

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2019 and 2018**

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

South Riding Proprietary, Inc.

Table of Contents

December 31, 2019 and 2018

	Page
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Revenues and Expenses	4-5
Changes in Fund Balance	6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-15
Supplementary Information:	
Schedule of Future Major Repairs and Replacements	17



MALVIN RIGGINS+COMPANY_{P.C.}
CERTIFIED PUBLIC ACCOUNTANTS

**Licensed
Certified Public Accountants**

Virginia
Washington, D.C.
Maryland
North Carolina

www.MalvinRiggins.com

Corporate Office

725 City Center Boulevard
Suite 200
Newport News, VA 23606
757.881.9600 (T)
757.881.9617 (F)

Virginia Beach

301 Cleveland Place
Suite 101
Virginia Beach, VA 23462
757.995.2677 (T)
757.995.2678 (F)

Ashburn

20130 Lake View Center Plaza
Suite 400
Ashburn, VA 20147
703.723.2838 (T)
703.723.7827 (F)

Washington, D.C.

1050 Connecticut Avenue
5th Floor
Washington, D.C. 20036
202.296.2700 (T)
202.296.2799 (F)

Rockville

One Research Court
Suite 450
Rockville, MD 20850
202.296.2700 (T)
202.296.2799 (F)

Nags Head

2510 S. Croatan Highway
Suite B & C
Nags Head, NC 27959
252.441.1722 (T)
252.441.6306 (F)

Chapel Hill

1829 East Franklin Street
Suite 100E
Chapel Hill, NC 27514
919.929.5640 (T)
919.929.2205 (F)

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, 2019, 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, 2019, 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, 2018 financial statements, and our report dated May 28, 2019 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, 2018, 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 17 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 2, 2020

South Riding Proprietary, Inc.

Balance Sheets

December 31, 2019 with Comparative Totals for 2018

ASSETS						
	Operating	General	Capital	Replacement	Totals	
	Fund	Operating	Improvement	Reserves	2019	2018
Assets		Reserve	Fund			
Cash and cash equivalents	\$ 1,745,204	\$ 19,083	\$ 669,880	\$ 313,941	\$ 2,748,108	\$ 2,734,720
Interest bearing deposits	-	565,000	2,500,000	8,140,000	11,205,000	11,045,000
Investments	-	-	-	750,988	750,988	981,110
Assessments receivable (net of allowance for doubtful accounts of \$54,927 for 2019 and \$63,148 for 2018)	35,872	-	-	-	35,872	32,541
Accrued interest receivable	1,201	-	16,246	21,522	38,969	38,208
Accounts receivable - other	-	-	-	-	-	29,000
Prepaid expenses	108,420	-	-	-	108,420	96,459
Property and equipment-net	205,277	-	-	-	205,277	80,183
Interfund borrowings	(354,972)	(14,975)	164,403	205,544	-	-
Total assets	\$ 1,741,002	\$ 569,108	\$ 3,350,529	\$ 9,431,995	\$ 15,092,634	\$ 15,037,221
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 190,330	\$ -	\$ 2,000	\$ 29,690	\$ 222,020	\$ 154,651
Deferred revenue	39,866	-	-	-	39,866	32,249
Prepaid assessments	339,090	-	-	-	339,090	312,778
Total liabilities	569,286	-	2,000	29,690	600,976	499,678
Fund balance						
General operating reserve	-	569,108	-	-	569,108	569,108
Replacement reserve fund	-	-	-	9,402,305	9,402,305	8,588,733
Capital improvement fund	-	-	3,348,529	-	3,348,529	3,930,757
Unappropriated fund balance	1,171,716	-	-	-	1,171,716	1,448,945
Total fund balance	1,171,716	569,108	3,348,529	9,402,305	14,491,658	14,537,543
Total liabilities and fund balance	\$ 1,741,002	\$ 569,108	\$ 3,350,529	\$ 9,431,995	\$ 15,092,634	\$ 15,037,221

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses

For the Year Ended December 31, 2019 with Comparative Totals for 2018

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2019	2018
Assessments	\$ 5,132,078	\$ -	\$ 120,000	\$ 1,092,000	\$ 6,344,078	\$ 6,337,624
Disclosure packets	-	-	54,975	-	54,975	65,120
Late fees	38,250	-	-	-	38,250	41,725
Legal fees	18,122	-	-	-	18,122	22,993
Violation fees	5,900	-	-	-	5,900	14,190
Advertising	96,594	-	-	-	96,594	135,362
Celebrate South Riding	140,474	-	-	-	140,474	130,764
Oktoberfest	10,729	-	-	-	10,729	13,364
Community activities	48,613	-	-	-	48,613	60,669
Interest	243,673	-	70,723	-	314,396	246,652
Other income	87,292	-	-	-	87,292	129,840
Total revenues	5,821,725	-	245,698	1,092,000	7,159,423	7,198,303
Expenses						
Administrative (common)						
Management staff and related	606,677	-	-	-	606,677	595,791
Financial management	163,396	-	-	-	163,396	157,889
Legal and audit	92,046	-	-	-	92,046	125,519
Professional consultation	5,690	-	-	-	5,690	14,310
Insurance	108,129	-	-	-	108,129	76,738
Administrative	75,065	-	-	-	75,065	98,582
Office supplies and equipment	10,976	-	-	-	10,976	11,353
Magazine	162,065	-	-	-	162,065	134,019
Information technology	77,143	-	-	-	77,143	52,084
Community events	69,720	-	-	-	69,720	68,321
Election committee	13,449	-	-	-	13,449	15,063
Committee and task force	43,710	-	-	-	43,710	39,796
Celebrate South Riding	139,525	-	-	-	139,525	175,728
Oktoberfest	10,654	-	-	-	10,654	15,857
Summer concerts	25,817	-	-	-	25,817	22,999
Star spangled	44,870	-	-	-	44,870	53,631
Bad debt	1,755	-	-	-	1,755	29,493
Depreciation	29,149	-	-	-	29,149	19,238
Total administrative (common)	1,679,836	-	-	-	1,679,836	1,706,411

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, 2019 with Comparative Totals for 2018

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2019	2018
Operating (common)						
Community common area	1,043,353	-	92,277	33,310	1,168,940	1,632,032
Community roadsides	219,539	-	92,694	80,724	392,957	238,492
Maintenance facility	-	-	-	7,453	7,453	-
Streets	-	-	-	499,800	499,800	-
Fence	-	-	-	-	-	9,974
Signage	-	-	-	3,450	3,450	2,258
Other	59,339	-	2,955	46,937	109,231	89,767
Total operating (common)	1,322,231	-	187,926	671,674	2,181,831	1,972,523
Recreation facilities						
Payroll and related	345,726	-	-	-	345,726	342,567
Pool	397,237	-	-	41,549	438,786	449,534
Town hall	37,388	-	-	-	37,388	20,073
Tennis courts	4,515	-	-	-	4,515	4,862
Utilities	99,985	-	-	-	99,985	72,967
Playground	-	-	-	383,221	383,221	-
Other	27,281	-	-	24,494	51,775	32,799
Total recreation facilities	912,132	-	-	449,264	1,361,396	922,802
Operating (general)						
Single family homes	919,058	-	-	210,136	1,129,194	866,993
Townhomes	652,335	-	-	87,354	739,689	636,256
Total operating (general)	1,571,393	-	-	297,490	1,868,883	1,503,249
Other						
Amberlea trash removal	108,650	-	-	-	108,650	107,085
SR town center trash	4,712	-	-	-	4,712	4,656
Total other	113,362	-	-	-	113,362	111,741
Total expenses	5,598,954	-	187,926	1,418,428	7,205,308	6,216,726
Excess revenues over expenses (expenses over revenues)	\$ 222,771	\$ -	\$ 57,772	\$ (326,428)	\$ (45,885)	\$ 981,577

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, 2019 with Comparative Totals for 2018

	<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, 2017	\$ 980,435	\$ 569,108	\$ 4,184,963	\$ 7,821,460	\$ 13,555,966
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>
Excess of revenues over expenses (expenses over revenues)	222,771	-	57,772	(326,428)	(45,885)
Transfers between funds	(500,000)	-	(640,000)	1,140,000	-
Balance as of December 31, 2019	<u><u>\$ 1,171,716</u></u>	<u><u>\$ 569,108</u></u>	<u><u>\$ 3,348,529</u></u>	<u><u>\$ 9,402,305</u></u>	<u><u>\$ 14,491,658</u></u>

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2019 with Comparative Totals for 2018

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2019	2018
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ 222,771	\$ -	\$ 57,772	\$ (326,428)	\$ (45,885)	\$ 981,577
Adjustments to reconcile excess of revenues over expense (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	29,149	-	-	-	29,149	19,238
Gain on sale of property and equipment	(10,167)	-	-	-	(10,167)	(5,000)
Bad debt expense (recovery)	(6,389)	-	-	-	(6,389)	29,493
Decrease (Increase)						
Assessments receivable	4,890	-	-	-	4,890	(14,949)
Accrued interest	3,185	-	(2,450)	(1,495)	(760)	(6,177)
Accounts receivable - other	29,000	-	-	-	29,000	(28,327)
Accounts receivable - bonds	-	-	-	-	-	10,210
Prepaid expenses	(11,961)	-	-	-	(11,961)	(2,781)
Increase (decrease)						
Accounts payable	39,005	-	2,000	26,365	67,370	(123,506)
Deferred income	7,617	-	-	-	7,617	(17,815)
Prepaid assessments	26,312	-	-	-	26,312	103,590
Net cash provided by (used in) operating activities	333,412	-	57,322	(301,558)	89,176	945,553
Cash flows from investing activities						
Acquisition of property and equipment	(156,076)	-	-	-	(156,076)	(20,861)
Proceeds from sale of property and equipment	10,167	-	-	-	10,167	5,000
Redemptions of investments	-	880,000	1,445,000	1,870,121	4,195,121	4,340,165
Purchases of investments	-	(565,000)	(1,540,000)	(2,020,000)	(4,125,000)	(5,135,000)
Net cash provided by (used in) investing activities	(145,909)	315,000	(95,000)	(149,879)	(75,788)	(810,696)
Cash flows from financing activities						
Interfund borrowings/repayments	479,364	(309,718)	(125,822)	(43,824)	-	-
Transfer between funds	(500,000)	-	-	500,000	-	-
Net cash provided by (used in) financing activities	(20,636)	(309,718)	(125,822)	456,176	-	-

See the independent auditor's report and accompanying notes.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2019 with Comparative Totals for 2018

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Totals</u>	
					<u>2019</u>	<u>2018</u>
Increase (Decrease) in cash and cash equivalents	166,867	5,282	(163,500)	4,739	13,388	134,857
Cash and cash equivalents - beginning 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>
Cash and cash equivalents - end of year	<u>\$ 1,745,204</u>	<u>\$ 19,083</u>	<u>\$ 669,880</u>	<u>\$ 313,941</u>	<u>\$ 2,748,108</u>	<u>\$ 2,734,720</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, 2019 and 2018

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.

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.

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, 2019 and 2018

NOTE 2 – Significant Accounting Policies (Continued)

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.

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.

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.

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.

Depreciation

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

Recent Accounting Pronouncements

In June 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-05, ***Revenue from Contracts with Customers*** (Topic 606) and ***Leases*** (Topic 842): Effective Dates for Certain Entities. The update allows a one year deferral of the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) for certain entities that have not yet issued their financial statements (or made financial statements available for issuance). ASU 2019-09 was to be effective for fiscal years beginning after December 15, 2018. The Association has elected to defer the implementation of ASU 2014-09 to its fiscal year beginning after December 15, 2019. The update also allows a one year deferral of the effective date of ASU 2016-02, Leases (Topic 842) for certain entities that have not yet issued their financial statements (or made financial statements available for issuance). ASU 2016-02 was to be effective for fiscal years beginning after December 15, 2020. The Association has elected to defer the implementation of ASU 2016-02 to its fiscal year beginning after December 15, 2021. The Association has not determined what effect implementation of these standards will have on its financial statements.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 3 – Cash and Interest-Bearing Deposits

As of December 31, 2019, 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	21,607	-	21,607
Mutual of Omaha	Checking	1,482,209	-	1,482,209
BB&T	Money Market	241,138	-	241,138
Union Bank	Money Market	212,894	-	212,894
Congressional Bank	Money Market	211,514	-	211,514
Morgan Stanley	Money Markets (3)	578,496	-	578,496
Morgan Stanley (Various institutions)	Certificates of Deposit (59)	-	11,205,000	11,205,000
Totals		<u>\$ 2,748,108</u>	<u>\$ 11,205,000</u>	<u>\$ 13,953,108</u>

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 (2)	238,103	-	238,103
Union Bank	Money Market	248,785	-	248,785
Congressional Bank	Money Market	207,944	-	207,944
Morgan Stanley	Money Markets (3)	699,650	-	699,650
BB&T	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>

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 \$2,450 and \$185,849 as of December 31, 2019 and 2018.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 4 – 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, 2019 and 2018 are summarized below:

December 31, 2019

<u>Investment Category</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Gain</u>	<u>Fair Value</u>
U.S. Treasury and obligations of U.S. Government Agencies	\$750,988	\$-	\$ 17,047	\$768,035

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

The total investments in debt securities are due in 2023.

NOTE 5– 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>2019</u>	<u>2018</u>
Assessments receivable	\$ 90,799	\$ 95,689
Less: Allowance for doubtful accounts	(54,927)	(63,148)
Assessments receivable – net	<u>\$ 35,872</u>	<u>\$ 32,541</u>

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 6 – Fixed Assets-Net

Equipment is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2019 and 2018 was \$29,149 and \$19,238, respectively.

	<u>2019</u>	<u>2018</u>
Automobiles/trucks	\$ 346,166	\$ 324,867
Furniture and equipment	45,852	87,698
Less: Accumulated Depreciation	(186,741)	(332,382)
Equipment - net	<u>\$ 205,277</u>	<u>\$ 80,183</u>

NOTE 7 – 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, 2019, and 2018, funds designated for future major repairs and replacements of the common property totaled \$9,402,305 and \$8,588,733, 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 amounts previously accumulated in the replacement fund. A replacement reserve funding requirement of \$1,375,000 has been included in the Corporation's 2020 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 8 – 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.

See the independent auditor's report.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

NOTE 9 – 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 2019 and 2018, the contributions were \$0 and \$0, respectively.

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 2019 and 2018, the Corporation elected to contribute disclosure packet income of \$54,975 and \$65,120 respectively to this fund. During 2019 and 2018 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$70,723 and \$59,261 was contributed to the fund during 2019 and 2018, respectively. During 2019, the Corporation elected to transfer \$640,000 from capital improvement fund to the replacement reserves fund. As of December 31, 2019, and 2018, the balance of this fund was \$3,348,529 and \$3,930,757, respectively.

NOTE 11 – General operating reserve

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2019, and 2018, 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, 2019 and 2018, the Corporation contributed \$55,237 and \$57,488, respectively to the plan.

NOTE 13 – 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, 2018, 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, 2019 and 2018

NOTE 14 – 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 15 – Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through July 2, 2020, the date that the financial statements were available to be issued.

The COVID-19 outbreak in the United States has caused significant economic changes and disruptions. The extent of the impact of COVID-19 on operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on homeowners, employees, and vendors all of which are uncertain and cannot be predicted. While nothing has impacted the Corporation's financial statements as of the date of this report, the extent to which COVID-19 may impact financial condition or results of operations is uncertain.

See the independent auditor's report.

Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2019

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.