

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2018 and 2017**

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, 2018, 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, 2018, 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

We have previously audited the South Riding Proprietary, Inc.'s December 31, 2017 financial statements, and our report dated July 13, 2018 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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, Riggins + Company, P.C.

Malvin, Riggins & Company, P.C.
Certified Public Accountants
Ashburn, Virginia
May 28, 2019

South Riding Proprietary, Inc.

Balance Sheets

December 31, 2018 with Comparative Totals for 2017

	ASSETS					
	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2018	2017
Assets						
Cash and cash equivalents	\$ 1,578,337	\$ 13,801	\$ 833,380	\$ 309,202	\$ 2,734,720	\$ 2,599,863
Interest bearing deposits	-	880,000	3,045,000	7,120,000	11,045,000	10,993,458
Investments	-	-	-	981,110	981,110	237,818
Assessments receivable (net of allowance for doubtful accounts of \$63,148 for 2018 and \$53,162 for 2017)	32,541	-	-	-	32,541	47,084
Accrued interest receivable	4,386	-	13,796	20,026	38,208	32,030
Accounts receivable - other	29,000	-	-	-	29,000	673
Bond receivable	-	-	-	-	-	10,210
Prepaid expenses	96,459	-	-	-	96,459	93,678
Property and equipment-net	80,183	-	-	-	80,183	78,560
Interfund borrowings	124,392	(324,693)	38,581	161,720	-	-
Total assets	\$ 1,945,298	\$ 569,108	\$ 3,930,757	\$ 8,592,058	\$ 15,037,221	\$ 14,093,374
	LIABILITIES AND FUND BALANCE					
Liabilities						
Accounts payable	\$ 151,325	\$ -	\$ -	\$ 3,325	\$ 154,651	\$ 278,156
Deferred revenue	32,249	-	-	-	32,249	50,064
Prepaid assessments	312,778	-	-	-	312,778	209,188
Total liabilities	496,353	-	-	3,325	499,677	537,408
Fund balance						
General operating reserve	-	569,108	-	-	569,108	569,108
Replacement reserve fund	-	-	-	8,588,733	8,588,733	7,821,460
Capital improvement fund	-	-	3,930,757	-	3,930,757	4,184,963
Unappropriated fund balance	1,448,945	-	-	-	1,448,945	980,435
Total fund balance	1,448,945	569,108	3,930,757	8,588,733	14,537,543	13,555,966
Total liabilities and fund balance	\$ 1,945,298	\$ 569,108	\$ 3,930,757	\$ 8,592,058	\$ 15,037,221	\$ 14,093,374

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses

For the Year Ended December 31, 2018 with Comparative Totals for 2017

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2018	2017
Assessments	\$ 5,130,704	\$ -	\$ 114,920	\$ 1,092,000	\$ 6,337,624	\$ 6,338,448
Disclosure packets	-	-	65,120	-	65,120	66,569
Late fees	41,725	-	-	-	41,725	37,124
Legal fees	22,993	-	-	-	22,993	49,961
Violation fees	14,190	-	-	-	14,190	5,888
Advertising	135,362	-	-	-	135,362	184,443
Celebrate South Riding	130,764	-	-	-	130,764	131,331
Oktoberfest	13,364	-	-	-	13,364	13,551
Triathlon	-	-	-	-	-	25,050
Community activities	60,669	-	-	-	60,669	84,628
Interest	187,391	-	59,261	-	246,652	179,475
Other income	129,840	-	-	-	129,840	75,007
Other income - capital improvement/easement	-	-	-	-	-	661,570
Total revenues	5,867,002	-	239,301	1,092,000	7,198,303	7,853,045
Expenses						
Administrative (common)						
Management staff and related	595,791	-	-	-	595,791	616,663
Financial management	157,889	-	-	-	157,889	154,628
Legal and audit	125,519	-	-	-	125,519	112,803
Professional consultation	14,310	-	-	-	14,310	1,863
Insurance	76,738	-	-	-	76,738	94,266
Administrative	98,582	-	-	-	98,582	75,930
Office supplies and equipment	11,353	-	-	-	11,353	9,342
Magazine	134,019	-	-	-	134,019	134,295
Information technology	52,084	-	-	-	52,084	56,470
Community events	68,321	-	-	-	68,321	107,681
Election committee	15,063	-	-	-	15,063	12,360
Committee and task force	39,796	-	-	-	39,796	49,255
Celebrate South Riding	175,728	-	-	-	175,728	205,909
Oktoberfest	15,857	-	-	-	15,857	13,808
Summer concerts	22,999	-	-	-	22,999	22,873
Star spangled	53,631	-	-	-	53,631	46,631

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, 2018 with Comparative Totals for 2017

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2018	2017
Triathlon	-	-	-	-	-	22,581
Bad debt	29,493	-	-	-	29,493	(10,146)
Depreciation	19,238	-	-	-	19,238	21,275
Total administrative (common)	1,706,411	-	-	-	1,706,410	1,748,487
Operating (common)						
Community common area	1,001,763	-	476,890	153,379	1,632,032	1,608,050
Community roadsides	198,839	-	-	39,653	238,492	220,765
Maintenance facility	-	-	-	-	-	3,568
Streets	-	-	-	-	-	56,264
Fence	-	-	-	9,974	9,974	-
Signage	-	-	-	2,258	2,258	9,094
Other	41,737	-	16,617	31,413	89,767	159,636
Total operating (common)	1,242,339	-	493,507	236,677	1,972,523	2,057,377
Recreation facilities						
Payroll and related	342,567	-	-	-	342,567	328,381
Pool	404,353	-	-	45,181	449,534	501,421
Town hall	17,623	-	-	2,450	20,073	68,452
Tennis courts	3,012	-	-	1,850	4,862	47,844
Utilities	72,967	-	-	-	72,967	84,842
Other	28,235	-	-	4,564	32,799	75,982
Total recreation facilities	868,757	-	-	54,045	922,802	1,106,922
Operating (general)						
Single family homes	865,748	-	-	1,245	866,993	844,372
Townhomes	603,496	-	-	32,760	636,256	672,061
Common driveway	-	-	-	-	-	830
Total operating (general)	1,469,244	-	-	34,005	1,503,249	1,517,263

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, 2018 with Comparative Totals for 2017

	<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>2018</u>	<u>2017</u>
		<u>Reserve</u>	<u>Fund</u>			
Other						
Amberlea trash removal	107,085	-	-	-	107,085	108,017
SR town center trash	4,656	-	-	-	4,656	4,740
Total other	<u>111,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,741</u>	<u>112,757</u>
Total expenses	<u>5,398,492</u>	<u>-</u>	<u>493,507</u>	<u>324,727</u>	<u>6,216,726</u>	<u>6,542,805</u>
Excess revenues over expenses (expenses over revenues)	<u>\$ 468,510</u>	<u>\$ -</u>	<u>\$ (254,206)</u>	<u>\$ 767,273</u>	<u>\$ 981,577</u>	<u>\$ 1,310,240</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, 2018 with Comparative Totals for 2017

	Operating Fund	General Operating Reserves	Capital Improvement Fund	Replacement Reserves	Total
Balance as of December 31, 2016 as previously stated	\$ 1,000,411	\$ 569,108	\$ 3,331,198	\$ 7,340,228	\$ 12,240,945
Prior period adjustment	4,781	-	-	-	4,781
Balance as of December 31, 2016 as restated	<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	1,310,240
Transfers between funds	(475,000)	-	475,000	-	-
Balance as of December 31, 2017	<u>980,435</u>	<u>569,108</u>	<u>4,184,963</u>	<u>7,821,460</u>	<u>13,555,966</u>
Excess of revenues over expenses (expenses over revenues)	468,510	-	(254,206)	767,273	981,577
Balance as of December 31, 2018	<u>\$ 1,448,945</u>	<u>\$ 569,108</u>	<u>\$ 3,930,757</u>	<u>\$ 8,588,733</u>	<u>\$ 14,537,543</u>

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2018 with Comparative Totals for 2017

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2018	2017
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ 468,510	\$ -	\$ (254,206)	\$ 767,273	\$ 981,577	\$ 1,310,240
Adjustments to reconcile excess of revenues over expense (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	19,238	-	-	-	19,238	21,275
Gain on sale of property and equipment	(5,000)	-	-	-	(5,000)	(661,570)
Bad debt expense (recovery)	29,493	-	-	-	29,493	(10,146)
Decrease (Increase)						
Assessments receivable	(14,949)	-	-	-	(14,949)	13,567
Accrued interest	(2,169)	-	(4,885)	877	(6,177)	(14,810)
Accounts receivable - other	(28,327)	-	-	-	(28,327)	(673)
Accounts receivable - bonds	10,210	-	-	-	10,210	(10,210)
Prepaid expenses	(2,781)	-	-	-	(2,781)	(5,585)
Increase (decrease)						
Accounts payable	(24,672)	-	-	(98,834)	(123,506)	39,738
Deferred income	(17,815)	-	-	-	(17,815)	(20,898)
Prepaid assessments	103,590	-	-	-	103,590	(124,364)
Net cash provided by (used in) operating activities	535,328	-	(259,091)	669,316	945,553	536,564
Cash flows from investing activities						
Acquisition of property and equipment	(20,861)	-	-	-	(20,861)	(2,955)
Proceeds from sale of property and equipment	5,000	-	-	-	5,000	1,136,570
Redemptions of investments	-	200,000	2,297,458	1,842,707	4,340,165	3,598,424
Purchases of investments	-	(680,000)	(2,085,000)	(2,370,000)	(5,135,000)	(4,770,000)
Net cash provided by (used in) investing activities	(15,861)	(480,000)	212,458	(527,293)	(810,696)	(37,961)
Cash flows from financing activities						
Interfund borrowings/repayments	105,340	332,405	(97,617)	(340,128)	-	-
Transfer between funds	-	-	-	-	-	-
Net cash provided by (used in) financing activities	105,340	332,405	(97,617)	(340,128)	-	-

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows (Continued)

For the Year Ended December 31, 2018 with Comparative Totals for 2017

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Totals</u>	
					<u>2018</u>	<u>2017</u>
Increase (Decrease) in cash and cash equivalents	624,807	(147,595)	(144,250)	(198,105)	134,857	498,603
Cash and cash equivalents - beginning of year	<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>
Cash and cash equivalents - end of year	<u>\$ 1,578,337</u>	<u>\$ 13,801</u>	<u>\$ 833,380</u>	<u>\$ 309,202</u>	<u>\$ 2,734,720</u>	<u>\$ 2,599,863</u>
Supplemental Information:						
Cash paid for interest					<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes					<u>\$ -</u>	<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, 2018 and 2017

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, 2018 and 2017

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.

Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through May 28, 2019, the date that the financial statements were available to be issued.

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, 2018, and 2017, funds designated for future major repairs and replacements of the common property totaled \$8,588,733 and \$7,821,460, 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

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 3 – Replacement Reserves (Continued)

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

amounts previously accumulated in the replacement fund. A replacement reserve funding requirement of \$1,092,000 has been included in the Corporations 2019 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, 2018 and 2017, the Corporation did not incur any penalties and interest related to income taxes. The Corporations 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

Homeowners – At settlement, each original purchaser is required to contribute an initial assessment. These funds are designated for the capital improvement fund. For 2018 and 2017, 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, 2018 and 2017

NOTE 6 – Cash and Interest-Bearing Deposits

As of December 31, 2018, 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	27,211	-	27,211
Mutual of Omaha	Checking	1,312,777	-	1,312,777
BB&T	Money Market	238,099	-	238,099
BB&T	Money Market	4	-	4
Union Bank	Money Market	248,785	-	248,785
Congressional Bank	Money Market	207,944	-	207,944
Morgan Stanley BB&T	Money Markets (3)	699,650	-	699,650
(Various institutions)	Certificates of Deposit(2)	-	145,000	145,000
Morgan Stanley (Various institutions)	Certificates of Deposit (50)	-	10,900,000	10,900,000
Totals		<u>\$ 2,734,720</u>	<u>\$ 11,045,000</u>	<u>\$ 13,779,720</u>

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>

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 6 – Cash and Interest-Bearing Deposits (Continued)

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$185,849 and \$612,552 as of December 31, 2018 and 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, 2018 and 2017 are summarized below:

December 31, 2018

<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	\$981,110	\$-	\$ 5,913	\$975,197

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

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.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

NOTE 8– Assessments Receivable-Net (Continued)

	2018	2018
Assessments receivable	\$ 95,689	\$ 100,246
Less: Allowance for doubtful accounts	(63,148)	(53,162)
Assessments receivable – net	<u>\$ 32,541</u>	<u>\$ 47,084</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 2018 and 2017 was \$19,238 and \$21,275, respectively.

	2018	2017
Automobiles/trucks	\$ 324,867	\$ 322,300
Furniture and equipment	87,698	87,698
Less: Accumulated Depreciation	(332,382)	(331,438)
Equipment - net	<u>\$ 80,183</u>	<u>\$ 78,560</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 2018 and 2017, the Corporation elected to contribute disclosure packet income of \$65,120 and \$66,569 respectively to this fund. During 2018 and 2017 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$59,261 and \$41,543 was contributed to the fund during 2018 and 2017, respectively. During 2017, the Corporation elected to transfer \$475,000 from unappropriated members' equity to the capital improvement fund. As of December 31, 2018, and 2017, the balance of this fund was \$3,930,757 and \$4,184,963, 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, 2018 and 2017, 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, 2018 and 2017, the Corporation contributed \$57,488 and \$52,547, respectively to the plan.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

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, 2017, 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 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

See the independent auditor's report.

Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2018

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.