

South Riding Proprietary, Inc.

Audited Financial Statements
December 31, 2024 and 2023

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South Riding Proprietary, Inc.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of South Riding Proprietary, Inc., which comprise the balance sheet as of December 31, 2024, 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, 2024, 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, 2023 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 7, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, 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.



Newport News, Virginia
September 29, 2025

South Riding Proprietary, Inc.

Balance Sheets

For the Years Ended December 31, 2024 and 2023

ASSETS						
	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2024	2023
Assets						
Cash and cash equivalents	\$ 2,197,982	\$ 194,195	\$ 296,248	\$ 406,168	\$ 3,094,593	\$ 2,225,082
Interest bearing deposits - short term	-	480,000	1,440,000	2,600,000	4,520,000	5,000,000
Interest bearing deposits - long term	-	-	-	6,690,000	6,690,000	6,400,000
Assessments receivable (net of allowance for credit losses of \$55,750 for 2024 and \$45,489 for 2023)	42,706	-	-	-	42,706	64,925
Accrued interest receivable	9,582	-	30,943	47,139	87,664	73,478
Prepaid expenses	101,013	-	30,600	-	131,613	119,936
Insurance claims receivable	8,235	-	-	-	8,235	8,235
Property and equipment-net	185,691	-	-	-	185,691	229,419
Operating lease right-of-use asset, net	6,123	-	-	-	6,123	14,199
Interfund borrowings	(490,506)	(1,048)	521,891	(30,337)	-	-
Total assets	<u>\$ 2,060,826</u>	<u>\$ 673,147</u>	<u>\$ 2,319,682</u>	<u>\$ 9,712,970</u>	<u>\$ 14,766,625</u>	<u>\$ 14,135,274</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 110,286	\$ -	\$ -	\$ -	\$ 110,286	\$ 218,601
Operating lease right-of-use liability	6,123	-	-	-	6,123	14,199
Deferred revenue	50,041	-	-	-	50,041	44,586
Prepaid assessments	432,056	-	-	-	432,056	419,029
Total liabilities	<u>598,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>598,506</u>	<u>696,415</u>
Fund balance						
General operating reserve	-	673,147	-	-	673,147	652,489
Replacement reserve fund	-	-	-	9,712,970	9,712,970	9,400,352
Capital improvement fund	-	-	2,319,682	-	2,319,682	2,044,481
Unappropriated fund balance	1,462,320	-	-	-	1,462,320	1,341,537
Total fund balance	<u>1,462,320</u>	<u>673,147</u>	<u>2,319,682</u>	<u>9,712,970</u>	<u>14,168,119</u>	<u>13,438,859</u>
Total liabilities and fund balance	<u>\$ 2,060,826</u>	<u>\$ 673,147</u>	<u>\$ 2,319,682</u>	<u>\$ 9,712,970</u>	<u>\$ 14,766,625</u>	<u>\$ 14,135,274</u>

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

South Riding Proprietary, Inc.

Statements of Revenues and Expenses

For the Years Ended December 31, 2024 and 2023

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2024	2023
Revenues						
Assessments	\$ 6,444,168	\$ -	\$ -	\$ 1,292,600	\$ 7,736,768	\$ 7,471,028
Disclosure packets	72,266	-	-	-	72,266	64,469
Late fees	34,750	-	-	-	34,750	34,700
Legal fees	23,188	-	-	-	23,188	47,817
Violation fees	2,333	-	-	-	2,333	2,262
Advertising	50,502	-	-	-	50,502	40,053
Celebrate South Riding	185,264	-	-	-	185,264	183,635
Community activities	37,660	-	-	-	37,660	25,649
Interest	415,626	-	-	-	415,626	300,895
Other income	108,638	-	-	-	108,638	90,989
Total revenues	7,374,395	-	-	1,292,600	8,666,995	8,261,497
Expenses						
Administrative (common)						
Management staff and related	641,460	-	-	-	641,460	652,700
Financial management	170,303	-	-	-	170,303	167,003
Legal and audit	98,506	-	-	-	98,506	66,004
Professional consultation	17,146	-	-	-	17,146	51,714
Insurance	165,103	-	-	-	165,103	146,479
Administrative	49,604	-	-	-	49,604	88,161
Office supplies and equipment	11,982	-	-	-	11,982	10,664
Magazine	168,086	-	-	-	168,086	181,288
Information technology	100,476	-	-	-	100,476	116,431
Community events	75,726	-	-	-	75,726	78,269
Election committee	14,067	-	-	-	14,067	14,363
Committee and task force	34,108	-	-	-	34,108	41,853
Celebrate South Riding	281,356	-	-	-	281,356	327,589
Oktoberfest	16,370	-	-	-	16,370	996
Summer concerts	23,075	-	-	-	23,075	13,650
Star spangled	76,180	-	-	-	76,180	57,547
Bad debt	14,136	-	-	-	14,136	18,272
Depreciation	55,443	-	-	-	55,443	57,387
Total administrative (common)	2,013,127	-	-	-	2,013,127	2,090,370

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

South Riding Proprietary, Inc.

Statements of Revenues and Expenses (Continued)

For the Years Ended December 31, 2024 and 2023

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2024	2023
Expenses Operating (common)						
Community common area	1,455,531	-	260,621	3,816	1,719,968	1,566,849
Community roadsides	194,559	-	-	268,024	462,583	498,972
Landscape and Irrigation	-	-	-	77,491	77,491	-
Pond	-	-	-	31,542	31,542	-
Signage	-	-	-	29,331	29,331	-
Gain/loss on disposal	1,166	-	-	-	1,166	7,115
Other	61,251	-	10,955	16,544	88,750	150,526
Total operating (common)	1,712,507	-	271,576	426,748	2,410,831	2,223,462
Recreation facilities						
Payroll and related	387,074	-	-	-	387,074	366,751
Pool	638,160	-	-	244,053	882,213	626,899
Town hall	42,380	-	-	-	42,380	51,197
Tennis courts	3,779	-	30,405	101,664	135,848	305,399
Utilities	73,011	-	-	-	73,011	79,888
Playground	-	-	12,916	35,968	48,884	146,648
Other	27,617	-	-	-	27,617	41,366
Total recreation facilities	1,172,021	-	43,321	381,685	1,597,027	1,618,148
Operating (general)						
Single family homes	1,139,179	-	-	39,003	1,178,182	1,181,924
Townhomes	860,539	-	-	233,901	1,094,440	889,389
Total operating (general)	1,999,718	-	-	272,904	2,272,622	2,071,313
Other						
Amberlea trash removal	162,081	-	-	-	162,081	134,633
SR town center trash	7,047	-	-	-	7,047	5,902
Total other	169,128	-	-	-	169,128	140,535
Total expenses	7,066,501	-	314,897	1,081,337	8,462,735	8,143,828
Excess revenues over expenses (expenses over revenues)	\$ 307,894	\$ -	\$ (314,897)	\$ 211,263	\$ 204,260	\$ 117,669

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

South Riding Proprietary, Inc.**Statements of Changes in Fund Balance****For the Years Ended December 31, 2024 and 2023**

	Operating Fund	General Operating Reserves	Capital Improvement Fund	Replacement Reserves	Total
Balance as of December 31, 2022	\$ 953,337	\$ 571,046	\$ 2,299,188	\$ 9,497,619	\$ 13,321,190
Excess of revenues over expenses (expenses over revenues)	362,823	-	(266,010)	20,856	117,669
Transfer between funds	25,377	81,443	11,303	(118,123)	-
Balance as of December 31, 2023	<u>1,341,537</u>	<u>652,489</u>	<u>2,044,481</u>	<u>9,400,352</u>	<u>13,438,859</u>
Excess of revenues over expenses (expenses over revenues)	307,894	-	(314,897)	211,263	204,260
Transfer between funds	(187,111)	20,658	65,098	101,355	-
Capital contribution received from developer	-	-	525,000	-	525,000
Balance as of December 31, 2024	<u>\$ 1,462,320</u>	<u>\$ 673,147</u>	<u>\$ 2,319,682</u>	<u>\$ 9,712,970</u>	<u>\$ 14,168,119</u>

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

South Riding Proprietary, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2024 and 2023

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2024	2023
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ 307,894	\$ -	\$ (314,897)	\$ 211,263	\$ 204,260	\$ 117,669
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	55,443	-	-	-	55,443	57,387
Loss on disposition of property and equipment	1,166	-	-	-	1,166	7,115
Operating lease right-of-use asset	(8,076)	-	-	-	(8,076)	(7,975)
Bad debt (recovery)	14,136	-	-	-	14,136	18,272
Decrease (increase)						
Assessments receivable	8,083	-	-	-	8,083	(58,477)
Accrued interest	(3,548)	-	2,713	(13,351)	(14,186)	(45,718)
Prepaid expenses	(11,677)	-	-	-	(11,677)	5,814
Insurance claims receivable	-	-	-	-	-	(8,235)
Increase (decrease)						
Accounts payable	(32,856)	-	-	(75,459)	(108,315)	22,684
Operating lease right-of-use liability	8,076	-	-	-	8,076	7,975
Deferred income	5,455	-	-	-	5,455	11,242
Prepaid assessments	13,027	-	-	-	13,027	44,095
Net cash provided by (used in) operating activities	357,123	-	(312,184)	122,453	167,392	171,848
Cash flows from investing activities						
Acquisition of property and equipment	(12,881)	-	-	-	(12,881)	(101,408)
Redemptions of investments	-	240,000	1,200,000	2,750,000	4,190,000	4,626,897
Purchases of investments	-	(240,000)	(960,000)	(2,800,000)	(4,000,000)	(4,520,000)
Net cash provided by (used in) investing activities	(12,881)	-	240,000	(50,000)	177,119	5,489
Cash flows from financing activities						
Capital contribution received from developer	-	-	525,000	-	525,000	-
Interfund borrowings/repayments	534,359	1,084	(550,972)	15,529	-	-
Interfund transfers	(187,111)	20,658	65,098	101,355	-	-
Net cash provided by (used in) financing activities	347,248	21,742	39,126	116,884	525,000	-

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

South Riding Proprietary, Inc.

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2024 and 2023

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2024	2023
Increase (decrease) in cash and cash equivalents	691,490	21,742	(33,058)	189,337	869,511	177,337
Cash and cash equivalents - beginning of year	1,506,492	172,453	329,306	216,831	2,225,082	2,047,745
Cash and cash equivalents - end of year	<u>\$ 2,197,982</u>	<u>\$ 194,195</u>	<u>\$ 296,248</u>	<u>\$ 406,168</u>	<u>\$ 3,094,593</u>	<u>\$ 2,225,082</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

December 31, 2024 and 2023

NOTE 1 – Nature of Operations

South Riding Proprietary, Inc. (The “Association”), a non-profit membership Association was organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the commonly owned properties of the Association. The Association is located in South Riding, Virginia and consists of 6,564 units (including apartments). The Association administers the operations of the community.

NOTE 2 – Summary of Significant Accounting Policies

Fund Accounting

The Association’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 Association 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 Association.

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 Association’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 Association 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

December 31, 2024 and 2023

NOTE 2 – Significant Accounting Policies (Continued)

Interest-Bearing Deposits

Certificates of deposit are stated at cost, which approximates fair value. The Organization's certificates of deposit are intended to be held to maturity and are classified based on their maturity dates. Certificates maturing within one year of the balance sheet date are reported as current assets, while those with maturities beyond one year are reported as noncurrent assets. All certificates of deposit had original maturities greater than three months at the time of purchase and are therefore excluded from cash and cash equivalents in the statement of financial position and the statement of cash flows.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association 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 Association'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 Association for use in future years. The Association utilizes the allowance method to account for bad debt.

The revenue received by the Association 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.

Depreciation

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

Leases

The Association holds a copier lease. The Association determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the Association's balance sheet. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the Association's balance sheet.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Association's leases do not provide an implicit rate, the Association uses a risk-free rate based on the information available at commencement date in determining the present value of the lease payments. The operating lease ROU assets also included any lease payments made and excludes lease incentives. The Association's lease term may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2024 and 2023

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

The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Allowance for Credit Losses

Effective January 1, 2023, the Association adopted the provisions of FASB ASC 326, Financial Instruments – Credit Losses, which replaced the incurred loss methodology with the current expected credit loss (CECL) model for financial assets measured at amortized cost. The Association's financial assets subject to this guidance include assessments receivable. The adoption did not have a material effect on the financial statements and did not result in a significant change in the allowance methodology. Enhanced disclosures are included in accordance with the standard.

NOTE 3 – Cash and Interest-Bearing Deposits

As of December 31, 2024, the Association maintained its cash and cash equivalents and short term interest bearing deposits in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits (ST)</u>	<u>Total</u>
Petty Cash	Imprest	\$ 250	\$ -	\$ 250
Truist	Checking	29,761	-	29,761
First Citizens	Checking	1,956,921	-	1,956,921
Truist	Money Market	211,050	-	211,050
Forbright Bank	Money Market	235,998	-	235,998
Morgan Stanley	Money Markets (3)	660,613	-	660,613
(Various institutions)	Certificates of Deposit (19)	-	4,520,000	4,520,000
Totals		<u>3,094,593</u>	<u>4,520,000</u>	<u>7,614,593</u>

As of December 31, 2023, the Association maintained its cash and cash equivalents and short term interest bearing deposits in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits (ST)</u>	<u>Total</u>
Petty Cash	Imprest	\$ 250	\$ -	\$ 250
Truist	Checking	21,348	-	21,348
First Citizens	Checking	1,273,865	-	1,273,865
Truist	Money Market	211,029	-	211,029
Forbright Bank	Money Market	226,423	-	226,423
Morgan Stanley	Money Markets (3)	492,167	-	492,167
(Various institutions)	Certificates of Deposit (19)	-	5,000,000	5,000,000
Totals		<u>2,225,082</u>	<u>5,000,000</u>	<u>7,225,082</u>

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2024 and 2023

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

As of December 31, 2024 and 2023, the Association had long-term interest-bearing deposits of \$6,690,000 at 28 various institutions and \$6,400,000 at 27 different institutions, respectively.

Balances at banks and all certificates of deposit are insured by the FDIC for up to \$250,000 per financial institution. At December 31, 2024 cash balances exceeded FDIC insured limits by \$79,808. At December 31, 2023 cash balances exceeded FDIC insured limits by \$218,590.

NOTE 4 – Fixed Assets-Net

Equipment is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2024 and 2023 was \$55,443 and \$57,387, respectively.

	2024	2023
Property and equipment	\$ 689,045	\$ 679,483
Less: Accumulated Depreciation	(503,354)	(450,064)
Equipment - net	<u>\$ 185,691</u>	<u>\$ 229,419</u>

NOTE 5 – Replacement Reserves

The Association'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, 2024, and 2023, funds designated for future major repairs and replacements of the common property totaled \$9,712,970 and \$9,475,811, respectively.

During 2024, 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 \$1,479,700 has been included in the Associations 2025 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 Association has the right, under certain circumstances, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 6 – Income Taxes

The Association is a non-stock, nonprofit organization, which holds tax-exempt status under Section 501(c)(4) of the Internal Revenue Code. The Association obtained this status in 2009. No provision for income taxes is required since the Association has no unrelated business taxable income.

NOTE 7 – Capital Improvement Fund

During 2007, the Association established a capital improvement fund for new facilities, property and equipment, and amenities that benefit the community. During 2024 and 2023, the Association elected not to contribute disclosure packet income or interest income to this fund. The Association received \$525,000 from a developer which was contributed to this fund during the year-ended December 31, 2024; see footnote 13 for more details on this contribution.

NOTE 8 – General Operating Reserve

The Association has established a general operating reserve for unexpected contingencies. As of December 31, 2024 and 2023, the balance of this fund was \$673,147 and \$652,453, respectively. The general operating reserve was funded by cash and interest-bearing deposits.

NOTE 9 – Employee Pension Plan

The Association established a 401k plan for its employees. The agreement establishes a plan for the making of contributions by the Association 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 Association are subject to a three-year vesting period. For the years ended December 31, 2024 and 2023, the Association contributed \$63,385 and \$59,142, respectively to the plan.

NOTE 10 – Operating Lease

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

	<u>2024</u>	<u>2023</u>
<u>Operating leases</u>		
Lease expense, included in office supplies and equipment	\$ 8,208	\$ 8,208
	<u>2024</u>	<u>2023</u>
Weighted average remaining lease term (years)		
Operating leases	.75	1.75
Weighted average discount rate		
Operating leases	1.26%	1.26%

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 10 – Operating Lease (Continued)

Future minimum operating lease payments as of December 31, 2024:

2025	6,123
	<u>\$ 6,123</u>

Future minimum operating lease payments as of December 31, 2023:

2024	8,076
2025	6,123
	<u>\$ 14,199</u>

NOTE 11 – 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 Association's financial statements for the year ended December 31, 2023, from which summarized information was derived.

NOTE 12 – Contingencies and Uncertainties

The Association is, from time to time, involved in litigation incidental to its business. The Association 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 Association.

NOTE 13 – Land Conveyance

On October 7, 2024, South Riding Proprietary, Inc. (the "Association") entered into a Land Conveyance Agreement with CH Realty X-JLB MF Virginia Defender, L.L.C. ("JLB"), under which the Association received 10.41 acres of land (Parcel A-1) and \$525,000 in cash. The agreement also provided for the annexation of both Parcel A-1 and an adjacent multifamily parcel, Parcel B-2, (retained by JLB) into the South Riding community.

The Association agreed to construct a 54,000 square-foot Play Field on Parcel A-1 in accordance with zoning proffers and Loudoun County approvals. The final site plan was approved on September 25, 2024, starting a twelve-month completion period. If completed timely, the Association may receive up to an additional \$500,000; \$250,000 upon field completion and \$250,000 upon the first certificate of occupancy for the multifamily project. If not completed timely, the Association forfeits the additional payments and JLB may complete the field under an easement granted in the agreement.

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2024 and 2023

NOTE 13 – Land Conveyance (continued)

Annexation terms were formalized in a Supplemental Declaration. While the Land Conveyance Agreement stipulates that general assessments for Parcel B-2 are limited to the equivalent of one unit per four constructed residential units, the Supplemental Declaration states that further assessments for limited common or recreational facilities apply only if elected by the parcel owner. The \$525,000 received was recorded as a capital contribution. As the Association does not capitalize common property, construction costs are expensed as incurred. As of December 31, 2024, the Association has not made any payments towards the project and has entered into a \$124,000 contract for engineering, surveying, and landscape architectural services.

NOTE 14 – Reclassification of Prior Year Amounts

During the year-ended December 31, 2024, the Association reviewed its classification of certain interest-bearing deposits and determined that a portion of these deposits, previously presented as short-term assets, more appropriately meet the criteria for long-term classification based on their contractual maturities.

Accordingly, prior year amounts have been reclassified to conform to the current year presentation. This reclassification had no effect on total assets, net assets, or the change in net assets for the prior year.

NOTE 15 – Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 30, 2025, the date that the financial statements were available to be issued.

Required Supplementary Information

South Riding Proprietary, Inc.

Schedule of Future Major Repairs and Replacements

December 31, 2024

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 2024 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	1-19	\$ 674,284
Concrete sidewalks	0-30	21,620,000
Fences	0-13	95,980
Fishing pier	10-15	76,500
Irrigation system	1-14	337,400
Landscape, street trees and enhancements	0	93,000
Playground equipment and other park elements	1-17	1,997,200
Ponds	1-30	3,114,800
Signage	12-28	553,000
Sport courts	0-40	754,600
Other property site elements	0-14	183,855
Maintenance building elements	7-22	154,040
Maintenance equipment	1-17	640,500
Total Common Reserve Expenditures		30,295,159
Recreation Reserve Expenditures		
Hyland Hills Recreation Area (pool house and pool elements)	1-34	3,038,082
Meadows Recreation Area (pool house and pool elements)	1-37	2,168,647
South Riding Center Recreational Area		
Community building exterior, interior and services elements	1-24	728,375
Pool elements	1-40	1,188,970
Town Hall Recreation Area		
Community building exterior, interior and services elements	0-24	573,785
Pool elements	0-32	1,122,337
Total Recreation Reserve Expenditures		8,820,196
Townhomes (asphalt, sidewalks & other)	0-39	17,329,510
Single Family Homes (asphalt & other)	0-38	6,175,760
		\$ 62,620,625

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