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Virginia City Highlands Property Owners' Association
PO Box 686
Virginia City, NV 89440

To the Board of Directors:

Enclosed are your financial statements. Thank you for choosing our firm to prepare your financial statements. If you have any questions, please give me a call.

Sincerely,

A handwritten signature in black ink that reads "Gene H. Clawson". The signature is written in a cursive style with a large initial "G".

Gene H. Clawson, CPA

Enclosures

VIRGINIA CITY HIGHLANDS
PROPERTY OWNER'S ASSOCIATION
AUDITED FINANCIAL STATEMENT
JUNE 30, 2013

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
AUDITED FINANCIAL STATEMENT
JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Virginia City Highlands Property Owner's Association, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

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, 2013 (stated at \$471,755 and \$235,428 respectively for the year ended June 30, 2010), or the amount of current year depreciation expense for those fixed assets (stated at \$22,080).

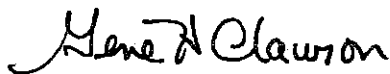
In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior-year records concerning property and equipment and accumulated depreciation been adequate, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position Virginia City Highlands Property Owners' Association as of June 30, 2013 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.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Gene H. Clawson, CPA

Sparks, Nevada
November 22, 2013

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
BALANCE SHEET
JUNE 30, 2013
(SEE ACCOUNTANT'S REPORT)

<u>ASSETS</u>	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>CURRENT ASSETS</u>			
Cash	\$ 59,946	\$225,325	\$285,271
Prepaid Insurance	4,798		4,798
Assessments Receivable, Net	8,552	13,387	21,939
Notes Receivable Current Portion		<u>50,000</u>	<u>50,000</u>
TOTAL CURRENT ASSETS	<u>73,296</u>	<u>288,712</u>	<u>362,008</u>
<u>FIXED ASSETS</u>			
Equipment	183,405		183,405
Road Improvements	276,971		276,971
Fences and Structures	8,105		8,105
Mailbox Enclosures	<u>9,794</u>		<u>9,794</u>
	478,275	-0-	478,275
Less: Accumulated Depreciation	<u>-302,291</u>		<u>-302,291</u>
TOTAL FIXED ASSETS	<u>175,984</u>	<u>-0-</u>	<u>175,984</u>
<u>OTHER ASSETS</u>			
Notes Receivable, Net of Current Portion		<u>200,000</u>	<u>200,000</u>
TOTAL OTHER ASSETS	<u>-0-</u>	<u>200,000</u>	<u>200,000</u>
TOTAL ASSETS	<u>\$249,280</u>	<u>\$488,712</u>	<u>\$737,992</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$ 20,499	\$ -0-	\$ 20,499
Payroll Liabilities	1,611		1,611
Other Liabilities	175		175
Federal Income Tax Payable		<u>3,276</u>	<u>3,276</u>
TOTAL LIABILITIES	<u>22,285</u>	<u>3,276</u>	<u>25,561</u>
<u>NON CURRENT LIABILITY</u>			
Deferred Tax Payable		<u>31,374</u>	<u>31,374</u>
TOTAL NON CURRENT LIABILITY	<u>-0-</u>	<u>31,374</u>	<u>31,374</u>
TOTAL LIABILITIES	22,285	34,650	56,935
FUND BALANCES	<u>226,995</u>	<u>454,062</u>	<u>681,057</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$249,280</u>	<u>\$488,712</u>	<u>\$737,992</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, 2013
(SEE ACCOUNTANT'S REPORT)

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member Assessments	\$ 58,225	\$116,450	\$174,675
Interest	23	157	180
Other Income	11,994		11,994
Rental Income	6,378		6,378
Gain From Sale of Asset	<u> </u>	<u>231,000</u>	<u>231,000</u>
 TOTAL REVENUES	 76,620	 347,607	 424,227
<u>EXPENSES</u>			
Administrative	11,528		11,528
Depreciation	22,079		22,079
Employee Expense	64,168		64,168
Insurance	8,517		8,517
Maintenance	70,292		70,292
Professional Fees	11,049		11,049
Projects	-118,958	118,958	-0-
Property Tax	3,121		3,121
Utilities	<u>2,245</u>	<u> </u>	<u>2,245</u>
 TOTAL EXPENSES	 <u>74,041</u>	 <u>118,958</u>	 <u>192,999</u>
Excess (Deficit) of Revenues Over Expenses Before Income Tax	2,579	228,649	231,228
Income Tax			
Current		-3,276	-3,276
Deferred		<u>-31,374</u>	<u>-31,374</u>
Total Income Tax	<u>-0-</u>	<u>-34,650</u>	<u>-34,650</u>
Excess (Deficit) of Revenues Over Expenses	2,579	193,999	196,578
Fund Transfers	-35,629	35,629	-0-
Beginning Fund Balances	<u>260,045</u>	<u>224,434</u>	<u>484,479</u>
ENDING FUND BALANCES	<u>\$226,995</u>	<u>\$454,062</u>	<u>\$681,057</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, 2013
(SEE ACCOUNTANT'S REPORT)

	Operating <u>Fund</u>	Reserve <u>Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Member assessments collected	\$55,478	\$119,120	\$174,598
Interest received	23	157	180
Other receipts	18,372		18,372
Cash paid for operating expenditures	-46,758	-118,958	-165,716
Fund transfer	-16,629	16,629	-0-
Income taxes paid	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net cash provided by/to operating activities	10,486	16,948	27,434
Cash at beginning of year	<u>49,460</u>	<u>208,377</u>	<u>257,837</u>
Cash at end of year	<u>\$59,946</u>	<u>\$225,325</u>	<u>\$285,271</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, 2013
(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	\$ 2,579	\$193,999	\$196,578
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	22,079		22,079
Gain from sale of asset		-231,000	-231,000
(Increase) or Decrease in:			
Assessments receivable	-2,747	2,670	-77
Prepaid insurance	-149		-149
Increase or (Decrease) in:			
Payroll liability	1,166		1,166
Accounts payable	4,012		4,012
Other liability	175	34,650	34,825
Fund transfer	<u>-16,629</u>	<u>16,629</u>	<u>-0-</u>
Net cash provided by/to operating activities	<u>\$10,486</u>	<u>\$ 16,948</u>	<u>\$ 27,434</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, 2013

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, 2013.

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.

Date of Management's Review. Management has evaluated events and transactions occurring after the balance sheet dated through November 22, 2013, which is the date the financial statements were available to be issued. Management has determined that none of the events occurring after the date of the balance sheet through the date of management's review substantially affect the amounts and disclosure of the accompanying financial statements.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3. OWNERS' ASSESSMENTS

Annual assessments to owners were \$150 per home site for the fiscal year ended June 30, 2013. Of the assessments collected \$116,450 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.

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. 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, 2013, the Association had assessments receivable of \$24,298. 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 \$2,359 at June 30, 2013.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. SALE OF ASSETS

On June 27, 2013 the Association sold its Fire Station and Rental House to the County of Storey, Nevada under eminent domain condemnation proceedings. The terms of the sale provided that the County will pay to the Association the total principal sum of \$250,000, which is to be paid by an immediate payment of \$50,000 with the remaining principal amount to be paid in the four subsequent years in four \$50,000 payments, together with simple interest on the outstanding principal balance at the rate of .98% per annum. The Association received the initial \$50,000 payment on July 1, 2013.

7. FEDERAL INCOME TAXES

For the fiscal year ended June 30, 2013, the Association elected to file as a homeowners association in accordance with Internal Revenue Code section 277 using form 1120. The Association included in the calculation of taxable income all revenues and uniform assessments to owners and all Association expenses.

The sale of the Association's Fire Station and Rental House resulted in a taxable gain of \$231,000, \$23,916 of which was taxable under Internal Revenue Code section 291 in the year ended June 30, 2013. The remaining \$207,084 gain will become taxable in the subsequent five years as cash proceeds from the sale are received. Deferred income tax has been recognized based on the temporary timing difference of recognizing the gain from the sale of the Association's Fire Station and Rental House on the accrual basis for financial statement reporting and the installment basis for income tax purposes.

The Association's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

8. 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, 2013 cash at Bank of America was in excess of the \$250,000 FDIC insurance limit by \$35,271.

VIRGINIA CITY HIGHLANDS PROPERTY OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
JUNE 30, 2013
(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 June 30, 2013 was \$120,363. The actual reserve fund cash balance as of June 30, 2013 was \$225,325.

<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, 2013
 (UNAUDITED)
 (SEE ACCOUNTANT'S REPORT)

	<u>Actual</u>	<u>Budgeted</u>	<u>Variance</u>
<u>Operating Fund</u>			
Administrative	\$ 11,528	\$ 8,200	\$ -3,328
Depreciation	22,079	-0-	-22,079
Employee Expense	64,168	14,150	-50,018
Insurance	8,517	7,800	-717
Maintenance	70,292	22,850	-47,442
Professional Fees	11,049	11,100	51
Property Tax	3,121	3,300	179
Reserve Expenses	-118,958	-0-	118,958
Utilities	<u>2,245</u>	<u>2,150</u>	<u>-95</u>
 Total Expenses	 <u>\$ 74,041</u>	 <u>\$69,550</u>	 <u>\$ -4,491</u>
 <u>Reserve Fund</u>			
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	118,958	-0-	-118,958
Road Materials	-0-	40,750	40,750
Trucking and Equipment Rental	-0-	8,990	8,990
Vehicle Insurance	-0-	2,000	2,000
Vehicle Registration	<u>-0-</u>	<u>60</u>	<u>60</u>
 Total Expenses	 <u>\$118,958</u>	 <u>\$93,000</u>	 <u>\$-25,958</u>