

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2021 and 2020**

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South Riding Proprietary, Inc.

Table of Contents

December 31, 2021 and 2020

	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



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of South Riding Proprietary, Inc., which comprise the balance sheet as of December 31, 2021, 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.

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, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Riding Proprietary, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Riding Proprietary Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Riding Proprietary, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Riding Proprietary, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited South Riding Proprietary, Inc.'s December 31, 2020 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated June 3, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, 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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Malvin, Diggins + Company, P.C.

Ashburn, Virginia

May 13, 2022

South Riding Proprietary, Inc.

Balance Sheets

December 31, 2021 with Comparative Totals for 2020

ASSETS						
	Operating	General	Capital	Replacement	Totals	
	Fund	Operating	Improvement	Reserves	2021	2020
Assets		Reserve	Fund			
Cash and cash equivalents	\$ 1,287,523	\$ 89,463	\$ 672,574	\$ 103,452	\$ 2,153,012	\$ 2,677,510
Interest bearing deposits	-	480,000	2,380,000	8,905,000	11,765,000	11,355,000
Investments	-	-	-	528,007	528,007	767,962
Assessments receivable (net of allowance for doubtful accounts of \$35,418 for 2021 and \$54,927 for 2020)	13,387	-	-	-	13,387	18,829
Accrued interest receivable	51	-	939	14,277	15,267	22,001
Prepaid expenses	107,926	-	-	-	107,926	105,261
Property and equipment-net	181,667	-	-	-	181,667	220,971
Interfund borrowings	95,088	(355)	90,266	(184,999)	-	-
Total assets	\$ 1,685,642	\$ 569,108	\$ 3,143,779	\$ 9,365,737	\$ 14,764,266	\$ 15,167,534
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 154,425	\$ -	\$ 179,850	\$ -	\$ 334,275	\$ 166,703
Deferred revenue	38,397	-	-	-	38,397	34,921
Prepaid assessments	402,148	-	-	-	402,148	367,490
Total liabilities	594,970	-	179,850	-	774,820	569,114
Fund balance						
General operating reserve	-	569,108	-	-	569,108	569,108
Replacement reserve fund	-	-	-	9,365,737	9,365,737	9,512,214
Capital improvement fund	-	-	2,963,929	-	2,963,929	3,281,785
Unappropriated fund balance	1,090,672	-	-	-	1,090,672	1,235,313
Total fund balance	1,090,672	569,108	2,963,929	9,365,737	13,989,446	14,598,420
Total liabilities and fund balance	\$ 1,685,642	\$ 569,108	\$ 3,143,779	\$ 9,365,737	\$ 14,764,266	\$ 15,167,534

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses

For the Year Ended December 31, 2021 with Comparative Totals for 2020

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2021	2020
Assessments	\$ 5,068,970	\$ -	\$ 120,000	\$ 1,249,750	\$ 6,438,720	\$ 6,399,400
Disclosure packets	-	-	78,525	-	78,525	70,581
Late fees	23,475	-	-	-	23,475	24,625
Legal fees	60,301	-	-	-	60,301	21,894
Violation fees	9,494	-	-	-	9,494	1,895
Advertising	72,324	-	-	-	72,324	81,659
Celebrate South Riding	-	-	-	-	-	50
Oktoberfest	6,280	-	-	-	6,280	(1,000)
Community activities	28,412	-	-	-	28,412	29,080
Interest	138,038	-	6,530	-	144,568	233,218
Other income	58,521	-	-	-	58,521	41,752
Total revenues	5,465,815	-	205,055	1,249,750	6,920,620	6,903,154
Expenses						
Administrative (common)						
Management staff and related	676,238	-	-	-	676,238	646,070
Financial management	163,732	-	-	-	163,732	163,619
Legal and audit	96,334	-	-	-	96,334	116,685
Professional consultation	4,704	-	-	-	4,704	3,972
Insurance	151,551	-	-	-	151,551	125,466
Administrative	69,049	-	-	-	69,049	67,695
Office supplies and equipment	11,058	-	-	-	11,058	10,386
Magazine	153,552	-	-	-	153,552	147,263
Information technology	81,363	-	-	-	81,363	56,571
Community events	45,632	-	-	-	45,632	47,014
Election committee	12,104	-	-	-	12,104	7,953
Committee and task force	39,278	-	-	-	39,278	23,069
Celebrate South Riding	800	-	-	-	800	3,425
Oktoberfest	6,840	-	-	-	6,840	85
Summer concerts	21,778	-	-	-	21,778	15,607
Star spangled	54,397	-	-	-	54,397	6,835
Bad debt	(7,630)	-	-	-	(7,630)	6,792
Depreciation	43,804	-	-	-	43,804	40,373
Total administrative (common)	1,624,584	-	-	-	1,624,584	1,488,880

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Statements of Revenues and Expenses (Continued)

For the Year Ended December 31, 2021 with Comparative Totals for 2020

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2021	2020
Operating (common)						
Community common area	1,128,452	-	32,862	143,469	1,304,783	1,331,251
Community roadsides	202,967	-	468,746	120,640	792,353	604,432
Maintenance facility	-	-	-	-	-	-
Streets	-	-	-	-	-	-
Signage	-	-	-	-	-	4,600
Other	43,130	-	21,303	5,626	70,059	114,529
Total operating (common)	1,374,549	-	522,911	269,735	2,167,195	2,054,812
Recreation facilities						
Payroll and related	360,450	-	-	-	360,450	366,841
Pool	426,478	-	-	-	426,478	330,338
Town hall	24,969	-	-	-	24,969	16,995
Tennis courts	2,805	-	-	-	2,805	4,084
Utilities	81,634	-	-	-	81,634	57,523
Playground	-	-	-	428,005	428,005	349,699
Other	25,580	-	-	21,428	47,008	63,574
Total recreation facilities	921,916	-	-	449,433	1,371,349	1,189,054
Operating (general)						
Single family homes	928,005	-	-	435,762	1,363,767	983,087
Townhomes	651,454	-	-	241,297	892,751	963,764
Total operating (general)	1,579,459	-	-	677,059	2,256,518	1,946,851
Other						
Amberlea trash removal	105,071	-	-	-	105,071	111,929
SR town center trash	4,877	-	-	-	4,877	4,866
Total other	109,948	-	-	-	109,948	116,795
Total expenses	5,610,456	-	522,911	1,396,227	7,529,594	6,796,392
Excess revenues over expenses (expenses over revenues)	\$ (144,641)	\$ -	\$ (317,856)	\$ (146,477)	\$ (608,974)	\$ 106,762

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Statements of Changes in Fund Balance

For the Year Ended December 31, 2021 with Comparative Totals for 2020

	Operating Fund	General Operating Reserves	Capital Improvement Fund	Replacement Reserves	Total
Balance as of December 31, 2019	\$ 1,171,716	\$ 569,108	\$ 3,348,529	\$ 9,402,305	\$ 14,491,658
Excess of revenues over expenses (expenses over revenues)	63,597	-	(66,744)	109,909	106,762
Balance as of December 31, 2020	<u>1,235,313</u>	<u>569,108</u>	<u>3,281,785</u>	<u>9,512,214</u>	<u>14,598,420</u>
Excess of (expenses over revenues)	(144,641)	-	(317,856)	(146,477)	(608,974)
Balance as of December 31, 2021	<u>\$ 1,090,672</u>	<u>\$ 569,108</u>	<u>\$ 2,963,929</u>	<u>\$ 9,365,737</u>	<u>\$ 13,989,446</u>

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2021 with Comparative Totals for 2020

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2021	2020
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ (144,641)	\$ -	\$ (317,856)	\$ (146,477)	\$ (608,974)	\$ 106,762
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	43,804	-	-	-	43,804	40,373
Loss on disposition of property and equipment	-	-	-	-	-	1,300
Bad debt (recovery)	(18,620)	-	-	-	(18,620)	(888)
Decrease (Increase)						
Assessments receivable	24,062	-	-	-	24,062	17,932
Accrued interest	(2)	-	3,634	3,102	6,734	16,969
Prepaid expenses	(2,665)	-	-	-	(2,665)	3,159
Increase (decrease)						
Accounts payable	19,008	-	164,816	(16,252)	167,572	(55,317)
Deferred income	3,476	-	-	-	3,476	(4,945)
Prepaid assessments	34,658	-	-	-	34,658	28,400
Net cash provided by (used in) operating activities	(40,920)	-	(149,406)	(159,627)	(349,954)	153,745
Cash flows from investing activities						
Acquisition of property and equipment	(4,500)	-	-	-	(4,500)	(57,368)
Proceeds from sale of property and equipment	-	-	-	-	-	-
Redemptions of investments	-	85,000	2,160,000	3,629,955	5,874,955	6,878,025
Purchases of investments	-	-	(2,140,000)	(3,905,000)	(6,045,000)	(7,045,000)
Net cash provided by (used in) investing activities	(4,500)	85,000	20,000	(275,045)	(174,545)	(224,343)
Cash flows from financing activities						
Interfund borrowings/repayments	(252,688)	241	88,348	164,099	-	-
Net cash provided by (used in) financing activities	(252,688)	241	88,348	164,099	-	-

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2021 with Comparative Totals for 2020

	<u>Operating</u> <u>Fund</u>	<u>General</u> <u>Operating</u> <u>Reserve</u>	<u>Capital</u> <u>Improvement</u> <u>Fund</u>	<u>Replacement</u> <u>Reserves</u>	<u>Totals</u>	
					<u>2021</u>	<u>2020</u>
Increase (Decrease) in cash and cash equivalents	(298,108)	85,241	(41,058)	(270,573)	(524,499)	(70,598)
Cash and cash equivalents - beginning of year	1,585,631	4,222	713,632	374,025	2,677,510	2,748,108
Cash and cash equivalents - end of year	<u>\$ 1,287,523</u>	<u>\$ 89,463</u>	<u>\$ 672,574</u>	<u>\$ 103,452</u>	<u>\$ 2,153,012</u>	<u>\$ 2,677,510</u>
Supplemental Information:						
Cash paid for interest					<u>\$ -</u>	<u>\$ -</u>
Cash paid for taxes					<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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.

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.

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.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

NOTE 3 – Cash and Interest-Bearing Deposits

As of December 31, 2021, the Corporation maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Petty Cash	Imprest	\$ 250	\$ -	\$ 250
BB&T	Checking	29,775	-	29,775
Mutual of Omaha	Checking	1,046,511	-	1,046,511
BB&T	Money Market	210,987	-	210,987
Union Bank	Money Market	214,151	-	214,151
Congressional Bank	Money Market	214,515	-	214,515
Morgan Stanley	Money Markets (3)	436,823	-	436,823
Morgan Stanley (Various institutions)	Certificates of Deposit (55)	-	11,765,000	11,765,000
Totals		<u>\$ 2,153,012</u>	<u>\$ 11,765,000</u>	<u>\$ 13,918,012</u>

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 (59)	-	11,355,000	11,355,000
Totals		<u>\$ 2,677,510</u>	<u>\$ 11,355,000</u>	<u>\$ 14,032,510</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 \$0 and \$3,399 as of December 31, 2021 and 2020.

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, 2021 and 2020 are summarized below:

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

NOTE 4 – Investments (Continued)

December 31, 2021,

Investment Category	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Gain	Fair Value
U.S. Treasury and obligations of U.S. Government Agencies	\$528,007	\$-	\$ 16,944	\$544,951

December 31, 2020,

Investment Category	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Gain	Fair Value
U.S. Treasury and obligations of U.S. Government Agencies	\$767,962	\$-	\$ 35,425	\$803,387

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.

	2021	2020
Assessments receivable	\$ 48,805	\$ 72,868
Less: Allowance for doubtful accounts	(35,418)	(54,039)
Assessments receivable – net	\$ 13,387	\$ 18,829

NOTE 6 – Fixed Assets-Net

Equipment is being depreciated over and estimated useful life of five years using the straight-line method. The depreciation expense for 2021 and 2020 was \$43,804 and \$40,373, respectively.

	2021	2020
Automobiles/trucks	\$ 400,137	\$ 400,137
Furniture and equipment	51,869	47,369
Less: Accumulated Depreciation	(270,339)	(226,535)
Equipment - net	\$ 181,667	\$ 220,971

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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, 2021, and 2020, funds designated for future major repairs and replacements of the common property totaled \$9,365,737 and \$9,512,214, 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 \$1,375,000 has been included in the Corporations 2022 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.

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 2021 and 2020, the contributions were \$0 and \$0, respectively.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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 2021 and 2020, the Corporation elected to contribute disclosure packet income of \$78,525 and \$70,581 respectively to this fund. During 2021 and 2020 the Corporation also elected to contribute capital contributions of \$0 and \$0, respectively to this fund. Additionally, interest income of \$6,530 and \$42,219 was contributed to the fund during 2021 and 2020, respectively.

NOTE 11 – General operating reserve

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2021, and 2020, the balance of this fund was \$569,108 and \$548,108, 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 vesting period. For the years ended December 31, 2021 and 2020, the Corporation contributed \$63,416 and \$60,064, 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 \$7,524 in 2021. Remaining lease payments for the years ended December 31, 2022 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, 2020, from which summarized information was derived.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

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 May 13, 2022, 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.

Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2021

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
Common Reserve Expenditures		
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
Total Common Reserve Expenditures		18,867,629
Recreation Reserve Expenditures		
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
Total Recreation Reserve Expenditures		3,509,614
Townhomes (Asphalt, Sidewalks & Other)	0-30	17,708,916
Single Family Homes (Asphalt & Other)	1-30	5,585,440
		\$ 45,671,599

See the independent auditor's report and accompanying notes.