

**RIVERSOUND PROPERTY OWNERS ASSOCIATION, INC.
EDENTON, NORTH CAROLINA**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022**

**APPROVAL DRAFT
FOR DISCUSSION PURPOSES ONLY
J.C. KUNKLE & ASSOCIATES, A.C.**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To The Board of Directors
Riversound Property Owners Association, Inc.
Edenton, North Carolina

We have reviewed the accompanying financial statements of Riversound Property Owners Association, Inc. (a non-profit organization) which comprise the Statement of Assets, Liabilities, and Net Assets - Income Tax Basis as of December 31, 2022, and the related Statements of Revenues, Expenses and Changes in Net Assets - Income Tax Basis, Cash Flows - Income Tax Basis, and Functional Expenses - Income Tax Basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Association uses for income tax purposes; this includes determining that the basis of accounting the Association uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the Association uses for income tax purposes. We believe the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Riversound Property Owners Association, Inc. and meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the Association uses for income tax purposes.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Association uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 4, the Association has not estimated the required costs of infrastructure improvements to common property, replacement costs of the common property and remaining useful lives of common property and, therefore, has not presented information about the estimates of future costs of major infrastructure improvements, repairs, and replacements that will be required. This information is customarily presented to supplement the basic financial statements.

J.E. KUNKLE & ASSOCIATES, A.C.

Martinsburg, West Virginia
July 6, 2023

Riversound Property Owners Association, Inc.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - INCOME TAX BASIS
 December 31, 2022

ASSETS

CURRENT ASSETS

Cash \$ 238,037

Restricted assets:

Cash \$ 716,104

Investments 764,928

Total restricted assets 1,481,032

Total current assets 1,719,069

PROPERTY AND EQUIPMENT

Land 86,772

Wastewater treatment equipment 62,486

149,258

Accumulated depreciation 10,720

Total property and equipment 138,538

Total assets \$ 1,857,607

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Deferred dues \$ 607

Total current liabilities 607

NET ASSETS

Without donor restrictions 375,968

With donor restrictions 1,481,032

Total net assets 1,857,000

Total liabilities and net assets \$ 1,857,607

See independent accountants review report and notes to financial statements.

Riversound Property Owners Association, Inc.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - INCOME TAX BASIS
For the year ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
Dues	\$ 170,933	\$ -	\$ 170,933
Other assessments	4,163	-	4,163
Interest	12,306	-	12,306
Other	1,350	-	1,350
Net assets released from restrictions	<u>46,117</u>	<u>(46,117)</u>	<u>-</u>
Total support and revenues and	<u>234,869</u>	<u>(46,117)</u>	<u>188,752</u>
EXPENSES			
Program services - maintenance, preservation, and control of common areas	236,474	-	236,474
Supporting services	<u>5,238</u>	<u>-</u>	<u>5,238</u>
Total expenses	<u>241,712</u>	<u>-</u>	<u>241,712</u>
Increase (decrease) in net assets	(6,843)	(46,117)	(52,960)
NET ASSETS AT BEGINNING OF YEAR	<u>382,811</u>	<u>1,527,149</u>	<u>1,909,960</u>
NET ASSETS AT END OF YEAR	<u>\$ 375,968</u>	<u>\$ 1,481,032</u>	<u>\$ 1,857,000</u>

See independent accountants review report and notes to financial statements.

Riversound Property Owners Association, Inc.
STATEMENT OF CASH FLOWS - INCOME TAX BASIS
For the year ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (52,960)
Adjustments to reconcile decrease in net assets to net cash used in operating activities	
Depreciation expense	5,523
Decrease (increase) in operating assets	-
Increase (decrease) in operating liabilities	427
	(47,010)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of capital assets	(17,504)
Change in restricted assets	46,117
	28,613
Net cash provided by investing activities	28,613
Net decrease in cash and cash equivalents	(18,397)
BEGINNING CASH AND CASH EQUIVALENTS	256,434
ENDING CASH AND CASH EQUIVALENTS	\$ 238,037
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	\$ -
Income taxes paid	\$ -
 NON-CASH FINANCING AND INVESTING ACTIVITIES	
None	
 RECONCILIATION OF CASH	
Cash per Statement of Assets, Liabilities, and Net Assets - Income Tax Basis	\$ 238,037

See independent accountants review report and notes to financial statements.

Riversound Property Owners Association, Inc.
STATEMENT OF FUNCTIONAL EXPENSES - INCOME TAX BASIS
For the year ended December 31, 2022

	Program Services Maintenance, Preservation, Control of Common Areas	Supporting Services Management and General	Total
Accounting fees	\$ -	\$ 1,900	\$ 1,900
Bank charges and investment fees	-	222	222
Depreciation expense	5,523	-	5,523
Insurance	8,120	-	8,120
Licenses and permits	3,325	-	3,325
Miscellaneous expense	-	1,904	1,904
Mowing/landscaping	60,645	-	60,645
Office expense	-	673	673
Other professional fees	6,576	-	6,576
Property maintenance	48,813	-	48,813
Property management	7,200	-	7,200
Rent expense	-	250	250
Utilities	95,984	-	95,984
Website expense	288	289	577
Total	\$ 236,474	\$ 5,238	\$ 241,712

See independent accountants review report and notes to financial statements.

Riversound Property Owners Association, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Riversound Property Owners Association, Inc. (The Association) was incorporated as a nonstock, not-for-profit corporation in the State of North Carolina on July 31, 2006. The Association provides for the common good of the Riversound planned community (located in Chowan County, North Carolina) by maintaining, preserving, and controlling the common areas in the planned community. The Association also promotes the health, safety, and welfare of the owners and users of the planned community. The Association is supported primarily through annual dues assessed against each lot in the community and by additional assessments related to the use and occupancy. Approximately \$175,000 of the Association's support and revenue came from dues and other assessments for the year ended December 31, 2022. The Association had 282 members (lot owners) as of December 31, 2022.

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Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis method of accounting used by the Association for federal income tax purposes. Certain revenues and the related assets are recognized when received rather than when earned, certain expenses are recognized when paid rather than when the obligation is incurred, property and equipment is capitalized and depreciated, as applicable, and investments are stated at cost rather than fair market value.

Basis of Presentation

The Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Association has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the period the contributions were received.

Riversound Property Owners Association, Inc.
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Services

The Association receives a substantial amount of services donated by its members in carrying out its mission. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for financial statement recognition.

Income Taxes

The Association can elect to be partially exempt from income taxes under Section 528 of the Internal Revenue Code. Such exemption is subject to annual election by the Association and limits income tax to income unrelated to the Association's business, such as interest income. The Association has not elected the exemption under Section 528 for the year ended December 31, 2022. For 2022, the Association filed income tax returns as a regular C Corporation reporting an income tax liability of \$0.

Uncertain Tax Positions

The Association follows the guidance of Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management has evaluated the tax positions taken or expected to be taken, if any, on its income tax filings, and the likelihood that upon examination those positions would be sustained. Based on the results of this evaluation, management determined there are no positions that necessitate disclosures and/or adjustments. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Association's tax returns will not be challenged by the taxing authorities and that the Association will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Association's tax returns remain open for examination for three years from the date of filing federal returns.

Cash and Cash Equivalents

For the purpose of reporting cash flows, the Association considers cash in bank accounts and highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents.

Restricted Cash and Investments

The restricted cash and investments represent funds restricted for infrastructure.

Riversound Property Owners Association, Inc.
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2022

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment in excess of \$5,000 is capitalized and depreciated over the useful lives of the assets using the declining balance method.

Estimates

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Assessments

For 2022, Phase 1 and Phase 2 lot owners were subject to annual assessments of \$600 and \$800, respectively, to provide funds for the Association's operating expenses, future capital improvements, and major repair and replacements. The Association's policy is to retain legal counsel and place liens on lot owner property for delinquent assessments receivable. Assessments receivable are not recognized under the Association's modified cash basis of accounting.

NOTE 2: INVESTMENTS

Investments consist of the following:

	Term	Interest Rate	Cost
Annuities	4 years	Variable	\$ 764,928

NOTE 3: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of revenues and expenses - income tax basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based on management judgment.

NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31, 2022:

Infrastructure improvements	\$ <u>1,481,032</u>
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Net assets were released from restrictions by incurring expenses satisfying the purpose restrictions as follows:

Infrastructure repair and improvements	\$ <u>46,117</u>
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Riversound Property Owners Association, Inc.
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 5: FUTURE INFRASTRUCTURE IMPROVEMENTS, REPAIRS, AND REPLACEMENTS

The Riversound planned community developer failed to construct certain infrastructure as required under Chowan County approved design plans which said construction was subject to developer performance bonding. In September 2015, a settlement was reached with the bonding company through Chowan County in which the Association received \$1,850,000 to complete the construction of the infrastructure. As of December 31, 2022, the Association has expended approximately \$370,000 for infrastructure development, construction, and repair.

The Association's governing documents do not require the accumulation of funds to finance estimated future repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and the costs of necessary improvements, major repairs and replacements that may be required in the future, nor has the board of directors developed a plan to fund those needs. When funds are required for improvements and major repairs, the Association plans to use existing reserves, borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE 6: LIQUIDITY AND FUNDS AVAILABLE

The Association manages its liquidity and reserves by operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations and maintaining sufficient reserves to provide reasonable assurance that, if applicable, long-term obligations will be discharged.

The following table reflects the Association's financial assets as of December 31, 2022, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable for general expenditures when restricted for infrastructure purposes, illiquid or not convertible to cash within one year.

Financial assets:	
Cash and cash equivalents	\$ 238,037
Restricted cash and investments	<u>1,481,032</u>
Financial assets, at year-end	1,719,069
Less those unavailable for general expenditure	<u>1,481,032</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 238,037</u>

The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition the Association operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient support and revenue annually. The Statement of Cash Flows identifies the sources and uses of the Association's cash and is an indicator of the Association's ability to meet its financial obligations.

Riversound Property Owners Association, Inc.
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022

NOTE 7: RISK ASSESSMENT

The Association is exposed to various risks of loss related to torts; theft of; damage to and destruction of assets; errors and omissions; and natural disasters for which the Association carries general liability insurance for these various risks.

NOTE 8: SUBSEQUENT EVENTS

The Association has evaluated all subsequent events through July 6 2023 the date the financial statements were available to be issued. The Association has determined there are no additional subsequent events that require recognition or disclosure.