

South Riding Proprietary, Inc.

**Audited Financial Statements
December 31, 2023 and 2022**

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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, 2023, 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, 2023, 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, 2022 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 3, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, 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
August 7, 2024

South Riding Proprietary, Inc.

Balance Sheets

For the Years Ended December 31, 2023 and 2022

	ASSETS					
	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2023	2022
Assets						
Cash and cash equivalents	\$ 1,506,492	\$ 172,453	\$ 329,306	\$ 216,831	\$ 2,225,082	\$ 2,047,745
Interest bearing deposits	-	480,000	1,680,000	9,240,000	11,400,000	10,965,000
Investments	-	-	-	-	-	541,897
Assessments receivable (net of allowance for credit losses of \$45,489 for 2023 and \$30,130 for 2022)	64,925	-	-	-	64,925	24,720
Accrued interest receivable	6,034	-	33,656	33,788	73,478	27,760
Prepaid expenses	89,336	-	30,600	-	119,936	125,750
Insurance claims receivable	8,235	-	-	-	8,235	-
Property and equipment-net	229,419	-	-	-	229,419	192,513
Operating lease right-of-use asset, net	14,199	-	-	-	14,199	22,174
Interfund borrowings	43,853	36	(29,081)	(14,808)	-	-
Total assets	\$ 1,962,493	\$ 652,489	\$ 2,044,481	\$ 9,475,811	\$ 14,135,274	\$ 13,947,559
	LIABILITIES AND FUND BALANCE					
Liabilities						
Accounts payable	\$ 143,142	\$ -	\$ -	\$ 75,459	\$ 218,601	\$ 195,917
Operating lease right-of-use liability	14,199	-	-	-	14,199	22,174
Deferred revenue	44,586	-	-	-	44,586	33,344
Prepaid assessments	419,029	-	-	-	419,029	374,934
Total liabilities	620,956	-	-	75,459	696,415	626,369
Fund balance						
General operating reserve	-	652,489	-	-	652,489	571,046
Replacement reserve fund	-	-	-	9,400,352	9,400,352	9,497,619
Capital improvement fund	-	-	2,044,481	-	2,044,481	2,299,188
Unappropriated fund balance	1,341,537	-	-	-	1,341,537	953,337
Total fund balance	1,341,537	652,489	2,044,481	9,400,352	13,438,859	13,321,190
Total liabilities and fund balance	\$ 1,962,493	\$ 652,489	\$ 2,044,481	\$ 9,475,811	\$ 14,135,274	\$ 13,947,559

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, 2023 and 2022

Revenues	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2023	2022
Assessments	\$ 6,203,828	\$ -	\$ -	\$ 1,267,200	\$ 7,471,028	\$ 6,958,994
Disclosure packets	64,469	-	-	-	64,469	57,175
Late fees	34,700	-	-	-	34,700	28,650
Legal fees	47,817	-	-	-	47,817	11,369
Violation fees	2,262	-	-	-	2,262	2,004
Advertising	40,053	-	-	-	40,053	56,035
Celebrate South Riding	183,635	-	-	-	183,635	187,328
Community activities	25,649	-	-	-	25,649	34,769
Interest	300,895	-	-	-	300,895	145,419
Other income	90,989	-	-	-	90,989	131,090
Total revenues	6,994,297	-	-	1,267,200	8,261,497	7,612,833
Expenses						
Administrative (common)						
Management staff and related	652,700	-	-	-	652,700	737,955
Financial management	167,003	-	-	-	167,003	159,081
Legal and audit	66,004	-	-	-	66,004	117,717
Professional consultation	51,714	-	-	-	51,714	14,554
Insurance	146,479	-	-	-	146,479	147,841
Administrative	88,161	-	-	-	88,161	79,083
Office supplies and equipment	10,664	-	-	-	10,664	13,973
Magazine	181,288	-	-	-	181,288	186,657
Information technology	116,431	-	-	-	116,431	82,014
Community events	78,269	-	-	-	78,269	61,370
Election committee	14,363	-	-	-	14,363	13,298
Committee and task force	41,853	-	-	-	41,853	43,907
Celebrate South Riding	327,589	-	-	-	327,589	199,034
Oktoberfest	996	-	-	-	996	-
Summer concerts	13,650	-	-	-	13,650	17,740
Star spangled	57,547	-	-	-	57,547	51,394
Bad debt	18,272	-	-	-	18,272	(2,268)
Depreciation	57,387	-	-	-	57,387	52,306
Total administrative (common)	2,090,370	-	-	-	2,090,370	1,975,656

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, 2023 and 2022

Expenses	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2023	2022
Operating (common)						
Community common area	1,278,174	-	70,566	218,109	1,566,849	1,877,823
Community roadsides	205,686	-	55,926	237,360	498,972	312,497
Signage	-	-	-	-	-	357,089
Gain/loss on disposal	7,115	-	-	-	7,115	3,525
Other	42,112	-	13,242	95,172	150,526	87,069
Total operating (common)	1,533,087	-	139,734	550,641	2,223,462	2,638,003
Recreation facilities						
Payroll and related	366,751	-	-	-	366,751	381,822
Pool	526,035	-	-	100,864	626,899	497,224
Town hall	39,176	-	-	12,021	51,197	98,865
Tennis courts	6,808	-	6,500	292,091	305,399	2,213
Utilities	79,888	-	-	-	79,888	105,394
Playground	-	-	119,776	26,872	146,648	100,753
Other	27,155	-	-	14,211	41,366	44,690
Total recreation facilities	1,045,813	-	126,276	446,059	1,618,148	1,230,961
Operating (general)						
Single family homes	1,067,209	-	-	114,715	1,181,924	1,380,569
Townhomes	754,460	-	-	134,929	889,389	964,101
Total operating (general)	1,821,669	-	-	249,644	2,071,313	2,344,670
Other						
Amberlea trash removal	134,633	-	-	-	134,633	128,398
SR town center trash	5,902	-	-	-	5,902	5,583
Total other	140,535	-	-	-	140,535	133,981
Total expenses	6,631,474	-	266,010	1,246,344	8,143,828	8,323,271
Excess revenues over expenses (expenses over revenues)	\$ 362,823	\$ -	\$ (266,010)	\$ 20,856	\$ 117,669	\$ (710,438)

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, 2023 and 2022

	<u>Operating Fund</u>	<u>General Operating Reserves</u>	<u>Capital Improvement Fund</u>	<u>Replacement Reserves</u>	<u>Total</u>
Balance as of December 31, 2021	\$ 1,132,854	\$ 569,108	\$ 2,963,929	\$ 9,365,737	\$ 14,031,628
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>
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>

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, 2023 and 2022

	Operating Fund	General Operating Reserve	Capital Improvement Fund	Replacement Reserves	Totals	
					2023	2022
Cash flows from operating activities						
Excess of revenues over expenses (expenses over revenues)	\$ 362,823	\$ -	\$ (266,010)	\$ 20,856	\$ 117,669	\$ (710,438)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:						
Depreciation	57,387	-	-	-	57,387	52,306
Loss on disposition of property and equipment	7,115	-	-	-	7,115	3,525
Operating lease right-of-use asset	(7,975)	-	-	-	(7,975)	-
Bad debt (recovery)	18,272	-	-	-	18,272	(5,292)
Decrease (increase)						
Assessments receivable	(58,477)	-	-	-	(58,477)	(6,041)
Accrued interest	(2,949)	-	(25,845)	(16,924)	(45,718)	(12,493)
Prepaid expenses	5,814	-	-	-	5,814	(17,824)
Insurance claims receivable	(8,235)	-	-	-	(8,235)	-
Increase (decrease)						
Accounts payable	(52,775)	-	-	75,459	22,684	(138,358)
Operating lease right-of-use liability	7,975	-	-	-	7,975	-
Deferred income	11,242	-	-	-	11,242	(5,053)
Prepaid assessments	44,095	-	-	-	44,095	(27,214)
Net cash provided by (used in) operating activities	384,312	-	(291,855)	79,391	171,848	(866,882)
Cash flows from investing activities						
Acquisition of property and equipment	(101,408)	-	-	-	(101,408)	(24,495)
Redemptions of investments	-	480,000	1,900,000	2,246,897	4,626,897	4,010,000
Purchases of investments	-	(480,000)	(1,680,000)	(2,360,000)	(4,520,000)	(3,223,890)
Net cash provided by (used in) investing activities	(101,408)	-	220,000	(113,103)	5,489	761,615
Cash flows from financing activities						
Interfund borrowings/repayments	(134,408)	(82)	120,642	13,848	-	-
Interfund transfers	25,377	81,443	11,303	(118,123)	-	-
Net cash provided by (used in) financing activities	(109,031)	81,361	131,945	(104,275)	-	-

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, 2023 and 2022

	Operating	General	Capital	Replacement	Totals	
	Fund	Operating Reserve	Improvement Fund	Reserves	2023	2022
Increase (decrease) in cash and cash equivalents	173,873	81,361	60,090	(137,987)	177,337	(105,267)
Cash and cash equivalents - beginning of year	1,332,619	91,092	269,216	354,818	2,047,745	2,153,012
Cash and cash equivalents - end of year	<u>\$ 1,506,492</u>	<u>\$ 172,453</u>	<u>\$ 329,306</u>	<u>\$ 216,831</u>	<u>\$ 2,225,082</u>	<u>\$ 2,047,745</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, 2023 and 2022

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

December 31, 2023 and 2022

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.

Depreciation

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

Leases

The Corporation holds a copier lease. The Corporation 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 Corporation's balance sheet. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the Corporation's balance sheet.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent the Corporation'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 Corporation's leases do not provide an implicit rate, the Corporation 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 Corporation's lease term may include options to extend or terminate the lease when it is reasonably certain that the Corporation 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, 2023 and 2022

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

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

Recently Adopted Accounting Guidance, Allowance for Credit Losses

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an Association's exposure to credit risk and the measurement of credit losses. Financial assets held by the Association that are subject to the guidance in FASB ASC 326 was assessments receivable.

We adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

NOTE 3 – Cash and Interest-Bearing Deposits

As of December 31, 2023, 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	21,348	-	21,348
First Citizens	Checking	1,273,865	-	1,273,866
Truist	Money Market	211,029	-	211,029
Forbright Bank	Money Market	226,423	-	226,423
Morgan Stanley	Money Markets (3)	492,167	-	489,386
(Various institutions)	Certificates of Deposit (49)	-	11,400,000	11,400,000
Totals		<u>\$ 2,225,082</u>	<u>\$ 11,400,000</u>	<u>\$ 13,625,082</u>

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2023 and 2022

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

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
First Citizens	Checking	1,107,521	-	1,107,521
Truist	Money Market	211,009	-	211,009
Forbright Bank	Money Market	217,416	-	217,416
Morgan Stanley	Money Markets (3)	497,710	-	497,710
(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>

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. At December 31, 2023 cash balances exceeded FDIC insured limits by \$218,590. At December 31, 2022, 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, 2023 and 2022 are summarized below:

December 31, 2023,

<u>Investment Category</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Loss</u>	<u>Fair Value</u>
U.S. Treasury and obligations of U.S. Government Agencies	\$0	\$0	\$0

December 31, 2022,

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

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 5 – Fixed Assets-Net

Equipment is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2023 and 2022 was \$57,387 and \$52,306, respectively.

	<u>2023</u>	<u>2022</u>
Property and equipment	\$ 679,483	\$ 591,430
Less: Accumulated Depreciation	(450,064)	(398,917)
Equipment - net	<u>\$ 229,419</u>	<u>\$ 192,513</u>

NOTE 6 – 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, 2023, and 2022, funds designated for future major repairs and replacements of the common property totaled \$9,475,811 and \$9,497,619, 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 \$1,292,600 has been included in the Corporations 2024 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 7 – 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 8 – 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 2023 and 2022, the

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 8 – Capital Improvement Fund (Continued)

Corporation elected to contribute disclosure packet income of \$0 and \$57,175 respectively to this fund. Additionally, interest income of \$0 and \$14,786 was contributed to the fund during 2023 and 2022, respectively.

NOTE 9 – General Operating Reserve

The Corporation has established a general operating reserve for unexpected contingencies. As of December 31, 2023 and 2022, the balance of this fund was \$652,453 and \$571,046, respectively. The general operating reserve was funded by cash and interest-bearing deposits.

NOTE 10 – 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, 2023 and 2022, the Corporation contributed \$59,142 and \$69,450, respectively to the plan.

NOTE 11 – 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>2023</u>	<u>2022</u>
<u>Operating leases</u>		
Lease expense, included in office supplies and equipment	\$ 8,208	\$ 8,208
	<u>\$ 8,208</u>	<u>\$ 8,208</u>
	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term (years)		
Operating leases	1.75	2.75
Weighted average discount rate		
Operating leases	1.26%	1.26%

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

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

South Riding Proprietary, Inc.

Notes to Financial Statements

December 31, 2023 and 2022

NOTE 11 – Operating Lease (Continued)

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

2023	\$	7,975
2024		8,076
2025		6,123
	\$	<u>22,174</u>

NOTE 12 – 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, 2022, from which summarized information was derived.

NOTE 13 – 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 14 – Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through August 7, 2024, 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, 2023

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

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