

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

**Kohn & Company** LLP



**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**

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**JUNE 30, 2016**

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## 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, 2016, 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, 2016, 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, 2015 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 October 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

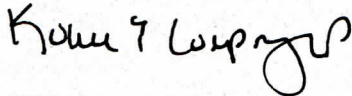
### Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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.



Reno, Nevada  
September 20, 2016



**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**JUNE 30, 2016**  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2015)

	2016			2015
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
<b>ASSETS</b>				
Cash and cash equivalents	\$ 38,598	\$ 421,840	\$ 460,438	\$ 339,336
Assessments receivable, net of allowance for doubtful accounts of \$1,747 and \$6,447 in 2016 and 2015, respectively	375	-	375	546
Due from other funds	-	-	-	3,586
Prepaid income taxes	181	-	181	-
Prepaid expenses	9,880	-	9,880	12,920
Total current assets/ total assets	<u>\$ 49,034</u>	<u>\$ 421,840</u>	<u>\$ 470,874</u>	<u>\$ 356,388</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 20,631	\$ 9,300	\$ 29,931	\$ 15,948
Due to other funds	-	-	-	3,586
Federal income taxes payable	-	-	-	1,453
Assessments received in advance	16,809	-	16,809	15,546
Total current liabilities/ total liabilities	37,440	9,300	46,740	36,533
<b>MEMBERS' EQUITY</b>	<u>11,594</u>	<u>412,540</u>	<u>424,134</u>	<u>319,855</u>
Total liabilities and members' equity	<u>\$ 49,034</u>	<u>\$ 421,840</u>	<u>\$ 470,874</u>	<u>\$ 356,388</u>

See accompanying notes

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN**  
**MEMBERS' EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	2016			2015
	Unrestricted	Restricted	Total	Total
	General Fund	Replacement Fund		(Memorandum Only)
<b>REVENUE</b>				
Assessment fees	\$ 249,800	\$ 187,000	\$ 436,800	\$ 436,800
Late charge fees	890	-	890	1,425
Transfer fees	600	-	600	1,100
Clubhouse activity charges	150	-	150	100
RV storage fee	2,030	-	2,030	1,760
Miscellaneous	7,608	-	7,608	4,509
Interest and dividends	40	704	744	467
	<u>261,118</u>	<u>187,704</u>	<u>448,822</u>	<u>446,161</u>
<b>EXPENSES</b>				
Accounting	4,900	-	4,900	4,900
Automobile allowance	-	-	-	583
Bank fees	20	-	20	20
Bad debt expense (recovery)	(3,640)	-	(3,640)	(3,594)
Clubhouse alarm	760	-	760	804
Collections/ late fees	193	-	193	210
Electricity and gas	13,686	-	13,686	12,695
Insurance	39,372	-	39,372	36,054
Legal	1,248	-	1,248	832
Management contract	18,708	-	18,708	18,803
Ombudsmen fee	336	-	336	336
Office supplies	1,196	-	1,196	4,120
Payroll - maintenance	55,644	-	55,644	51,222
Payroll taxes and benefits	11,859	-	11,859	10,187
Postage	947	-	947	1,007
Printing	3,189	-	3,189	3,332
Refuse	329	-	329	-
Reserve study	-	-	-	700
Repairs and maintenance				
Buildings	1,717	-	1,717	963
Electrical repairs	1,265	-	1,265	1,493
Grounds and landscape	10,221	-	10,221	6,245
Maintenance contingency	-	-	-	396
Landscape contract and supplies	50,025	-	50,025	49,240
Miscellaneous supplies	2,320	-	2,320	4,134
Painting	1,788	-	1,788	848
Pest control	5,895	-	5,895	1,195
Plumbing	1,668	-	1,668	735
Pools and spas	5,704	-	5,704	4,789
Supplies	17,266	-	17,266	14,111

See accompanying notes

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN**  
**MEMBERS' EQUITY - (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

	2016			2015
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
<b>EXPENSES (Continued)</b>				
Social events	\$ 749	\$ -	\$ 749	\$ 737
Taxes and licenses	394	-	394	485
Telephone	1,618	-	1,618	1,706
Water	29,191	-	29,191	34,149
Reserve expenses				
Balcony	-	-	-	258
Concrete	-	2,810	2,810	3,745
Fences	-	-	-	3,585
Gate	-	-	-	2,708
Heating system	-	-	-	720
Irrigation	-	15,942	15,942	3,714
Landscaping	-	6,786	6,786	7,350
Miscellaneous	-	1,566	1,566	-
Painting	-	480	480	-
Plumbing, water, and gas	-	9,521	9,521	-
Pool	-	-	-	972
Resurfacing decks	-	6,462	6,462	-
Roads	-	-	-	149,336
Roofing	-	11,949	11,949	-
Siding	-	9,080	9,080	-
Tree maintenance	-	-	-	2,900
Walls	-	-	-	5,433
	<u>278,568</u>	<u>64,596</u>	<u>343,164</u>	<u>444,158</u>
Excess (deficiency) of revenue over (under) expenses before federal income taxes	(17,450)	123,108	105,658	2,003
<b>FEDERAL INCOME TAXES</b>	<u>1,379</u>	<u>-</u>	<u>1,379</u>	<u>1,547</u>
Excess (deficiency) of revenue over (under) expenses	(18,829)	123,108	104,279	456
<b>MEMBERS' EQUITY, beginning of year</b>	37,473	282,382	319,855	319,399
<b>TRANSFERS BETWEEN FUNDS</b>	<u>(7,050)</u>	<u>7,050</u>	<u>-</u>	<u>-</u>
<b>MEMBERS' EQUITY, end of year</b>	<u>\$ 11,594</u>	<u>\$ 412,540</u>	<u>\$ 424,134</u>	<u>\$ 319,855</u>

See accompanying notes

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenue over (under) expenses	\$ (18,829)	\$ 123,108	\$ 104,279	\$ 456
Adjustments to reconcile excess (deficiency) of revenue over (under) expenses to net cash flows from operating activities				
(Increase) decrease in:				
Assessments receivable, net	171	-	171	550
Other accounts receivable	-	-	-	43
Due from other funds	3,586	-	3,586	(3,586)
Prepaid income taxes	(181)	-	(181)	-
Prepaid expenses	3,040	-	3,040	564
Increase (decrease) in:				
Accounts payable	4,683	9,300	13,983	(7,729)
Federal income tax payable	(1,453)	-	(1,453)	1,181
Due to other funds	-	(3,586)	(3,586)	3,586
Assessments received in advance	1,263	-	1,263	(1,329)
Net cash flows from operating activities and net change in cash and cash equivalents	\$ <u>(7,720)</u>	\$ <u>128,822</u>	121,102	(6,264)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>			<u>339,336</u>	<u>345,600</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>			\$ <u><u>460,438</u></u>	\$ <u><u>339,336</u></u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>				
Cash paid during the year for income taxes			\$ <u><u>3,013</u></u>	\$ <u><u>-</u></u>

See accompanying notes



**NOTES TO FINANCIAL STATEMENTS**

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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**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 six months prior to the foreclosure date. An allowance for doubtful accounts is included in the accompanying financial statements in the amount of \$1,747.

**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, 2016.

**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, 2016

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**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 year ended June 30, 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, 2016 and 2015, the Association incurred tax expense of \$1,379 and \$1,547, respectively.

To comply with the Association's fiduciary responsibility it has elected to be taxed as a homeowner association. 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 September 20, 2016, 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 2015 financial statements have been reclassified to conform to the 2016 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 \$96,327 at June 30, 2016.

**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 \$412,540 and \$285,986 at June 30, 2016 and 2015, respectively, are held in separate accounts and are not available for operating purposes.

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

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**NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)**

A reserve study was performed in July 2015. 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, 2016**

The Association's Board of Directors engaged Better Reserves Consultants to perform the reserve study in July 2015, 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, 2016	Replacement Fund Balance at June 30, 2016
Homes	0-14	\$ 692,500	\$ 422,348	
Common area	0-3	51,000	49,063	
Asphalt, roads, and parking	0-28	358,572	256,114	
Club house	4-17	88,000	35,553	
Pool area	0-29	71,400	11,347	
Tennis court	1-13	38,500	24,520	
Reserve study	0-2	3,700	2,500	
		<u>\$ 1,303,672</u>	<u>\$ 801,445</u>	<u>\$ 412,540</u>

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted General Fund		Restricted Replacement Fund	
	Actual	Budget	Actual	Budget
<b>REVENUE</b>				
Assessment fees	\$ 249,800	\$ 249,800	\$ 187,000	\$ 187,000
Late charge fees	890	1,200	-	-
Transfer fees	600	240	-	-
Clubhouse activity charges	150	300	-	-
RV storage fee	2,030	1,200	-	-
Miscellaneous	7,608	4,620	-	-
Interest and dividends	40	50	704	504
Total revenue	261,118	257,410	187,704	187,504
<b>EXPENSES</b>				
Accounting	4,900	4,900	-	-
Bad debt expense (recovery)	(3,640)	500	-	-
Bank fees	20	30	-	-
Clubhouse alarm	760	600	-	-
Collections/ late fees	193	500	-	-
Electricity and gas	13,686	12,500	-	-
Insurance	39,372	36,150	-	-
Legal	1,248	1,000	-	-
Management contract	18,708	19,018	-	-
Ombudsmen fee	336	335	-	-
Office supplies	1,196	2,050	-	-
Payroll - maintenance	55,644	50,388	-	-
Payroll taxes and benefits	11,859	12,600	-	-
Postage	947	1,100	-	-
Printing	3,189	2,500	-	-
Refuse	329	650	-	-
Repairs and maintenance				
Buildings	1,717	1,100	-	-
Electrical repairs	1,265	1,200	-	-
Grounds and landscape	10,221	1,500	-	-
Landscape contract and supplies	50,025	49,200	-	-
Miscellaneous supplies	2,320	2,885	-	-
Painting	1,788	800	-	-
Pest control	5,895	2,900	-	-
Plumbing	1,668	2,500	-	-
Pools and spas	5,704	2,000	-	-
Supplies	17,266	5,000	-	-
Snow removal	-	2,000	-	-
Tennis courts	-	500	-	-
Social events	749	500	-	-
Taxes and licenses	394	300	-	-

See accompanying notes

**PARKWOOD HOMEOWNERS ASSOCIATION, INC.**  
**SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted General Fund		Restricted Replacement Fund	
	Actual	Budget	Actual	Budget
<b>EXPENSES (Continued)</b>				
Telephone	\$ 1,618	\$ 2,053	\$ -	\$ -
Water	29,191	38,021	-	-
Reserve expenses				
Reserve study	-	-	-	700
Bank fees	-	-	-	-
Clubhouse	-	-	-	-
Concrete	-	-	2,810	1,500
Fences	-	-	-	2,000
Gate	-	-	-	-
Heating system	-	-	-	-
Irrigation	-	-	15,942	-
Landscaping and trees	-	-	6,786	5,000
Miscellaneous	-	-	1,566	-
Painting	-	-	480	500
Plumbing, water and gas	-	-	9,521	5,000
Pool	-	-	-	500
Resurfacing decks	-	-	6,462	750
Roads	-	-	-	80,500
Roofing	-	-	11,949	-
Tennis courts	-	-	-	2,000
Siding materials and labor	-	-	9,080	-
Federal income tax	1,379	130	-	-
Total expenses	<u>279,947</u>	<u>257,410</u>	<u>64,596</u>	<u>98,450</u>
<b>EXCESS (DEFICIENCY) OF REVENUE</b>				
<b>OVER (UNDER) EXPENSES</b>	<u>\$ (18,829)</u>	<u>\$ -</u>	<u>\$ 123,108</u>	<u>\$ 89,054</u>

See accompanying notes