

VIRGINIA CITY HIGHLANDS  
PROPERTY OWNERS' ASSOCIATION  
AUDITED FINANCIAL STATEMENT  
JUNE 30, 2011

**DRAFT**

VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
AUDITED FINANCIAL STATEMENT  
JUNE 30, 2011

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**DRAFT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Virginia City Highlands Property Owners' Association:

I have audited the accompanying balance sheet of Virginia City Highlands Property Owners' Association as of June 30, 2011 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as noted in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Because of the inadequacy of accounting records for the years prior to 2010, I was unable to form an opinion regarding the amounts at which the fixed assets and accumulated depreciation are recorded in the accompanying balance sheet for years prior to June 30, 2011 (stated at \$612,436 and \$376,109 respectively for the year ended June 30, 2010), or the amount of current year depreciation expense for those fixed assets (stated at \$25,934).

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior-year records concerning property and equipment and accumulated depreciation been adequate, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position Virginia City Highlands Property Owners' Association as of June 30, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Gene H. Clawson, CPA

Sparks, Nevada  
April 19, 2012

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
BALANCE SHEET  
JUNE 30, 2011  
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 23,684	\$193,628	\$217,312
Prepaid Insurance	4,649		4,649
Assessments Receivable, Net	<u>5,975</u>	<u>12,220</u>	<u>18,195</u>
TOTAL CURRENT ASSETS	34,308	205,848	240,156
<u>FIXED ASSETS</u>			
Land	19,000		19,000
Equipment	184,180		184,180
Road Improvements	276,971		276,971
Fences and Structures	7,824		7,824
Mailbox Enclosures	9,794		9,794
Fire Station and Rental House	119,580		119,580
Office Equipment	<u>1,326</u>		<u>1,326</u>
	618,675	-0-	618,675
Less: Accumulated Depreciation	<u>-377,725</u>		<u>-377,725</u>
TOTAL FIXED ASSETS	<u>240,950</u>	<u>-0-</u>	<u>240,950</u>
TOTAL ASSETS	<u>\$275,258</u>	<u>\$205,848</u>	<u>\$481,106</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 14,649	\$ -0-	\$ 14,649
Payroll Liabilities	<u>1,574</u>		<u>1,574</u>
TOTAL LIABILITIES	16,223	-0-	16,223
FUND BALANCES	<u>259,035</u>	<u>205,848</u>	<u>464,883</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$275,258</u>	<u>\$205,848</u>	<u>\$481,106</u>

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

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
STATEMENT OF REVENUES AND EXPENSES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member Assessments	\$ 58,075	\$116,250	\$174,325
Interest	63	308	371
Other Income	11,443		11,443
Rental Income	<u>2,000</u>	<u>          </u>	<u>2,000</u>
TOTAL REVENUES	71,581	116,558	188,139
<u>EXPENSES</u>			
Administrative	7,481		7,481
Depreciation	25,377		25,377
Employee Expense	41,906		41,906
Insurance	10,861		10,861
Income Tax	106		106
Maintenance	94,966		94,966
Professional Fees	11,896		11,896
Projects	-50,785	50,785	-0-
Property Tax	2,540		2,540
Utilities	<u>2,268</u>	<u>          </u>	<u>2,268</u>
TOTAL EXPENSES	<u>146,616</u>	<u>50,785</u>	<u>197,401</u>
Excess (Deficit) of Revenues Over Expenses	-75,035	65,773	-9,262
Beginning Fund Balances	304,070	170,075	474,145
Fund Transfers	<u>30,000</u>	<u>-30,000</u>	<u>-0-</u>
ENDING FUND BALANCES	<u>\$259,035</u>	<u>\$205,848</u>	<u>\$464,883</u>

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

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S REPORT)

	Operating <u>Fund</u>	Reserve <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Member assessments collected	\$ 57,646	\$113,377	\$171,023
Interest received	63	308	371
Other receipts	13,443		13,443
Cash paid for operating expenditures	-128,744	-50,785	-179,529
Income taxes paid	-106	-0-	-106
Fund transfers	<u>30,000</u>	<u>-30,000</u>	<u>-0-</u>
Net cash provided by/to operating activities	-27,698	32,900	5,202
Cash flows from investing activities:			
Purchase of equipment	<u>-30,000</u>	<u>-0-</u>	<u>-30,000</u>
Net cash provided by/to investing activities	<u>-30,000</u>	<u>-0-</u>	<u>-30,000</u>
Net increase (decrease) in cash	-57,698	32,900	-24,798
Cash at beginning of year	<u>81,382</u>	<u>160,728</u>	<u>242,110</u>
Cash at end of year	<u>\$ 23,684</u>	<u>\$193,628</u>	<u>\$217,312</u>

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

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011  
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Reconciliation of excess of revenues over expenses to net cash provided by operating activities:			
Excess or (deficit) of revenues over expenses	\$-75,035	\$65,773	\$-9,262
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	25,377		25,377
(Increase) or Decrease in:			
Assessments receivable	-429	-2,873	-3,302
Prepaid expense	1,072		1,072
Increase or (Decrease) in:			
Payroll liability	-4,227		-4,227
Accounts payable	-4,456		-4,456
Fund transfers	<u>30,000</u>	<u>-30,000</u>	<u>-0-</u>
Net cash provided by/to operating activities	<u>\$-27,698</u>	<u>\$32,900</u>	<u>\$ 5,202</u>

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

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**1. ORGANIZATION**

Virginia City Highlands Property Owners' Association is a homeowner association organized for the purpose of maintaining and preserving common property of the Association. The Association consists of 1,169 home sites located in Storey County, Nevada. The Association began its operations on September 5, 1973.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Pervasiveness of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Fund Accounting. The Association uses accrual basis fund accounting, which requires that funds, such as operating funds, deferred maintenance funds, and funds designated for future major repairs and replacements, be classified separately for accounting reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the reserve fund generally may be made only for designated purposes.

Interest Earned. The Board's policy is to allocate to each fund interest earned on all accounts.

Cash Equivalents. Cash equivalents are defined as investments which have an original maturity of three months or less. There were no cash equivalents at June 30, 2011.

Fixed Assets. The Association capitalizes all real and personal property for which it has title or other evidence of ownership. Depreciation is provided over the estimated service lives of the property.

**3. OWNERS' ASSESSMENTS**

Annual assessments to owners were \$150 per home site for the fiscal year ended June 30, 2011. Of the assessments collected \$116,250 was designated to the reserve fund.

The annual budget and assessments of owners are determined by the Board of Directors. The Association either retains excess operating funds at the end of the operating year, if any, for use in future operating periods or credits the individual homeowner assessments for the following year.

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**4. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require that funds be accumulated for future repairs and replacements. Accumulated funds are in separate savings accounts and are generally not available for expenditures for normal operations. Complex Solutions Ltd. conducted a study in June, 2009 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider annual inflation rates of 3.0 percent and interest of 2.0 percent, net of taxes, on amounts funded for major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on that study.

The Board funds for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considers amounts previously accumulated in the reserve fund. Amounts assessed and collected for major repairs and replacements in the current period were \$116,250.

Funds are being accumulated in the reserve fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**5. FEDERAL INCOME TAXES**

For the fiscal year ended June 30, 2011, the Association elected to file as a homeowners association in accordance with Internal Revenue Code section 528, using form 1120-H. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenues from uniform assessments to owners. The Association's investment income and other nonexempt income were subject to tax.

**6. ASSESSMENTS RECEIVABLE, NET**

The Association's policy is to place liens on the properties of homeowners whose assessments are in arrears and therefore considered delinquent. As of June 30, 2011, the Association had assessments receivable of \$19,145. It is the policy of the Association to record assessments receivable at their net realizable value. Accordingly, an allowance for doubtful accounts has been established in the amount of \$950 at June 30, 2011.

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**7. CONCENTRATION OF CREDIT RISK**

The Association's financial instruments that are potentially exposed to concentration of credit risk consist of cash. The Association places its cash and temporary investments with high quality institutions. At June 30, 2011 no investments were in excess of the FDIC insurance limit.

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
JUNE 30, 2011  
(UNAUDITED)  
(SEE ACCOUNTANT'S REPORT)

Complex Solutions Ltd. conducted a study in June, 2009 to estimate the remaining useful lives and replacements costs of the components of common property. The estimates were based on future estimated replacements costs. Funding requirements consider an annual inflation rate of 3.0 percent and interest of 2.0 percent, net of taxes, on amounts funded for future repairs and replacements. The projected reserve fund cash balance as of December 31, 2011 was \$136,573. The actual reserve fund cash balance as of June 30, 2011 was \$193,628.

<u>Components</u>	<u>Estimated Remaining Useful Life</u>	<u>Average Current Cost</u>	<u>Current Cost/UL</u>
Mailbox Structure	2	\$ 2,750	\$ 550
Roadwork Maintenance	0	55,000	55,000
Roadwork Rebuild	2	15,000	15,000
Culvert / Ditch Repair	2	10,500	3,500
Mailbox Enclosure Refurbish	10	3,750	250
Mailbox Replace	13	13,300	739
1998 Pickup Truck	4	18,000	1,800
2001 Pickup Truck	6	18,000	1,800
2002 Pickup Truck	7	18,000	1,800
Water Truck	10	35,000	1,750
Grader Blades	8	21,000	1,750
Utility Shed	3	10,000	500
Grader	3	<u>40,000</u>	<u>2,667</u>
Total		<u>\$260,300</u>	<u>\$87,106</u>

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VIRGINIA CITY HIGHLANDS PROPERTY OWNERS' ASSOCIATION  
SCHEDULE OF ACTUAL VS. BUDGETED EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011  
(UNAUDITED)  
(SEE ACCOUNTANT'S REPORT)

	<u>Actual</u>	<u>Budgeted</u>	<u>Variance</u>
<u>Operating Fund</u>			
Administrative	\$ 7,481	\$13,800	\$ 6,319
Depreciation	25,377	-0-	-25,377
Employee Expense	41,906	17,500	-24,406
Insurance	10,861	15,000	4,139
Income Tax	106	400	294
Maintenance Net of Reserve Projects	44,181	11,650	-32,531
Professional Fees	11,896	7,000	-4,896
Property Tax	2,540	3,300	760
Utilities	<u>2,268</u>	<u>2,000</u>	<u>-268</u>
Total Expenses	<u>\$146,616</u>	<u>\$70,650</u>	<u>\$-75,966</u>
<u>Reserve Fund</u>			
Administrative	\$ -0-	\$ 100	\$ 100
Fuel and Oil	-0-	500	500
Labor	-0-	7,500	7,500
Payroll Tax and Workers Compensation	-0-	1,875	1,875
Projects	50,785	-0-	-50,785
Road Materials	-0-	46,875	46,875
Trucking and Equipment Rental	<u>-0-</u>	<u>13,150</u>	<u>13,150</u>
Total Expenses	<u>\$ 50,785</u>	<u>\$70,000</u>	<u>\$ 19,215</u>

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