

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2022 and 2021**

Malvin, Riggins & Company
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South Riding Proprietary, Inc.

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MALVIN RIGGINS+COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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, 2022, 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, 2022, 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, 2021 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated May 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Schedule of Future Major Repairs and Replacement on page 18 be presented to supplement the basic financial statements. Such information 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.



Newport News, Virginia
August 3, 2023

South Riding Proprietary, Inc.

Balance Sheets

For the Year Ended December 31, 2022 with Comparative Totals for 2021

ASSETS						
	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2022	2021
Assets						
Cash and cash equivalents	\$ 1,332,619	\$ 91,092	\$ 269,216	\$ 354,818	\$ 2,047,745	\$ 2,153,012
Interest bearing deposits	-	480,000	1,900,000	8,585,000	10,965,000	11,765,000
Investments	-	-	-	541,897	541,897	528,007
Assessments receivable (net of allowance for doubtful accounts of \$30,130 for 2022 and \$35,418 for 2021)	24,720	-	-	-	24,720	13,387
Accrued interest receivable	3,085	-	7,811	16,864	27,760	15,267
Prepaid expenses	95,150	-	30,600	-	125,750	107,926
Property and equipment-net	192,513	-	-	-	192,513	181,667
Operating lease right-of-use asset, net	22,174	-	-	-	22,174	-
Interfund borrowings	(90,555)	(46)	91,561	(960)	-	-
Total assets	\$ 1,579,706	\$ 571,046	\$ 2,299,188	\$ 9,497,619	\$ 13,947,559	\$ 14,764,266
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 195,917	\$ -	\$ -	\$ -	\$ 195,917	\$ 334,275
Operating lease right-of-use liability	22,174	-	-	-	22,174	-
Deferred revenue	33,344	-	-	-	33,344	38,397
Prepaid assessments	374,934	-	-	-	374,934	402,148
Total liabilities	626,369	-	-	-	626,369	774,820
Fund balance						
General operating reserve	-	571,046	-	-	571,046	569,108
Replacement reserve fund	-	-	-	9,497,619	9,497,619	9,365,737
Capital improvement fund	-	-	2,299,188	-	2,299,188	2,963,929
Unappropriated fund balance	953,337	-	-	-	953,337	1,090,672
Total fund balance	953,337	571,046	2,299,188	9,497,619	13,321,190	13,989,446
Total liabilities and fund balance	\$ 1,579,706	\$ 571,046	\$ 2,299,188	\$ 9,497,619	\$ 13,947,559	\$ 14,764,266

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, 2022 with Comparative Totals for 2021

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2022	2021
Assessments	\$ 5,709,244	\$ -	\$ -	\$ 1,249,750	\$ 6,958,994	\$ 6,438,720
Disclosure packets	-	-	57,175	-	57,175	78,525
Late fees	28,650	-	-	-	28,650	23,475
Legal fees	11,369	-	-	-	11,369	60,301
Violation fees	2,004	-	-	-	2,004	9,494
Advertising	56,035	-	-	-	56,035	72,324
Celebrate South Riding	187,328	-	-	-	187,328	-
Oktoberfest	-	-	-	-	-	6,280
Community activities	34,769	-	-	-	34,769	28,412
Interest	130,633	-	14,786	-	145,419	144,568
Other income	76,528	-	-	54,562	131,090	58,521
Total revenues	6,236,560	-	71,961	1,304,312	7,612,833	6,920,620
Expenses						
Administrative (common)						
Management staff and related	737,955	-	-	-	737,955	676,238
Financial management	159,081	-	-	-	159,081	163,732
Legal and audit	117,717	-	-	-	117,717	96,334
Professional consultation	14,554	-	-	-	14,554	4,704
Insurance	147,841	-	-	-	147,841	151,551
Administrative	79,083	-	-	-	79,083	69,049
Office supplies and equipment	13,973	-	-	-	13,973	11,058
Magazine	186,657	-	-	-	186,657	153,552
Information technology	82,014	-	-	-	82,014	81,363
Community events	61,370	-	-	-	61,370	45,632
Election committee	13,298	-	-	-	13,298	12,104
Committee and task force	43,907	-	-	-	43,907	39,278
Celebrate South Riding	199,034	-	-	-	199,034	800
Oktoberfest	-	-	-	-	-	6,840
Summer concerts	17,740	-	-	-	17,740	21,778
Star spangled	51,394	-	-	-	51,394	54,397
Bad debt	(2,268)	-	-	-	(2,268)	(7,630)
Depreciation	52,306	-	-	-	52,306	43,804
Total administrative (common)	1,975,656	-	-	-	1,975,656	1,624,584

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, 2022 with Comparative Totals for 2021

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2022	2021
Operating (common)						
Community common area	1,255,376	-	359,181	263,266	1,877,823	1,304,783
Community roadsides	196,224	-	-	116,273	312,497	792,353
Signage	-	-	357,089	-	357,089	-
Gain/loss on disposal	3,525	-	-	-	3,525	-
Other	50,184	-	20,432	16,453	87,069	70,059
Total operating (common)	1,505,309	-	736,702	395,992	2,638,003	2,167,195
Recreation facilities						
Payroll and related	381,822	-	-	-	381,822	360,450
Pool	471,542	-	-	25,682	497,224	426,478
Town hall	26,365	-	-	72,500	98,865	24,969
Tennis courts	2,213	-	-	-	2,213	2,805
Utilities	105,394	-	-	-	105,394	81,634
Playground	-	-	-	100,753	100,753	428,005
Other	23,885	-	-	20,805	44,690	47,008
Total recreation facilities	1,011,221	-	-	219,740	1,230,961	1,371,349
Operating (general)						
Single family homes	1,049,674	-	-	330,895	1,380,569	1,363,767
Townhomes	749,051	-	-	215,050	964,101	892,751
Total operating (general)	1,798,725	-	-	545,945	2,344,670	2,256,518
Other						
Amberlea trash removal	128,398	-	-	-	128,398	105,071
SR town center trash	5,583	-	-	-	5,583	4,877
Total other	133,981	-	-	-	133,981	109,948
Total expenses	6,424,892	-	736,702	1,161,677	8,323,271	7,529,594
Excess revenues over expenses (expenses over revenues)	\$ (188,332)	\$ -	\$ (664,741)	\$ 142,635	\$ (710,438)	\$ (608,974)

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, 2022 with Comparative Totals for 2021

	Operating Fund	General Operating Reserves	Capital Improvement Fund	Replacement Reserves	Total
Balance as of December 31, 2020	\$ 1,235,313	\$ 569,108	\$ 3,281,785	\$ 9,512,214	\$ 14,598,420
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>
Prior period adjustment	42,182	-	-	-	42,182
Balance as of December 31, 2021, as restated	<u>1,132,854</u>	<u>569,108</u>	<u>2,963,929</u>	<u>9,365,737</u>	<u>14,031,628</u>
Excess of revenues over expenses (expenses over revenues)	(188,332)	-	(664,741)	142,635	(710,438)
Transfer between funds	8,815	1,938	-	(10,753)	-
Balance as of December 31, 2022	<u>\$ 953,337</u>	<u>\$ 571,046</u>	<u>\$ 2,299,188</u>	<u>\$ 9,497,619</u>	<u>\$ 13,321,190</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, 2022 with Comparative Totals for 2021

	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2022	2021
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ (188,332)	\$ -	\$ (664,741)	\$ 142,635	\$ (710,438)	\$ (608,974)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash (used in) operating activities:						
Depreciation	52,306	-	-	-	52,306	43,804
Loss on disposition of property and equipment	3,525	-	-	-	3,525	-
Bad debt (recovery)	(5,292)	-	-	-	(5,292)	(18,620)
Decrease (increase)						
Assessments receivable	(6,041)	-	-	-	(6,041)	24,062
Accrued interest	(3,034)	-	(6,872)	(2,587)	(12,493)	6,734
Prepaid expenses	(17,824)	-	-	-	(17,824)	(2,665)
Increase (decrease)						
Accounts payable	41,492	-	(179,850)	-	(138,358)	167,572
Deferred income	(5,053)	-	-	-	(5,053)	3,476
Prepaid assessments	(27,214)	-	-	-	(27,214)	34,658
Net cash (used in) operating activities	(155,467)	-	(851,463)	140,048	(866,882)	(349,953)
Cash flows from investing activities						
Acquisition of property and equipment	(24,495)	-	-	-	(24,495)	(4,500)
Redemptions of investments	-	240,000	1,680,000	2,090,000	4,010,000	5,874,955
Purchases of investments	-	(240,000)	(1,200,000)	(1,783,890)	(3,223,890)	(6,045,000)
Net cash provided by (used in) investing activities	(24,495)	-	480,000	306,110	761,615	(174,545)
Cash flows from financing activities						
Interfund borrowings/repayments	225,058	1,629	(31,895)	(194,792)	-	-
Net cash provided by (used in) financing activities	225,058	1,629	(31,895)	(194,792)	-	-

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, 2022 with Comparative Totals for 2021

	<u>Operating Fund</u>	<u>General Operating Reserve</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Totals</u>	
					<u>2022</u>	<u>2021</u>
Increase (decrease) in cash and cash equivalents	45,096	1,629	(403,358)	251,366	(105,267)	(524,498)
Cash and cash equivalents - beginning 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>
Cash and cash equivalents - end of year	<u>\$ 1,332,619</u>	<u>\$ 91,092</u>	<u>\$ 269,216</u>	<u>\$ 354,818</u>	<u>\$ 2,047,745</u>	<u>\$ 2,153,012</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, 2022 and 2021

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.

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.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

NOTE 2 – Significant Accounting Policies (Continued)

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.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, Leases) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Proprietary adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

NOTE 2 – Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements (Continued)

Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

The Proprietary elected the available practical expedients to account for our existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

The Proprietary elected to use a risk-free interest rate as the discount rate for operating leases.

As a result of the adoption of the new lease accounting guidance, the Proprietary recognized on January 1, 2022 a lease liability of \$30,049, which represents the present value of the remaining operating lease payments of \$30,781, discounted using a risk-free rate of 1.26%, and a right-of-use asset of \$30,049.

The standard had a material impact on the balance sheets but did not have a material impact on the statements of revenues and expenses nor cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

Under the new standard, lessees are required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a lease liability. The standard has two types of leases for financial statement recognition purposes: operating leases and finance leases. Operating leases result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases result in amortization expense and interest expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement.

The Proprietary assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded in the balance sheets. Lease expense is recognized for these leases on a straight-line basis over the lease term. The Proprietary has elected an accounting policy to not separate lease and nonlease components in a contract and is applying election this to all operating leases.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

NOTE 3 – Cash and Interest-Bearing Deposits

As of December 31, 2022, 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
Truist	Checking	13,839	-	13,839
Mutual of Omaha	Checking	1,107,521	-	1,107,521
Truist	Money Market	211,009	-	211,008
Forbright Bank	Money Market	217,416	-	217,41
Morgan Stanley	Money Markets (3)	497,710	-	497,710
Morgan Stanley (Various institutions)	Certificates of Deposit (49)	-	10,965,000	10,965,000
Totals		<u>\$ 2,047,745</u>	<u>\$ 10,965,000</u>	<u>\$ 13,012,745</u>

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>

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. At December 31, 2022 and 2021, cash balances did not exceed FDIC insured limits.

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, 2022 and 2021 are summarized below:

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

NOTE 4 – Investments (Continued)

December 31, 2022,

Investment Category	Amortized Cost	Gross Unrealized Loss	Fair Value
U.S. Treasury and obligations of U.S. Government Agencies	\$541,897	\$ (7,431)	\$534,466

December 31, 2021,

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

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.

	2022	2021
Assessments receivable	\$ 54,850	\$ 48,805
Less: Allowance for doubtful accounts	(30,130)	(35,418)
Assessments receivable – net	\$ 24,720	\$ 13,387

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 2022 and 2021 was \$52,306 and \$43,804, respectively.

	2022	2021
Automobiles/trucks	\$ 400,137	\$ 400,137
Furniture and equipment	191,293	51,869
Less: Accumulated Depreciation	(398,917)	(270,339)
Equipment - net	\$ 192,513	\$ 181,667

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

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, 2022, and 2021, funds designated for future major repairs and replacements of the common property totaled \$9,497,619 and \$9,365,737, 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 \$1,267,200 has been included in the Corporation's 2023 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 2022 and 2021, 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 2022 and 2021, the Corporation elected to contribute disclosure packet income of \$57,175 and \$78,525 respectively to this fund. Additionally, interest income of \$14,786 and \$6,530 was contributed to the fund during 2022 and 2021, respectively.

South Riding Proprietary, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

NOTE 11 – General Operating Reserve

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2022, and 2021, the balance of this fund was \$571,046 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, 2022 and 2021, the Corporation contributed \$69,450 and \$63,416, respectively to the plan.

NOTE 13 – Operating Lease

The Corporation leases copier/printer equipment under a sixty-three month operating lease that expires in September 2025, from Xerox Corporation, for \$684 per month. The lease agreement does not contain any material residual value guarantees or material restrictive covenants.

	<u>2022</u>	<u>2021</u>
Operating leases		
Lease payments, included in office supplies and equipment		\$ 8,208
Lease expense, included in office supplies and equipment	\$ 8,208	
	<u>\$ 8,208</u>	<u>\$ 8,208</u>

	<u>2022</u>
Weighted average remaining lease term (years)	
Operating leases	2.75
Weighted average discount rate	
Operating leases	1.26%

Future minimum operating lease payments as of December 31, 2022:

2023	\$ 8,208
2024	8,208
2025	6,157
	<u>\$ 22,573</u>

South Riding Proprietary, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

NOTE 13 – Operating Lease (Continued)

Future minimum lease payments under previous lease guidance as of December 31, 2021:

2022	\$	8,208
2023		8,208
2024		8,208
2025		6,157
	\$	<u>30,781</u>

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, 2021, from which summarized information was derived.

NOTE 15 – Contingencies and Uncertainties

The Corporation is, from time to time, involved in litigation incidental to its business. The Corporation believes that the results of ongoing and other pending legal proceedings will not have a material adverse effect on the financial condition, results of operations or liquidity of the Corporation.

NOTE 16 – Prior Period Adjustment

During 2022, management discovered financial statement error that caused an overstatement of previously reported retained earnings of \$42,182. The prior period adjustments all pertain to fixed assets.

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
Operating fund	\$ 1,090,672	\$ 42,182	\$ 1,132,854

NOTE 17 – Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through August 3, 2023, the date that the financial statements were available to be issues.

Required Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2022

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.