

PARKWOOD HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

Kohn & Company^{LLP}



PARKWOOD HOMEOWNERS ASSOCIATION, INC.
TABLE OF CONTENTS
JUNE 30, 2017

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenue, Expenses, and Changes in Members' Equity	4-5
Statement of Cash Flows	6
Notes to Financial Statements	7-10
SUPPLEMENTARY INFORMATION	11
Future Major Repairs and Replacements - Unaudited	12
Schedule of Revenue and Expenses - Budget to Actual	13-14

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Parkwood Homeowners Association, Inc.
Reno, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of Parkwood Homeowners Association, Inc. (Association), which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenses, and changes in members' equity 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parkwood Homeowners Association as of June 30, 2017, 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 Summarized Comparative Information

The June 30, 2016 financial statements of Parkwood Homeowners Association, Inc. were audited by us and we expressed an unmodified opinion on those financial statements in our report dated September 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The schedule of revenue and expenses-budget to actual information on pages 13-14 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 the future major repairs and replacements 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. 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.

Howe & Company

Reno, Nevada
November 20, 2017



PARKWOOD HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

JUNE 30, 2017

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2016)

	2017			2016
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
ASSETS				
Cash and cash equivalents	\$ 26,018	\$ 431,714	\$ 457,732	\$ 460,438
Assessments receivable, net of allowance for doubtful accounts of \$20 and \$1,747 in 2017 and 2016, respectively	1,876	-	1,876	375
Prepaid income taxes	-	-	-	181
Prepaid expenses	7,450	-	7,450	9,880
Total current assets/ total assets	<u>\$ 35,344</u>	<u>\$ 431,714</u>	<u>\$ 467,058</u>	<u>\$ 470,874</u>
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts payable	\$ 15,633	\$ 12,013	\$ 27,646	\$ 29,931
Federal income taxes payable	538	-	538	-
Assessments received in advance	12,897	-	12,897	16,809
Total current liabilities/ total liabilities	29,068	12,013	41,081	46,740
MEMBERS' EQUITY	6,276	419,701	425,977	424,134
Total liabilities and members' equity	<u>\$ 35,344</u>	<u>\$ 431,714</u>	<u>\$ 467,058</u>	<u>\$ 470,874</u>

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
REVENUE				
Assessment fees	\$ 249,800	\$ 187,000	\$ 436,800	\$ 436,800
Late charge fees	250	-	250	890
Transfer fees	700	-	700	600
Clubhouse activity charges	450	-	450	150
RV storage fee	2,815	-	2,815	2,030
Insurance claim income	1,432	-	1,432	-
Miscellaneous	4,346	-	4,346	7,608
Interest and dividends	15	608	623	744
	<u>259,808</u>	<u>187,608</u>	<u>447,416</u>	<u>448,822</u>
EXPENSES				
Accounting	4,900	-	4,900	4,900
Bank fees	2	-	2	20
Bad debt expense (recovery)	(1,726)	-	(1,726)	(3,640)
Clubhouse alarm	598	-	598	760
Collections/late fees	6	-	6	193
Electricity and gas	10,911	-	10,911	13,686
Insurance	37,318	-	37,318	39,372
Legal	2,205	-	2,205	1,248
Management contract	19,058	-	19,058	18,708
Ombudsmen fee	476	-	476	336
Office supplies	777	-	777	1,196
Payroll - maintenance	57,986	-	57,986	55,644
Payroll taxes and benefits	13,953	-	13,953	11,859
Postage	1,026	-	1,026	947
Printing	3,700	-	3,700	3,189
Refuse	219	-	219	329
Repairs and maintenance				
Buildings	1,096	-	1,096	1,717
Electrical repairs	969	-	969	1,265
Grounds and landscape	6,752	-	6,752	10,221
Maintenance contingency	527	-	527	-
Landscape contract and supplies	44,982	-	44,982	50,025
Miscellaneous supplies	3,810	-	3,810	2,320
Painting	289	-	289	1,788
Pest control	3,145	-	3,145	5,895
Plumbing	2,796	-	2,796	1,668
Pools and spas	5,860	-	5,860	5,704
Supplies	7,382	-	7,382	17,266

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
MEMBERS' EQUITY - (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
EXPENSES (Continued)				
Social events	\$ 452	\$ -	\$ 452	\$ 749
Taxes and licenses	966	-	966	394
Telephone	2,057	-	2,057	1,618
Water	30,696	-	30,696	29,191
Reserve expenses				
Concrete	-	-	-	2,810
Dry rot repair	-	10,980	10,980	-
Fences	-	3,932	3,932	-
Heating system	-	85	85	-
Irrigation	-	-	-	15,942
Landscaping	-	3,755	3,755	6,786
Miscellaneous	-	-	-	1,566
Painting	-	-	-	480
Plumbing, water, and gas	-	16,677	16,677	9,521
Pool	-	4,678	4,678	-
Reserve study	-	700	700	-
Resurfacing decks	-	9,620	9,620	6,462
Roads	-	120,000	120,000	-
Roofing	-	8,581	8,581	11,949
Siding	-	406	406	9,080
Walls	-	1,033	1,033	-
	<u>263,188</u>	<u>180,447</u>	<u>443,635</u>	<u>343,164</u>
Excess (deficiency) of revenue over (under) expenses before federal income taxes	(3,380)	7,161	3,781	105,658
FEDERAL INCOME TAXES	<u>1,938</u>	<u>-</u>	<u>1,938</u>	<u>1,379</u>
Excess (deficiency) of revenue over (under) expenses	(5,318)	7,161	1,843	104,279
MEMBERS' EQUITY, beginning of year	<u>11,594</u>	<u>412,540</u>	<u>424,134</u>	<u>319,855</u>
MEMBERS' EQUITY, end of year	<u>\$ 6,276</u>	<u>\$ 419,701</u>	<u>\$ 425,977</u>	<u>\$ 424,134</u>

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenue over (under) expenses	\$ (5,318)	\$ 7,161	\$ 1,843	\$ 104,279
Adjustments to reconcile excess (deficiency) of revenue over (under) expenses to net cash flows from operating activities				
(Increase) decrease in:				
Assessments receivable, net	(1,501)	-	(1,501)	171
Due from other funds	-	-	-	3,586
Prepaid income taxes	181	-	181	(181)
Prepaid expenses	2,430	-	2,430	3,040
Increase (decrease) in:				
Accounts payable	(4,998)	2,713	(2,285)	13,983
Federal income tax payable	538	-	538	(1,453)
Due to other funds	-	-	-	(3,586)
Assessments received in advance	(3,912)	-	(3,912)	1,263
Net cash flows from operating activities and net change in cash and cash equivalents	\$ <u>(12,580)</u>	\$ <u>9,874</u>	(2,706)	121,102
CASH AND CASH EQUIVALENTS, beginning of year			460,438	339,336
CASH AND CASH EQUIVALENTS, end of year			\$ <u>457,732</u>	\$ <u>460,438</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Cash paid during the year for income taxes			\$ <u>1,219</u>	\$ <u>3,013</u>

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Parkwood Homeowners Association, Inc. (Association) was incorporated as a not-for-profit organization on October 20, 1976 in the state of Nevada. The Association is responsible for the operation and maintenance of the common property within the Parkwood development. The condominium development consists of 112 residential units located in Reno, Nevada.

Fund Accounting and Basis of Accounting

The Association employs the accrual method of accounting for income tax and financial reporting purposes. The Association's governing documents provide certain guidelines for governing 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:

Unrestricted General Fund – This fund is used to account for financial resources available for the general operations of the Association.

Restricted Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

The Association considers all money market accounts and certificates of deposit with original maturities of three months or less to be cash and cash equivalents.

Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent, thereby effectively enforcing the collection of all assessments due the Association by homeowners. However, if the homeowner declares bankruptcy, the Association is only entitled to recover dues assessed nine months prior to the foreclosure date. An allowance for doubtful accounts is included in the accompanying financial statements in the amount of \$20.

Property and Equipment

Real property, including the common area land, clubhouse and related improvements to such property, is owned by the homeowners. Therefore, original costs for purchasing the land and buildings are not included in the financial statements of the Association. The preservation and maintenance of the properties are the responsibility of the Association. In conformity with industry practice, major repairs and replacements performed on the real property are charged to expense as incurred. Gains or losses on the disposition of property and equipment are included in income.

The Association has no assets that would be included in property and equipment at June 30, 2017.

Assessments Received in Advance

Payments received from property owners prior to June 30 of each year for subsequent year assessments represent revenue applicable to the succeeding year and, therefore, are deferred at year-end.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Homeowner associations may be taxed either as homeowner associations or regular corporations. For the years ended June 30, 2017 and 2016, the Association elected to be taxed as a homeowner association. Under that election, the Association is taxed on its non-exempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. For the years ended June 30, 2017 and 2016, the Association incurred tax expense of \$1,938 and \$1,379, respectively.

The Association annually reviews its tax positions and does not anticipate any changes in the next twelve months. The Association has reported all non-exempt function income. Tax positions to consider include, but are not limited to:

- Classification of exempt and non-exempt function income
- Allocation of management costs and administrative costs to be deductible against non-exempt function income

Use of 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.

Subsequent Events

Subsequent events have been evaluated through November 20, 2017, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Reclassifications

Certain items on the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Memorandum Only – Total Columns

Total columns in the financial statements are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, changes in members’ equity or cash flows in conformity with generally accepted accounting principles.

NOTE 2 – CONCENTRATION OF CREDIT RISK

The Association maintains its cash in four accounts at one bank. Accounts are insured in total up to \$250,000 per depositor, per insured bank, for each account ownership category, by the Federal Deposit Insurance Corporation. In the event that the institution would encounter severe financial difficulties, the Association would be at risk as a result of uninsured balances of \$92,936 at June 30, 2017.

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

As required by Nevada Revised Statute 116.3115 and the Association’s governing documents, funds are accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$419,701 and \$412,540 at June 30, 2017 and 2016, respectively, are held in separate accounts and are not available for operating purposes.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

A reserve study was performed in July 2017. The reserve funds used to prepare the study were based on the amount of cash the Association currently holds in the reserve money market account.

Funds are being accumulated based on estimated future costs and actual expenditures may vary from those estimates and the variations may be material. Amounts accumulated in the replacement fund may not be adequate to meet future needs. Accordingly, if additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
FUTURE MAJOR REPAIRS AND REPLACEMENTS - UNAUDITED
JUNE 30, 2017

The Association's Board of Directors engaged Better Reserves Consultants to perform the reserve study in July 2017, including the estimates of the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from the property management company, current bids to repair, replace or renovate components, actual costs for replacement components, construction cost guides and manuals from the Department of Real Estate and other government agencies. Estimates have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

Components	Estimated Remaining Useful Life Years	Estimated Replacement Cost	Theoretical Balance at June 30, 2017	Replacement Fund Balance at June 30, 2017
Homes	0-13	\$ 681,800	\$ 375,800	
Common area	0-28	52,800	34,113	
Asphalt, roads, and parking	1-34	494,046	161,571	
Club house	3-16	88,000	46,744	
Pool area	2-28	71,400	18,440	
Tennis court	0-20	103,700	92,960	
Reserve study	0-1	3,700	3,100	
		<u>\$ 1,495,446</u>	<u>\$ 732,728</u>	<u>\$ 419,701</u>

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted General Fund</u>		<u>Restricted Replacement Fund</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
REVENUE				
Assessment fees	\$ 249,800	\$ 249,800	\$ 187,000	\$ 187,000
Late charge fees	250	1,250	-	-
Transfer fees	700	240	-	-
Clubhouse activity charges	450	200	-	-
Insurance Claim Income	1,432	-	-	-
RV storage fee	2,815	1,200	-	-
Miscellaneous	4,346	4,570	-	-
Interest and dividends	15	50	608	504
Total revenue	<u>259,808</u>	<u>257,310</u>	<u>187,608</u>	<u>187,504</u>
EXPENSES				
Accounting	4,900	4,900	-	-
Bad debt expense (recovery)	(1,726)	500	-	-
Bank fees	2	30	-	-
Clubhouse alarm	598	600	-	-
Collections/ late fees	6	500	-	-
Electricity and gas	10,911	9,500	-	-
Insurance	37,318	36,150	-	-
Legal	2,205	1,000	-	-
Management contract	19,058	19,868	-	-
Ombudsmen fee	476	336	-	-
Office supplies	777	1,200	-	-
Payroll - maintenance	57,986	54,114	-	-
Payroll taxes and benefits	13,953	13,000	-	-
Postage	1,026	1,100	-	-
Printing	3,700	2,500	-	-
Refuse	219	650	-	-
Repairs and maintenance				
Buildings	1,096	1,300	-	-
Electrical repairs	969	500	-	-
Grounds and landscape	6,752	-	-	-
Maintenance contingency	527	665	-	-
Landscape contract and supplies	44,982	52,200	-	-
Miscellaneous supplies	3,810	2,520	-	-
Painting	289	1,200	-	-
Pest control	3,145	3,000	-	-
Plumbing	2,796	3,000	-	-
Pools and spas	5,860	3,000	-	-
Supplies	7,382	4,919	-	-
Snow removal	-	2,000	-	-
Tennis courts	-	500	-	-
Social events	452	500	-	-
Taxes and licenses	966	-	-	-

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Unrestricted General Fund</u>		<u>Restricted Replacement Fund</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
EXPENSES (Continued)				
Telephone	\$ 2,057	\$ 1,552	\$ -	\$ -
Water	30,696	34,376	-	-
Reserve expenses				
Concrete	-	-	-	1,500
Dry rot repair	-	-	10,980	-
Fences	-	-	3,932	2,000
Heating system	-	-	85	-
Landscaping and trees	-	-	3,755	5,000
Painting	-	-	-	500
Plumbing, water and gas	-	-	16,677	5,000
Pool	-	-	4,678	500
Reserve study	-	-	700	750
Resurfacing decks	-	-	9,620	750
Roads	-	-	120,000	118,300
Roofing	-	-	8,581	-
Siding materials and labor	-	-	406	-
Walls	-	-	1,033	-
Federal income tax	1,938	130	-	-
Total expenses	<u>265,126</u>	<u>257,310</u>	<u>180,447</u>	<u>134,300</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENSES	\$ <u>(5,318)</u>	\$ <u>-</u>	\$ <u>7,161</u>	\$ <u>53,204</u>

See accompanying notes