



Highland Ranches Property Owners' Association

Audited Financial Statements

December 31, 2021



J2 Jackson & Jackson CPAs, Ltd.
Certified Public Accountants

Highland Ranches Property Owners' Association

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Independent Auditor's Report

To the Board of Directors of Highland Ranches Property Owners' Association

Opinion

We have audited the accompanying financial statements of Highland Ranches Property Owners' Association, which comprise the balance sheet as of December 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland Ranches Property Owners' Association as of December 31, 2021, 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 Highland Ranches Property Owners' Association 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 Highland Ranches Property Owners' Association'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 Highland Ranches Property Owners' Association'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 Highland Ranches Property Owners' Association'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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenue and Expenses – Actual and Budgeted, 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 our 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 Supplementary Information on Future Repairs and Replacements on page 14 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.

Jackson & Jackson CPAs, Ltd.

Jackson & Jackson CPAs, Ltd.
Reno, Nevada
December 30, 2022

Highland Ranches Property Owners' Association

Balance Sheet

December 31, 2021

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Assets			
Current assets			
Cash	\$ 125,000	\$ 145,729	\$ 270,729
Assessments receivable, net of allowance for doubtful accounts of \$0	17,713	-	17,713
Prepaid insurance	2,705	-	2,705
Total current assets	<u>145,418</u>	<u>145,729</u>	<u>291,147</u>
Property and equipment			
Land - maintenance equipment storage area	9,699	-	9,699
Property and equipment	326,773	-	326,773
Accumulated depreciation	(292,055)	-	(292,055)
Total property and equipment	<u>44,417</u>	<u>-</u>	<u>44,417</u>
Total assets	<u>\$ 189,835</u>	<u>\$ 145,729</u>	<u>\$ 335,564</u>
Liabilities and fund balances			
Current liabilities			
Accrued taxes payable	\$ 2,222	\$ -	\$ 2,222
Prepaid assessments	25,120	-	25,120
Architectural culvert deposits	65,400	-	65,400
Total current liabilities	<u>92,742</u>	<u>-</u>	<u>92,742</u>
Fund balances	<u>97,093</u>	<u>145,729</u>	<u>242,822</u>
Total liabilities and fund balances	<u>\$ 189,835</u>	<u>\$ 145,729</u>	<u>\$ 335,564</u>

See accompanying notes to the financial statements

Highland Ranches Property Owners' Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2021

	Operating Fund	Replacement Fund	Total
Revenues			
Assessments	\$ 91,200	\$ 10,000	\$ 101,200
Late fees and fines	1,540	-	1,540
Interest income	30	27	57
Transfer fees	6,500	-	6,500
Other income	7,872	-	7,872
Total revenues	<u>107,142</u>	<u>10,027</u>	<u>117,169</u>
Expenses			
Depreciation expense	10,002	-	10,002
Insurance	4,350	-	4,350
Other general and administrative	2,929	-	2,929
Payroll	1,905	-	1,905
Professional fees	10,539	-	10,539
Repair and maintenance - Roads	49,865	-	49,865
Taxes and licenses	3,116	-	3,116
Utilities	3,123	-	3,123
Roads maintenance	-	10,358	10,358
Total expenses	<u>85,829</u>	<u>10,358</u>	<u>96,187</u>
Excess of revenues over (under) expenses before the provision for income taxes	21,313	(331)	20,982
Income tax expense	2,186	-	2,186
Excess of revenues over (under) expenses	19,127	(331)	18,796
Equity transfer	(41,293)	41,293	-
Fund balances, beginning of year	<u>119,259</u>	<u>104,767</u>	<u>224,026</u>
Fund balances, end of year	<u>\$ 97,093</u>	<u>\$ 145,729</u>	<u>\$ 242,822</u>

See accompanying notes to the financial statements

Highland Ranches Property Owners' Association

Statement of Cash Flows

For the Year Ended December 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess of revenues over (under) expenses	\$ 19,127	\$ (331)	\$ 18,796
Adjustments to reconcile net income to net cash provided by operating activities			
Gain on sale of equipment	(8,000)	-	(8,000)
Depreciation expense	10,002	-	10,002
Equity transfer	(41,293)	41,293	-
Change in:			
Assessments receivable, net	12,583	-	12,583
Prepaid insurance	2,858	-	2,858
Accrued taxes payable	1,815	-	1,815
Prepaid assessments	(20,680)	-	(20,680)
Architectural culvert deposits	2,500	-	2,500
Cash provided (used) by operations	<u>(21,088)</u>	<u>40,962</u>	<u>19,874</u>
Cash flows from investing activities			
Proceeds from sale of Equipment	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Cash provided (used) by investing activities	<u>8,000</u>	<u>-</u>	<u>8,000</u>
Net increase (decrease) in cash	(13,088)	40,962	27,874
Cash, beginning of year	<u>138,088</u>	<u>104,767</u>	<u>242,855</u>
Cash, end of year	<u>\$ 125,000</u>	<u>\$ 145,729</u>	<u>\$ 270,729</u>
Supplemental Disclosure			
Cash paid for income tax			<u>\$ 407</u>

See accompanying notes to the financial statements

Highland Ranches Property Owners' Association

Notes to Financial Statements

December 31, 2021

Note 1 - Significant accounting policies

Organizational data

Highland Ranches Property Owners' Association (the "Association") is a nonprofit corporation under the Laws of the State of Nevada. The Association's members consist of those persons or entities owning the units within the project. Highland Ranches Property Owners' Association was incorporated September 8, 1978. The Association is responsible for the maintenance and operation of the common areas of a 506-unit residential development located in Storey County, Nevada.

Accounting method

The Association maintains its accounting records on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned, and expenses are recognized when the products or services are received, and the liability incurred.

Fund accounting

The Association's governing documents provide certain guidelines for managing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements of the amenities.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less. The Association maintains cash balances at commercial banks. At times bank balances, may exceed the FDIC federally insured amount of \$250,000. At, December 31, 2021, The Association's bank accounts were in excess of FDIC limits by \$23,800.

Certificates of deposit

The Association's certificates of deposit are classified and accounted for as held-to-maturity securities. Certificates, which the Association has the positive intent and ability to hold to maturity are reported at cost, adjusted for interest which is recognized in interest income over the period to maturity.

Highland Ranches Property Owners' Association

Notes to Financial Statements

December 31, 2021

Note 1 - Significant accounting policies (continued)

Assessments receivable

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent primarily amounts due from members. The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association is notified that it is a bad debt, such as after bankruptcy or foreclosure proceedings. When management determines that an assessment receivable is uncollectible, the balance is removed from the receivables balance and is charged against the allowance. Subsequent recoveries of amounts previously written off are credited directly to earnings.

Revenue recognition

The Association has adopted the provisions of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, ("Topic 606" in the Accounting Standards Codification (ASC)). Topic 606 superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate—Common Interest Realty Associations, Revenue Recognition. Under Topic 606, the Association must identify a contract with a customer, among other things, and recognize revenue as the Association satisfies a performance obligation.

As described under assessments receivable above in Note 1, Association members are subject to annual assessments that provide funds for the Association's operating expenses and major repairs and replacements. As such, all assessment revenue, including amounts allocated to the replacement fund, is recognized in the period in which it is assessed, regardless of when it is collected or expended. This treatment is substantially consistent with the Association's accounting in previous years.

Property and equipment

Real property owned by the Association is not capitalized on the Association's financial statements. This property consists of certain common areas within each phase of the development that has been deeded by the developer at no cost to the Association, as well as other common parcels. Common real property owned by the Association may not be transferred or sold without approval of the Association members. The Association is responsible for the operation and replacement of certain real property improvements, consisting mainly of the private streets and common areas.

Highland Ranches Property Owners' Association

Notes to Financial Statements

December 31, 2021

Note 1 - Significant accounting policies (continued)

Property and equipment (continued)

Personal property, such as furnishings and equipment, are recorded at cost and depreciated using the straight-line method over their estimated useful lives. As of the balance sheet date, the estimated useful lives are as follows:

	<u>Estimated Useful Life (years)</u>
Property and equipment	5-20

Depreciation for the year ended December 31, 2021 was \$10,002.

Prepaid assessments

Prepaid assessments represent assessment revenues received during the year that are applicable to the following year.

Estimates

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

Note 2 – Future major repairs and replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements of Association-owned property. Such repair and replacement funding are \$145,729 at December 31, 2021 respectively.

The funding program is based on a study completed in August 2021 by independent consultants to estimate the remaining useful life and the replacement cost of the Association-owned property. The estimates were based on future estimated replacement costs.

The Association is funding such major repairs and replacements over the estimated useful life of the Association-owned property based on the study's estimates of current replacement cost, considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until the funds are available.

Highland Ranches Property Owners' Association

Notes to Financial Statements

December 31, 2021

Note 3 – Property and equipment

Land, building and equipment consist of the following at December 31, 2021:

	<u>Operating Fund</u>
Land	\$ 9,699
Property and equipment	<u>326,773</u>
	336,472
Accumulated depreciation	<u>(292,055)</u>
	<u><u>44,417</u></u>

Note 4 – Inter-fund activity

The Association maintains an operating fund and a replacement fund. The replacement fund assessments are collected by the operating fund and paid over to the replacement fund. At various times during the year, there may be a receivable/payable (due to - due from) between the funds. At December 31, 2021, the replacement fund owed \$0 to the operating fund.

Note 5 – Income taxes

The Association may elect to be taxed as either a regular corporation or as a homeowner's association. The Association has elected to be taxed as a homeowner's association. Under that election, nonexempt revenue less nonexempt expense is taxed at 30% for federal purposes. In general, dues allocated for future major repairs and replacements can be set aside on a tax-free basis if applicable guidelines are followed.

For the year ended December 31, 2021 the Association incurred income tax expense of \$2,222.

Note 6 – Subsequent events

The financial statements were available to be issued on and subsequent events were evaluated through December 30, 2022.

Highland Ranches Property Owners' Association
Schedule of Revenues and Expenses - Actual and Budgeted
For the Year Ended December 31, 2021

	(Unaudited)		
	Actual	Budget	Variance
Operating fund			
Revenues			
Assessments	\$ 91,200	\$ 91,200	\$ -
Late fees and fines	1,540	-	1,540
Interest income	30	-	30
Transfer fees	6,500	-	6,500
Other income	7,872	-	7,872
Total revenues	<u>107,142</u>	<u>91,200</u>	<u>15,942</u>
Expenses			
Depreciation expense	10,002	-	10,002
Insurance	4,350	7,200	(2,850)
Other general and administrative	2,929	6,650	(3,721)
Payroll	1,905	2,000	(95)
Professional fees	10,539	23,500	(12,961)
Repair and maintenance - Roads	49,865	44,400	5,465
Snow removal	-	4,000	(4,000)
Taxes and licenses	3,116	2,750	366
Utilities	3,123	700	2,423
Total expenses	<u>85,829</u>	<u>91,200</u>	<u>(5,371)</u>
Excess of revenues over (under) expenses before the provision for income taxes	21,313	-	21,313
Income tax	2,186	-	2,186
Excess of revenues over (under) expenses	<u>\$ 19,127</u>	<u>\$ -</u>	<u>\$ 19,127</u>
Replacement fund			
Revenues			
Reserve transfer	\$ 10,000	\$ 10,000	\$ -
Interest income	27	-	27
Total revenues	<u>10,027</u>	<u>10,000</u>	<u>27</u>
Expenses			
Roads expense	10,358	5,000	5,358
Total expenses	<u>10,358</u>	<u>5,000</u>	<u>5,358</u>
Excess of revenues over (under) expenses	<u>\$ (331)</u>	<u>\$ 5,000</u>	<u>\$ (5,331)</u>

See Independent Auditor's Report

Highland Ranches Property Owners' Association
 Supplementary Information on Future Major Repairs and Replacements
 For the Year Ended December 31, 2021

The Association's outside independent consultants completed a study in August 2021 to estimate the remaining useful lives and the replacement costs of the major components of common property. The estimates were based on estimates from management, contractors, and historical costs. Funding has been provided using a full funding method and considers an annual inflation rate of 2.5%.

The Association does not designate the balance in the replacement fund by component. The total available for major repairs and replacements at December 31, 2021 was \$145,729.

The following table is based on the study and presents significant information about the components of common property that is being funded.

Component	Estimated Remaining Useful Lives	Estimated Current Replacement Cost
Common area	4 - 20 Years	\$ 16,200
Equipment	0 - 30 Years	167,000
Roads	0 - 1 Year	10,000
Reserve study	0 - 4 Years	1,950
Total cost		\$ 195,150