

PARKWOOD HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2013

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
JUNE 30, 2013

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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, 2013, 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, 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

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.

Report on Summarized Comparative Information

The June 30, 2012 financial statements of Parkwood Homeowners Association were audited by Kohn Colodny LLP and they expressed an unmodified opinion on those financial statements in their report dated November 8, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements for which it has been derived.

Kohn Colodny

Reno, Nevada
December 16, 2013



PARKWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

	2013			2012
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
ASSETS				
Cash and cash equivalents	\$ 44,700	\$ 220,904	\$ 265,604	\$ 181,770
Assessments receivable, net of allowance for doubtful accounts of \$10,151 and \$19,999 in 2013 and 2012, respectively	3,622	-	3,622	1,295
Due from other funds	-	-	-	140
Prepaid income taxes	94	-	94	227
Prepaid expenses	16,132	-	16,132	12,105
Total current assets/ total assets	<u>\$ 64,548</u>	<u>\$ 220,904</u>	<u>\$ 285,452</u>	<u>\$ 195,537</u>
LIABILITIES AND MEMBERS' EQUITY				
LIABILITIES				
Accounts payable	\$ 17,411	\$ 584	\$ 17,995	\$ 12,211
Accrued expenses	-	-	-	1,922
Due to other funds	-	-	-	140
Assessments received in advance	7,902	-	7,902	11,964
Total current liabilities/ total liabilities	25,313	584	25,897	26,237
MEMBERS' EQUITY	<u>39,235</u>	<u>220,320</u>	<u>259,555</u>	<u>169,300</u>
Total liabilities and members' equity	<u>\$ 64,548</u>	<u>\$ 220,904</u>	<u>\$ 285,452</u>	<u>\$ 195,537</u>

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
REVENUE				
Assessment fees	\$ 249,800	\$ 187,000	\$ 436,800	\$ 436,800
Late charge fees	1,750	-	1,750	1,975
Transfer fees	1,000	-	1,000	1,200
Clubhouse activity charges	400	-	400	290
RV storage fee	960	-	960	1,520
Insurance reimbursement	-	-	-	360
Miscellaneous	13,885	-	13,885	3,576
Owner repair reimbursements	-	-	-	-
Interest and dividends	44	346	390	337
	<u>267,839</u>	<u>187,346</u>	<u>455,185</u>	<u>446,058</u>
EXPENSES				
Accounting	4,900	-	4,900	5,030
Automobile allowance	4,500	-	4,500	4,500
Bad debt expense (recovery)	(9,290)	-	(9,290)	1,884
Clubhouse alarm	812	-	812	621
Collections/ Late Fees	2,306	-	2,306	-
Electricity	8,260	-	8,260	7,966
Gas	1,961	-	1,961	3,058
Insurance	36,588	-	36,588	34,055
Legal	2,759	-	2,759	4,756
Management contract	18,798	-	18,798	18,757
Ombudsmen fee	336	-	336	336
Office supplies	3,854	-	3,854	4,325
Payroll - maintenance	46,190	-	46,190	41,988
Payroll taxes and benefits	11,248	-	11,248	12,192
Postage	1,133	-	1,133	1,031
Printing	2,851	-	2,851	2,343
Refuse	684	-	684	487
Reserve study	-	600	600	1,200
Repairs and maintenance				
Buildings	3,978	-	3,978	2,256
Electrical repairs	1,011	-	1,011	507
Grounds	2,706	-	2,706	440
Gutter replacement	42	-	42	97
Landscape contract and supplies	40,088	-	40,088	39,145
Miscellaneous supplies	2,012	-	2,012	895
Painting	1,261	-	1,261	431
Pest control	2,455	-	2,455	2,040
Plumbing	9,991	-	9,991	2,250
Pools	2,118	-	2,118	3,020
Supplies	12,731	-	12,731	8,521
Taxes and licenses	382	-	382	395

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
MEMBERS' EQUITY - (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
EXPENSES (Continued)				
Telephone	\$ 3,928	\$ -	\$ 3,928	\$ 3,473
Water	40,210	-	40,210	34,973
Reserve expenses				
Bank fees	70	-	70	-
Club house	-	-	-	3,367
Concrete	-	-	-	4,340
Fence replacement	-	-	-	81
Landscaping	-	18,309	18,309	2,627
Painting	-	1,410	1,410	62,674
Plumbing, water, and gas	-	3,822	3,822	-
Resurfacing deck	-	4,886	4,886	2,343
Roads	-	41,034	41,034	-
Roofing	-	8,863	8,863	7,915
Siding materials and labor	-	25,000	25,000	47,552
	<u>260,873</u>	<u>103,924</u>	<u>364,797</u>	<u>373,871</u>
Excess of revenue over expenses before federal income taxes	6,966	83,422	90,388	72,187
FEDERAL INCOME TAXES	<u>133</u>	<u>-</u>	<u>133</u>	<u>237</u>
Excess of revenue over expenses	6,833	83,422	90,255	71,950
MEMBERS' EQUITY, beginning of year	<u>32,402</u>	<u>136,898</u>	<u>169,300</u>	<u>97,350</u>
MEMBERS' EQUITY, end of year	<u>\$ 39,235</u>	<u>\$ 220,320</u>	<u>\$ 259,555</u>	<u>\$ 169,300</u>

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	2013			2012
	Unrestricted General Fund	Restricted Replacement Fund	Total	Total (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenue over expenses	\$ 6,833	\$ 83,422	\$ 90,255	\$ 71,950
Adjustments to reconcile excess of revenue over expenses to net cash provided (used) by operating activities				
(Increase) decrease in:				
Assessments receivable, net	(2,339)	12	(2,327)	5,882
Due from other funds	140	-	140	(140)
Prepaid income taxes	133	-	133	237
Prepaid expenses	(4,027)	-	(4,027)	(1,572)
Increase (decrease) in:				
Accounts payable	5,200	584	5,784	(41,692)
Accrued expenses	(1,922)	-	(1,922)	127
Owner deposits	-	-	-	(3,600)
Due to other funds	-	(140)	(140)	140
Assessments received in advance	(4,062)	-	(4,062)	4,709
Net cash provided (used) by operating activities and net increase (decrease) in cash and cash equivalents	\$ <u>(44)</u>	\$ <u>83,878</u>	83,834	36,041
CASH AND CASH EQUIVALENTS, beginning of year			<u>181,770</u>	<u>145,729</u>
CASH AND CASH EQUIVALENTS, end of year			\$ <u>265,604</u>	\$ <u>181,770</u>

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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. Allowance for doubtful accounts is included in the accompanying financial statements in the amount of \$10,151.

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.

Property and Equipment

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, 2013.

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-end and, therefore, are deferred at year-end.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013, 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 year ended June 30, 2013, the Association incurred tax expense of \$133.

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

Although the Association has not been notified of any pending Internal Revenue Service (IRS) examinations, its returns are subject to examination within a three year statute of limitations. At June 30, 2013, the 2009 through current period returns are subject to examination by the IRS.

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 the report date, 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 2012 financial statements have been reclassified to conform to the 2013 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 \$15,244 at June 30, 2013.

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 \$220,904 at June 30, 2013, are held in separate accounts and are not available for operating purposes.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

A reserve study was performed in March 2013. 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, 2013

The Association's Board of Directors engaged Better Reserves Consultants to perform the reserve study in March 2013, including the estimate 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, 2013	Replacement Fund Balance at June 30, 2013
Homes	0-17	\$ 903,610	\$ 464,100	
Common area	0-3	31,339	29,001	
Asphalt roads and parking	0-24	442,924	330,725	
Club house	5-19	119,452	65,266	
Pool area	0-30	127,884	74,134	
Tennis court	0-13	56,339	32,461	
Reserve study	0	3,691	3,691	
		<u>\$ 1,685,239</u>	<u>\$ 999,378</u>	<u>\$ 220,904</u>

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted General Fund		Restricted Replacement Fund	
	Actual	Budget	Actual	Budget
REVENUE				
Assessment fees	\$ 249,800	\$ 249,800	\$ 187,000	\$ 187,000
Late charge fees	1,750	1,200	-	-
Transfer fees	1,000	240	-	-
Clubhouse activity charges	400	300	-	-
RV storage fee	960	960	-	-
Miscellaneous	13,885	1,200	-	-
Interest and dividends	44	-	346	504
Total revenue	<u>267,839</u>	<u>253,700</u>	<u>187,346</u>	<u>187,504</u>
EXPENSES				
Accounting	4,900	5,250	-	-
Automobile allowance	4,500	4,500	-	-
Bad debt expense (recovery)	(9,290)	504	-	-
Bank fees	70	-	-	-
Cable/ internet/ satellite	-	1,300	-	-
Clubhouse alarm	812	500	-	-
Collections/ Late Fees	2,306	-	-	-
Electricity	8,260	10,092	-	-
Gas	1,961	6,000	-	-
Insurance	36,588	33,000	-	-
Legal	2,759	3,000	-	-
Management contract	18,798	18,708	-	-
Ombudsmen fee	336	336	-	-
Office supplies	3,854	4,800	-	-
Payroll - maintenance	46,190	45,700	-	-
Payroll taxes and benefits	11,248	11,100	-	-
Postage	1,133	900	-	-
Printing	2,851	3,300	-	-
Refuse	684	600	-	-
Reserve study	-	-	600	631
Repairs and maintenance				
Buildings	3,978	2,750	-	-
Electrical repairs	1,011	650	-	-
Grounds	2,706	2,000	-	-
Gutter replacement	42	500	-	-
Landscape contract and supplies	40,088	39,000	-	-
Miscellaneous supplies	2,012	1,700	-	-
Painting	1,261	800	-	-
Pest control	2,455	1,000	-	-
Plumbing	9,991	3,500	-	-
Pools	2,118	3,500	-	-
Supplies	12,731	10,500	-	-

See accompanying notes

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
 SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted General Fund		Restricted Replacement Fund	
	Actual	Budget	Actual	Budget
EXPENSES (Continued)				
Taxes and licenses	\$ 382	\$ 240	\$ -	\$ -
Telephone	3,928	3,350	-	-
Water	40,210	31,700	-	-
Reserve expenses				
Bank fees	-	-	-	250
Concrete	-	-	-	4,500
Fence replacement	-	-	-	5,256
Landscaping and trees	-	-	18,309	-
Painting	-	-	1,410	4,200
Plumbing, water and gas	-	-	3,822	-
Pool equipment	-	-	-	3,000
Resurfacing deck	-	-	4,886	1,600
Roads	-	-	41,034	38,400
Roofing	-	-	8,863	1,600
Tennis courts	-	-	-	3,000
Siding materials and labor	-	-	25,000	25,000
Federal income tax	133	-	-	-
Total expenses	<u>261,006</u>	<u>250,780</u>	<u>103,924</u>	<u>87,437</u>
EXCESS OF REVENUE OVER EXPENSES	\$ <u>6,833</u>	\$ <u>2,920</u>	\$ <u>83,422</u>	\$ <u>100,067</u>

See accompanying notes