

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

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**Audited Financial Statements  
December 31, 2020 and 2019**

**Malvin, Riggins & Company, P.C.**  
Certified Public Accountants  
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***South Riding Proprietary, Inc.***

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December 31, 2020 and 2019

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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, 2020, 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, 2020, 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, 2019 financial statements, and our report dated July 2, 2020 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, 2019, 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  
June 3, 2021

**South Riding Proprietary, Inc.**

Balance Sheets

December 31, 2020 with Comparative Totals for 2019

<b>ASSETS</b>						
	<b>Operating</b>	<b>General</b>	<b>Capital</b>	<b>Replacement</b>	<b>Totals</b>	
	<b>Fund</b>	<b>Operating</b>	<b>Improvement</b>	<b>Reserves</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 1,585,631	\$ 4,222	\$ 713,632	\$ 374,025	\$ 2,677,510	\$ 2,748,108
Interest bearing deposits	-	565,000	2,400,000	8,390,000	11,355,000	11,205,000
Investments	-	-	-	767,962	767,962	750,988
Assessments receivable (net of allowance for doubtful accounts of \$54,039 for 2020 and \$54,927 for 2019)	18,829	-	-	-	18,829	35,872
Accrued interest receivable	49	-	4,573	17,379	22,001	38,969
Prepaid expenses	105,261	-	-	-	105,261	108,420
Property and equipment-net	220,971	-	-	-	220,971	205,277
Interfund borrowings	(157,600)	(114)	178,614	(20,900)	-	-
<b>Total assets</b>	<b>\$ 1,773,141</b>	<b>\$ 569,108</b>	<b>\$ 3,296,819</b>	<b>\$ 9,528,466</b>	<b>\$ 15,167,534</b>	<b>\$ 15,092,634</b>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities</b>						
Accounts payable	\$ 135,417	\$ -	\$ 15,034	\$ 16,252	\$ 166,703	\$ 222,020
Deferred revenue	34,921	-	-	-	34,921	39,866
Prepaid assessments	367,490	-	-	-	367,490	339,090
<b>Total liabilities</b>	<b>537,828</b>	<b>-</b>	<b>15,034</b>	<b>16,252</b>	<b>569,114</b>	<b>600,976</b>
<b>Fund balance</b>						
General operating reserve	-	569,108	-	-	569,108	569,108
Replacement reserve fund	-	-	-	9,512,214	9,512,214	9,402,305
Capital improvement fund	-	-	3,281,785	-	3,281,785	3,348,529
Unappropriated fund balance	1,235,313	-	-	-	1,235,313	1,171,716
<b>Total fund balance</b>	<b>1,235,313</b>	<b>569,108</b>	<b>3,281,785</b>	<b>9,512,214</b>	<b>14,598,420</b>	<b>14,491,658</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,773,141</b>	<b>\$ 569,108</b>	<b>\$ 3,296,819</b>	<b>\$ 9,528,466</b>	<b>\$ 15,167,534</b>	<b>\$ 15,092,634</b>

See the independent auditor's report and accompanying notes.

**South Riding Proprietary, Inc.**

## Statements of Revenues and Expenses

For the Year Ended December 31, 2020 with Comparative Totals for 2019

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2020	2019
Assessments	\$ 4,904,400	\$ -	\$ 120,000	\$ 1,375,000	\$ 6,399,400	\$ 6,344,078
Disclosure packets	-	-	70,581	-	70,581	54,975
Late fees	24,625	-	-	-	24,625	38,250
Legal fees	21,894	-	-	-	21,894	18,122
Violation fees	1,895	-	-	-	1,895	5,900
Advertising	81,659	-	-	-	81,659	96,594
Celebrate South Riding	50	-	-	-	50	140,474
Oktoberfest	(1,000)	-	-	-	(1,000)	10,729
Community activities	29,080	-	-	-	29,080	48,613
Interest	190,999	-	42,219	-	233,218	314,396
Other income	41,752	-	-	-	41,752	87,292
<b>Total revenues</b>	<b>5,295,354</b>	<b>-</b>	<b>232,800</b>	<b>1,375,000</b>	<b>6,903,154</b>	<b>7,159,423</b>
<b>Expenses</b>						
<b>Administrative (common)</b>						
Management staff and related	646,070	-	-	-	646,070	606,677
Financial management	163,619	-	-	-	163,619	163,396
Legal and audit	116,685	-	-	-	116,685	92,046
Professional consultation	3,972	-	-	-	3,972	5,690
Insurance	125,466	-	-	-	125,466	108,129
Administrative	67,695	-	-	-	67,695	75,065
Office supplies and equipment	10,386	-	-	-	10,386	10,976
Magazine	147,263	-	-	-	147,263	162,065
Information technology	56,571	-	-	-	56,571	77,143
Community events	47,014	-	-	-	47,014	69,720
Election committee	7,953	-	-	-	7,953	13,449
Committee and task force	23,069	-	-	-	23,069	43,710
Celebrate South Riding	3,425	-	-	-	3,425	139,525
Oktoberfest	85	-	-	-	85	10,654
Summer concerts	15,607	-	-	-	15,607	25,817
Star spangled	6,835	-	-	-	6,835	44,870
Bad debt	6,792	-	-	-	6,792	1,755
Depreciation	40,373	-	-	-	40,373	29,149
<b>Total administrative (common)</b>	<b>1,488,880</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,488,880</b>	<b>1,679,836</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, 2020 with Comparative Totals for 2019

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2020	2019
<b>Operating (common)</b>						
Community common area	1,028,962	-	83,280	219,009	1,331,251	1,168,940
Community roadsides	185,241	-	207,055	212,136	604,432	392,957
Maintenance facility	-	-	-	-	-	7,453
Streets	-	-	-	-	-	499,800
Signage	-	-	-	4,600	4,600	3,450
Other	43,539	-	9,209	61,781	114,529	109,231
<b>Total operating (common)</b>	<b>1,257,742</b>	<b>-</b>	<b>299,544</b>	<b>497,526</b>	<b>2,054,812</b>	<b>2,181,831</b>
<b>Recreation facilities</b>						
Payroll and related	366,841	-	-	-	366,841	345,726
Pool	281,785	-	-	48,553	330,338	438,786
Town hall	16,995	-	-	-	16,995	37,388
Tennis courts	4,084	-	-	-	4,084	4,515
Utilities	57,523	-	-	-	57,523	99,985
Playground	-	-	-	349,699	349,699	383,221
Other	58,031	-	-	5,543	63,574	51,775
<b>Total recreation facilities</b>	<b>785,259</b>	<b>-</b>	<b>-</b>	<b>403,795</b>	<b>1,189,054</b>	<b>1,361,396</b>
<b>Operating (general)</b>						
Single family homes	932,477	-	-	50,610	983,087	1,129,194
Townhomes	650,604	-	-	313,160	963,764	739,689
<b>Total operating (general)</b>	<b>1,583,081</b>	<b>-</b>	<b>-</b>	<b>363,770</b>	<b>1,946,851</b>	<b>1,868,883</b>
<b>Other</b>						
Amberlea trash removal	111,929	-	-	-	111,929	108,650
SR town center trash	4,866	-	-	-	4,866	4,712
<b>Total other</b>	<b>116,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116,795</b>	<b>113,362</b>
<b>Total expenses</b>	<b>5,231,757</b>	<b>-</b>	<b>299,544</b>	<b>1,265,091</b>	<b>6,796,392</b>	<b>7,205,308</b>
<b>Excess revenues over expenses (expenses over revenues)</b>	<b>\$ 63,597</b>	<b>\$ -</b>	<b>\$ (66,744)</b>	<b>\$ 109,909</b>	<b>\$ 106,762</b>	<b>\$ (45,885)</b>

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, 2020 with Comparative Totals for 2019

	<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, 2018</b>	\$ 1,448,945	\$ 569,108	\$ 3,930,757	\$ 8,588,733	\$ 14,537,543
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	-
<b>Balance as of December 31, 2019</b>	<u>1,171,716</u>	<u>569,108</u>	<u>3,348,529</u>	<u>9,402,305</u>	<u>14,491,658</u>
Excess of revenues over expenses (expenses over revenues)	63,597	-	(66,744)	109,909	106,762
<b>Balance as of December 31, 2020</b>	<u><u>\$ 1,235,313</u></u>	<u><u>\$ 569,108</u></u>	<u><u>\$ 3,281,785</u></u>	<u><u>\$ 9,512,214</u></u>	<u><u>\$ 14,598,420</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, 2020 with Comparative Totals for 2019

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2020	2019
<b>Cash flows from operating activities</b>						
Excess of revenues over expenses (expenses over revenues)	\$ 63,597	\$ -	\$ (66,744)	\$ 109,909	\$ 106,762	\$ (45,885)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	40,373	-	-	-	40,373	29,149
Loss on disposition of property and equipment	1,300	-	-	-	1,300	(10,167)
Bad debt expense (recovery)	(888)	-	-	-	(888)	(6,389)
Decrease (Increase)						
Assessments receivable	17,932	-	-	-	17,932	4,890
Accrued interest	1,152	-	11,674	4,143	16,969	(760)
Accounts receivable - other	-	-	-	-	-	29,000
Prepaid expenses	3,159	-	-	-	3,159	(11,961)
Increase (decrease)						
Accounts payable	(54,913)	-	13,034	(13,438)	(55,317)	67,370
Deferred income	(4,945)	-	-	-	(4,945)	7,617
Prepaid assessments	28,400	-	-	-	28,400	26,312
<b>Net cash provided by (used in) operating activities</b>	<b>95,167</b>	<b>-</b>	<b>(42,036)</b>	<b>100,614</b>	<b>153,745</b>	<b>89,176</b>
<b>Cash flows from investing activities</b>						
Acquisition of property and equipment	(57,368)	-	-	-	(57,368)	(156,076)
Proceeds from sale of property and equipment	-	-	-	-	-	10,167
Redemptions of investments	-	565,000	2,260,000	4,053,025	6,878,025	4,195,121
Purchases of investments	-	(565,000)	(2,160,000)	(4,320,000)	(7,045,000)	(4,125,000)
<b>Net cash provided by (used in) investing activities</b>	<b>(57,368)</b>	<b>-</b>	<b>100,000</b>	<b>(266,975)</b>	<b>(224,343)</b>	<b>(75,788)</b>
<b>Cash flows from financing activities</b>						
Interfund borrowings/repayments	(197,372)	(14,861)	(14,212)	226,445	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>(197,372)</b>	<b>(14,861)</b>	<b>(14,212)</b>	<b>226,445</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, 2020 with Comparative Totals for 2019

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Totals</u>	
					<u>2020</u>	<u>2019</u>
Increase (Decrease) in cash and cash equivalents	(159,573)	(14,861)	43,752	60,084	(70,598)	13,388
Cash and cash equivalents - beginning 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>
Cash and cash equivalents - end of year	<u>\$ 1,585,631</u>	<u>\$ 4,222</u>	<u>\$ 713,632</u>	<u>\$ 374,025</u>	<u>\$ 2,677,510</u>	<u>\$ 2,748,108</u>
<b>Supplemental Information:</b>						
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, 2020 and 2019

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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.

**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, 2020 and 2019

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**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. The Corporation has determined that no customer relationship exists between it and its members, therefore, FASB ASC Topic 606 does not apply to this revenue because there is no contract. 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.

**Adoption of New Accounting Standard ASU No. 2014-09**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASU's replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Corporation adopted the new standard effective January 1, 2020, the first day of the Corporation's fiscal year, using the full retrospective method.

As part of the adoption of the ASU, the Corporation elected to use the following transition practical expedients: (i) completed contracts that begin and end in the same annual reporting period have not been restated; (ii) the Corporation used the known transaction price for completed contracts; (iii) to exclude disclosures of transaction prices allocated to remaining performance

*See the independent auditor's report.*

**South Riding Proprietary, Inc.**

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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**NOTE 2 – Significant Accounting Policies (Continued)**

**Adoption of New Accounting Standard ASU No. 2014-09 (Continued)**

obligations when the Corporation expects to recognize such revenue for all periods prior to the date of initial application of the ASU; and (iv) the Corporation has reflected the aggregate of all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price.

The majority of the Corporation's revenue is from member assessments. The Corporation determined that revenue from member assessments do not meet the requirements to be considered a contract with a customer. Therefore, Topic 606 does not apply to member assessments revenue. Approximately 93.6% and 89.4% of the Corporation's revenue is derived from member assessments for the years ended December 31, 2020 and 2019, respectively. The revenue received by the Corporation that is subject to Topic 606 is mainly related to contracts with customers for disclosure packets, facility rentals, event and activity user fees, sponsorships, advertising revenue, and other services revenue. Revenue from these contracts are recognized as the services are provided. For these reasons, there is not a significant impact as a result of electing these transition practical expedients.

The adoption of this ASU did not have a significant impact on the Corporation's financial statements. The majority of the Corporation's revenue arrangement consist of a single performance obligation to transfer promised goods or serves. Based on the Corporation's evaluation process and review of its existing contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption and no assets or liabilities were required to be recognized as a result of the adoption.

**NOTE 3 – Cash and Interest-Bearing Deposits**

As of December 31, 2020, 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	11,824	-	11,824
Mutual of Omaha	Checking	1,331,981	-	1,331,981
BB&T	Money Market	241,576	-	241,576
Union Bank	Money Market	214,071	-	214,071
Congressional Bank	Money Market	213,399	-	213,399
Morgan Stanley	Money Markets (3)	664,409	-	664,409
Morgan Stanley (Various institutions)	Certificates of Deposit (55)	-	11,355,000	11,355,000
Totals		<u>\$ 2,677,510</u>	<u>\$ 11,355,000</u>	<u>\$ 14,032,510</u>

*See the independent auditor's report.*

**South Riding Proprietary, Inc.**

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

**NOTE 3 – Cash and Interest-Bearing Deposits (Continued)**

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>

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 \$3,399 and \$2,450 as of December 31, 2020 and 2019.

**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, 2020 and 2019 are summarized below:

December 31, 2020,

<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	\$767,962	\$-	\$ 35,425	\$803,387

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

The total investments in debt securities are due in 2023.

*See the independent auditor's report.*

**South Riding Proprietary, Inc.**

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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**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>2020</u>	<u>2019</u>
Assessments receivable	\$ 72,868	\$ 90,799
Less: Allowance for doubtful accounts	( 54,039 )	( 54,927 )
Assessments receivable – net	<u>\$ 18,829</u>	<u>\$ 35,872</u>

**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 2020 and 2019 was \$40,373 and \$29,149, respectively.

	<u>2020</u>	<u>2019</u>
Automobiles/trucks	\$ 400,137	\$ 346,166
Furniture and equipment	47,369	45,852
Less: Accumulated Depreciation	( 226,535 )	( 186,741 )
Equipment - net	<u>\$ 220,971</u>	<u>\$ 205,277</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, 2020, and 2019, funds designated for future major repairs and replacements of the common property totaled \$9,512,214 and \$9,402,305, respectively.

During 2020, 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 \$1,249,750 has been included in the Corporation's 2021 budget.

*See the independent auditor's report.*

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

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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**NOTE 7 – Replacement Reserves (Continued)**

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.

**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 2020 and 2019, 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 2020 and 2019, the Corporation elected to contribute disclosure packet income of \$70,581 and \$54,975 respectively to this fund. During 2020 and 2019 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$42,219 and \$70,723 was contributed to the fund during 2020 and 2019, respectively.

**NOTE 11 – General operating reserve**

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2020, and 2019, the balance of this fund was \$548,108 and \$569,108, respectively. During 2020, the Corporation elected to transfer \$21,000 from general operating reserves to the capital improvement fund. 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

*See the independent auditor's report.*



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

Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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**NOTE 12 – Employee pension plan (Continued)**

vesting period. For the years ended December 31, 2020 and 2019, the Corporation contributed \$60,064 and \$55,237, respectively to the plan.

**NOTE 13 – Operating Lease**

The Corporation leases copier/printer equipment under a sixty-three lease payments that expires in September 2025, from Xerox Corporation, for \$684 per month. Total lease expense under this lease amounted to \$1,368 in 2020. Remaining lease payments for the years ended December 31, 2021 is \$8,208.

**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, 2019, 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 – Subsequent Events**

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 3, 2021, 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, 2020

**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 2020 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.

Component	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
<b>Common Reserve Expenditures</b>		
Asphalt pavement	3-20	\$ 518,760
Concrete Sidewalks	0-30	15,000,000
Fences	0-9	91,700
Fishing Pier	14-19	63,000
Irrigation system	1-5	60,600
Landscape, street trees and enhancements	1	86,000
Playground equipment	0-20	940,000
Ponds	0-15	764,520
Signage	1-19	341,800
Sport courts	2-25	284,560
Other property site elements	1-23	127,050
Maintenance building elements	11-26	101,390
Maintenance equipment	1-20	488,249
<b>Total Common Reserve Expenditures</b>		<b>18,867,629</b>
<b>Recreation Reserve Expenditures</b>		
Hyland Hills Recreation Area (Pool house and pool elements)	1-21	1,263,724
Meadows Recreation Area (Pool house and pool elements)	3-22	641,865
South Riding Center Recreational Area		
Community building exterior, interior and services elements	1-22	579,125
Pool elements	2-23	328,865
Town Hall Recreation Area		
Community building exterior, interior and services elements	0-17	418,845
Pool elements	2-14	277,190
<b>Total Recreation Reserve Expenditures</b>		<b>3,509,614</b>
<b>Townhomes (Asphalt, Sidewalks &amp; Other)</b>	0-30	17,708,916
<b>Single Family Homes (Asphalt &amp; Other)</b>	1-30	5,585,440
		<b>\$ 45,671,599</b>

*See the independent auditor's report and accompanying notes.*