b>1,815,410</b>
<b>Recreation facilities</b>						
Payroll and related	328,381	-	-	-	328,381	315,027
Pool	363,734	-	-	137,687	501,421	498,030
Town hall	28,026	-	-	40,426	68,452	35,372
Tennis courts	5,595	-	-	42,249	47,844	1,197
Utilities	84,842	-	-	-	84,842	89,910
Other	32,907	-	-	43,075	75,982	83,749
<b>Total recreation facilities</b>	<b>843,485</b>	<b>-</b>	<b>-</b>	<b>263,437</b>	<b>1,106,922</b>	<b>1,023,285</b>
<b>Operating (general)</b>						
Single family homes	844,372	-	-	-	844,372	849,012
Townhomes	582,353	-	-	89,708	672,061	699,635
Common driveway	830	-	-	-	830	25,756
<b>Total operating (general)</b>	<b>1,427,555</b>	<b>-</b>	<b>-</b>	<b>89,708</b>	<b>1,517,263</b>	<b>1,574,403</b>

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, 2017 with Comparative Totals for 2016

	<b>Operating Fund</b>	<b>General Operating Reserve</b>	<b>Capital Improvement Fund</b>	<b>Replacement Reserves</b>	<b>Totals</b>	
					<b>2017</b>	<b>2016</b>
<b>Other</b>						
Amberlea trash removal	108,017	-	-	-	108,017	109,220
SR town center trash	4,740	-	-	-	4,740	4,912
<b>Total other</b>	<u>112,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,757</u>	<u>114,132</u>
<b>Total expenses</b>	<u>5,421,120</u>	<u>-</u>	<u>510,917</u>	<u>610,768</u>	<u>6,542,806</u>	<u>6,217,308</u>
<b>Excess revenues over expenses</b>	<u>\$ 450,243</u>	<u>\$ -</u>	<u>\$ 378,765</u>	<u>\$ 481,232</u>	<u>\$ 1,310,239</u>	<u>\$ 830,312</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, 2017 with Comparative Totals for 2016

	<b>Operating Fund</b>	<b>General Operating Reserves</b>	<b>Capital Improvement Fund</b>	<b>Replacement Reserves</b>	<b>Total</b>
<b>Balance as of December 31, 2015 as previously stated</b>	\$ 2,168,032	\$ 530,979	\$ 2,093,630	\$ 6,627,992	\$ 11,420,633
Prior period adjustment	(10,000)	-	-	-	(10,000)
<b>Balance as of December 31, 2015 as restated</b>	<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	-
<b>Balance as of December 31, 2016 as previously stated</b>	<u>1,000,411</u>	<u>569,108</u>	<u>3,331,198</u>	<u>7,340,228</u>	<u>12,240,945</u>
Prior period adjustment	4,781	-	-	-	4,781
<b>Balance as of December 31, 2016 as restated</b>	<u>1,005,192</u>	<u>569,108</u>	<u>3,331,198</u>	<u>7,340,228</u>	<u>12,245,726</u>
Excess of revenues over expenses	450,243	-	378,765	481,232	1,310,239
Transfers between funds	(475,000)	-	475,000	-	-
<b>Balance as of December 31, 2017</b>	<u>\$ 980,435</u>	<u>\$ 569,108</u>	<u>\$ 4,184,963</u>	<u>\$ 7,821,460</u>	<u>\$ 13,555,965</u>

See the independent auditor's report and accompanying notes.

**South Riding Proprietary, Inc.**

## Statements of Cash Flows

For the Year Ended December 31, 2017 with Comparative Totals for 2016

	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2017	2016
<b>Cash flows from operating activities</b>						
Excess of revenues over expenses	\$ 450,243	\$ -	\$ 378,765	\$ 481,232	\$ 1,310,239	\$ 830,312
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:						
Depreciation	21,275	-	-	-	21,275	34,523
Gain on sale of property and equipment	(661,570)	-	-	-	(661,570)	-
Bad debt expense (recovery)	(10,146)	-	-	-	(10,146)	14,576
Decrease (Increase)						
Assessments receivable	13,567	-	-	-	13,567	7,092
Accrued interest	(1,395)	-	(7,712)	(5,703)	(14,810)	4,708
Accounts receivable - other	(673)	-	-	-	(673)	-
Accounts receivable - bonds	(10,210)	-	-	-	(10,210)	-
Prepaid expenses	(5,585)	-	-	-	(5,585)	(22,091)
Increase (decrease)						
Accounts payable	(1,322)	-	-	41,060	39,738	(53,581)
Deferred income	(20,898)	-	-	-	(20,898)	(20,137)
Prepaid assessments	(124,364)	-	-	-	(124,364)	28,680
<b>Net cash provided by (used in) operating activities</b>	<b>(351,078)</b>	<b>-</b>	<b>371,053</b>	<b>516,589</b>	<b>536,564</b>	<b>824,082</b>
<b>Cash flows from investing activities</b>						
Acquisition of property and equipment	(2,955)	-	-	-	(2,955)	(32,182)
Proceeds from sale of property and equipment	1,136,570	-	-	-	1,136,570	-
Redemptions of investments	5,566	485,000	1,552,815	1,555,043	3,598,424	3,167,345
Purchases of investments	-	(400,000)	(2,160,000)	(2,210,000)	(4,770,000)	(3,716,101)
<b>Net cash provided by (used in) investing activities</b>	<b>1,139,181</b>	<b>85,000</b>	<b>(607,185)</b>	<b>(654,957)</b>	<b>(37,961)</b>	<b>(580,938)</b>
<b>Cash flows from financing activities</b>						
Interfund borrowings/repayments	(222,759)	3,264	67,842	151,653	-	-
Transfer between funds	(475,000)	-	475,000	-	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>(697,759)</b>	<b>3,264</b>	<b>542,842</b>	<b>151,653</b>	<b>-</b>	<b>-</b>

See the independent auditor's report and accompanying notes.

**South Riding Proprietary, Inc.**

Statements of Cash Flows

For the Year Ended December 31, 2017 with Comparative Totals for 2016

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	<b>Operating Fund</b>	<b>General Operating Reserve</b>	<b>Capital Improvement Fund</b>	<b>Replacement Reserves</b>	<b>Totals</b>	
					<b>2017</b>	<b>2016</b>
<b>Net change in cash and cash equivalents</b>	90,344	88,264	306,710	13,285	498,603	243,144
<b>Cash and cash equivalents - beginning of year</b>	863,186	73,132	670,920	494,022	2,101,260	1,858,116
<b>Cash and cash equivalents - end of year</b>	<u>\$ 953,530</u>	<u>\$ 161,396</u>	<u>\$ 977,630</u>	<u>\$ 507,307</u>	<u>\$ 2,599,863</u>	<u>\$ 2,101,260</u>
<b>Supplemental Information:</b>						
<b>Cash paid for interest</b>					<u>\$ -</u>	
<b>Cash paid for taxes</b>					<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, 2017 and 2016

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### **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, 2017 and 2016

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**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, 2017 and 2016, funds designated for future major repairs and replacements of the common property totaled \$7,821,460 and \$7,340,228, 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, 2017 and 2016

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**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 2018 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, 2017 and 2016, 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 2017 and 2016, 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, 2017 and 2016

**NOTE 6 – Cash and Interest-Bearing Deposits**

As of December 31, 2017, 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	27,818		27,818
Mutual of Omaha	Checking	597,613		597,613
BB&T	Money Market	226,124		226,124
BB&T	Money Market	74,222		74,222
Sona Bank	Money Market	94,470		94,470
John Marshall	Money Market	101,725		101,725
Washington First	Money Market	219,039		219,039
American Bank	Money Market	205,584		205,584
Morgan Stanley	Money Markets (3)	807,711		807,711
John Marshall	Certificate of Deposit		142,458	142,458
Xenith Bank	Certificate of Deposit	245,307		245,307
BB&T				
(Various institutions)	Certificates of Deposit(2)		385,000	385,000
Morgan Stanley				
(Various institutions)	Certificates of Deposit (49)		10,466,000	10,466,000
Totals		<u>\$ 2,599,863</u>	<u>\$ 10,993,458</u>	<u>\$ 13,593,321</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 \$612,552 as of December 31, 2017.

**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:

*See the independent auditor's report.*

**South Riding Proprietary, Inc.**

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

**NOTE 7 – Investments (Continued)**

December 31, 2017

<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	\$237,818	\$-	\$ 6,737	\$231,081

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

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>2017</u>	<u>2016</u>
Assessments receivable	\$ 100,246	\$ 113,813
Less: Allowance for doubtful accounts	( 53,162 )	( 67,744 )
Assessments receivable – net	<u>\$ 47,084</u>	<u>\$ 46,069</u>

**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 2017 and 2016 was \$21,275 and \$32,662, respectively.

	<u>2017</u>	<u>2016</u>
Automobiles/trucks	\$ 322,300	\$ 322,300
Furniture and equipment	87,698	84,744
Less: Accumulated Depreciation	( 331,438 )	( 314,944 )
Equipment - net	<u>\$ 78,560</u>	<u>\$ 92,100</u>

*See the independent auditor's report.*



***South Riding Proprietary, Inc.***

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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**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 2017 and 2016, the Corporation elected to contribute disclosure packet income of \$66,569 and \$70,575, respectively to this fund. During 2017 and 2016 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$41,543 and \$17,254 was contributed to the fund during 2017 and 2016, respectively. During 2017, the Corporation elected to transfer \$475,000 from unappropriated members' equity to the capital improvement fund. As of December 31, 2017, and 2016, the balance of this fund was \$4,184,963 and \$3,331,198, respectively. As of December 31, 2017 other income-capital improvement/easement was \$661,570. 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, 2017 and 2016, the balance of this fund was \$569,108 and \$569,108, 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, 2017 and 2016, the Corporation contributed \$52,547 and \$52,966, respectively to the plan.

**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 was sold during 2017 for \$1,200,000. The net gain from the sale of the land was \$661,570 of which \$475,000 was contributed to the Capital Improvement Fund.

**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, 2016, from which summarized information was derived.

*See the independent auditor's report.*

**South Riding Proprietary, Inc.**

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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**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

During 2017, it was discovered financial statement errors that caused understatement of December 31, 2016 retained earnings. The prior period adjustment was pertaining to depreciation expense taken as tax depreciation rather than book depreciation.

	<u>As previously stated</u>	<u>Adjustment</u>	<u>As adjusted</u>
Accumulated depreciation	\$ 1,000,411	\$ 4,781	\$ 1,005,192

**NOTE 17 – Subsequent Events**

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through July 13, 2018, the date the financial statements were available to be issued.

*See the independent auditor's report.*

**Supplementary Information**

**South Riding Proprietary, Inc.**

Schedule of Future Major Repairs and Replacements

December 31, 2017

**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.*