

VIRGINIA CITY HIGHLANDS
PROPERTY OWNER'S ASSOCIATION
AUDITED FINANCIAL STATEMENT
JUNE 30, 2012

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Gene H. Clawson
Certified Public Accountant
2255 Green Vista Drive, #403
Sparks, Nevada 89431
(775)322-6626
ghclawson@sbcglobal.net

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, 2012 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, 2012 (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 \$24,168).

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, 2012 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
November 30, 2012

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
BALANCE SHEET
JUNE 30, 2012
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 49,460	\$208,377	\$257,837
Prepaid Insurance	4,649		4,649
Assessments Receivable, Net	<u>5,805</u>	<u>16,057</u>	<u>21,862</u>
TOTAL CURRENT ASSETS	59,914	224,434	284,348
<u>FIXED ASSETS</u>			
Land	19,000		19,000
Equipment	184,180		184,180
Road Improvements	276,971		276,971
Fences and Structures	8,105		8,105
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>
	618,956	-0-	618,956
Less: Accumulated Depreciation	<u>-401,893</u>		<u>-401,893</u>
TOTAL FIXED ASSETS	<u>217,063</u>	<u>-0-</u>	<u>217,063</u>
TOTAL ASSETS	<u>\$276,977</u>	<u>\$224,434</u>	<u>\$501,411</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 16,487	\$ -0-	\$ 16,487
Payroll Liabilities	<u>445</u>		<u>445</u>
TOTAL LIABILITIES	16,932	-0-	16,932
FUND BALANCES	<u>260,045</u>	<u>224,434</u>	<u>484,479</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$276,977</u>	<u>\$224,434</u>	<u>\$501,411</u>

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

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S REPORT)

	Operating Fund	Reserve Fund	Total
<u>REVENUES</u>			
Member Assessments	\$ 58,125	\$116,250	\$174,375
Interest	32	185	217
Other Income	11,457		11,457
Rental Income	<u>1,500</u>	<u> </u>	<u>1,500</u>
TOTAL REVENUES	71,114	116,435	187,549
 <u>EXPENSES</u>			
Administrative	5,909		5,909
Bad Debts	2,538		2,538
Depreciation	24,168		24,168
Employee Expense	44,342		44,342
Insurance	9,783		9,783
Income Tax	-0-		-0-
Maintenance	72,134		72,134
Professional Fees	9,260		9,260
Projects	-97,849	97,849	-0-
Property Tax	-1,772		-1,772
Utilities	<u>1,591</u>	<u> </u>	<u>1,591</u>
TOTAL EXPENSES	<u>70,104</u>	<u>97,849</u>	<u>167,953</u>
Excess (Deficit) of Revenues Over Expenses	1,010	18,586	19,596
Beginning Fund Balances	<u>259,035</u>	<u>205,848</u>	<u>464,883</u>
ENDING FUND BALANCES	<u>\$260,045</u>	<u>\$224,434</u>	<u>\$484,479</u>

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

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Member assessments collected	\$58,295	\$112,413	\$170,708
Interest received	32	185	217
Other receipts	12,957		12,957
Cash paid for operating expenditures	-45,226	-97,849	-143,075
Income taxes paid	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided by/to operating activities	26,058	14,749	40,807
Cash flows from investing activities:			
Purchase of equipment	<u>-282</u>	<u>-0-</u>	<u>-282</u>
Net cash provided by/to investing activities	<u>-282</u>	<u>-0-</u>	<u>-282</u>
Net increase (decrease) in cash	25,776	14,749	40,525
Cash at beginning of year	<u>23,684</u>	<u>193,628</u>	<u>217,312</u>
Cash at end of year	<u>\$49,460</u>	<u>\$208,377</u>	<u>\$257,837</u>

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

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(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	\$ 1,010	\$18,586	\$19,596
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	24,168		24,168
(Increase) or Decrease in:			
Assessments receivable	170	-3,837	-3,667
Increase or (Decrease) in:			
Payroll liability	-1,128		-1,128
Accounts payable	<u>1,838</u>	<u> </u>	<u>1,838</u>
Net cash provided by/to operating activities	<u>\$26,058</u>	<u>\$14,749</u>	<u>\$40,807</u>

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

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012.

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, 2012. 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.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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.

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, 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, 2012, 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.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the Association had assessments receivable of \$24,887. 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 \$3,025 at June 30, 2012.

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, 2012 cash at Bank of America was in excess of the \$250,000 FDIC insurance limit by \$7,837.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
JUNE 30, 2012
(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, 2012 was \$148,492. The actual reserve fund cash balance as of June 30, 2012 was \$208,377.

<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>

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
SCHEDULE OF ACTUAL VS. BUDGETED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(SEE ACCOUNTANT'S REPORT)

	<u>Actual</u>	<u>Budgeted</u>	<u>Variance</u>
<u>Operating Fund</u>			
Administrative	\$ 5,909	\$ 7,500	\$ 1,591
Bad Debts	2,538	-0-	-2,538
Depreciation	24,168	-0-	-24,168
Employee Expense	44,342	14,150	-30,192
Insurance	9,783	7,800	-1,983
Income Tax	-0-	-0-	-0-
Maintenance	72,134	20,850	-51,284
Professional Fees	9,260	14,100	4,840
Property Tax	-1,772	3,300	5,072
Reserve Expenses	-97,849	-0-	97,849
Utilities	<u>1,591</u>	<u>2,150</u>	<u>559</u>
 Total Expenses	 <u>\$70,104</u>	 <u>\$69,850</u>	 <u>\$ -254</u>
 <u>Reserve Fund</u>			
Administrative	\$ -0-	\$ 2,060	\$ 2,060
Fuel and Oil	-0-	4,500	4,500
Labor	-0-	32,100	32,100
Payroll Tax and Workers Compensation	-0-	4,600	4,600
Projects	97,849	-0-	-97,849
Road Materials	-0-	42,750	42,750
Trucking and Equipment Rental	<u>-0-</u>	<u>8,990</u>	<u>8,990</u>
 Total Expenses	 <u>\$97,849</u>	 <u>\$95,000</u>	 <u>\$ -2,849</u>