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Parkwood Homeowners Association, Inc.
Equus Management Group
5480 Reno Corporate Drive, Suite 100
Reno, NV 89511

To the Board of Directors:

Attached are your financial statements. If you have any questions, please give me a call. Additionally, if you would like bound copies mailed to you let me know.

Sincerely,

Gene H. Clawson

Gene H. Clawson, CPA

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENT
JUNE 30, 2022



Gene H. Clawson
Certified Public Accountant

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENT
JUNE 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Parkwood Homeowners Association, Inc.:

I have audited the accompanying financial statements of Parkwood Homeowners Association, Inc., which comprise the balance sheet as of June 30, 2022, 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parkwood Homeowners Association, Inc. as of June 30, 2022, 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

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Parkwood Homeowners Association, Inc. and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the Association has adopted the provisions of FASB Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, as of July 1, 2021 with the cumulative effect recorded to members' equity. My opinion is not modified with respect to this matter.

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 the 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

My objective is 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 my 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgement 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 the 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 my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

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 the Schedule of Actual VS. Budgeted Expenses 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 the information on future major repairs and replacements of common property 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

Gene H. Clawson, CPA
Reno, Nevada
November 11, 2022

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
JUNE 30, 2022
(SEE AUDITOR'S REPORT)

	<u>Unrestricted General Fund</u>	<u>Restricted Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 43,192	\$ 417,936	\$ 461,128
Certificates of Deposit	-	77,595	77,595
Assessments Receivable, Net	3,416	-	3,416
Due from Other Fund	3,200	24,010	27,210
Prepaid Insurance	<u>15,635</u>	<u>-</u>	<u>15,635</u>
 TOTAL ASSETS	 <u>\$ 65,443</u>	 <u>\$ 519,541</u>	 <u>\$ 584,984</u>
 <u>LIABILITIES AND MEMBERS' EQUITY</u>			
Accounts Payable	\$ 10,868	\$ 1,736	\$ 12,604
Prepaid Assessments	23,203	-	23,203
Due to Other Fund	24,010	3,200	27,210
Income Tax Payable	812	-	812
Deferred Revenue - Unspent Reserve Assessments	 <u>-</u>	 <u>514,605</u>	 <u>514,605</u>
 TOTAL LIABILITIES	 58,893	 519,541	 578,434
 MEMBERS' EQUITY	 <u>6,550</u>	 <u>-</u>	 <u>6,550</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 65,443</u>	 <u>\$ 519,541</u>	 <u>\$ 584,984</u>

The accompanying notes are an integral part of these financial statements.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
 STATEMENT OF REVENUES AND EXPENSES
 AND CHANGES IN MEMBERS' EQUITY
 FOR THE YEAR ENDED JUNE 30, 2022
 (SEE AUDITOR'S REPORT)

	<u>Unrestricted General Fund</u>	<u>Restricted Replacement Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member Assessments	\$ 276,680	\$ 165,031	\$ 441,711
Interest Income	39	1,188	1,227
Other Income	4,959	-	4,959
TOTAL REVENUES	<u>281,678</u>	<u>166,219</u>	<u>447,897</u>
<u>EXPENSES</u>			
Administrative	17,556	-	17,556
Income Tax	812	-	812
Insurance	39,959	-	39,959
Maintenance	98,553	-	98,553
Management Fees	14,400	-	14,400
Payroll	67,338	-	67,338
Reserve Expenses	-	166,219	166,219
Utilities	62,112	-	62,112
TOTAL EXPENSES	<u>300,730</u>	<u>166,219</u>	<u>466,949</u>
Excess (Deficit) of Revenues Over Expenses	(19,052)	-	(19,052)
Members' Equity, Beginning of Year, as Reported, prior to the Adoption of ASC 606	25,602	492,636	518,238
Cumulative Effect of the Change in Members' Equity Due to the Adoption of ASC 606	<u>-</u>	<u>(492,636)</u>	<u>(492,636)</u>
Members' Equity, Beginning of Year, as Restated	<u>25,602</u>	<u>-</u>	<u>25,602</u>
Members' Equity (Deficit) End of Year	<u>\$ 6,550</u>	<u>\$ -</u>	<u>\$ 6,550</u>

The accompanying notes are an integral part of these financial statements.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(SEE AUDITOR'S REPORT)

	Unrestricted General Fund	Restricted Replacement Fund	Total
Cash flows from operating activities:			
Members assessments collected	\$ 281,123	\$ 187,001	\$ 468,124
Interest received	39	1,188	1,227
Other income	4,959	-	4,959
Cash paid for operating expenditures	(314,742)	(210,972)	(525,714)
Income taxes paid	(251)	-	(251)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by/to operating activities	(28,872)	(22,783)	(51,655)
Cash flows from investing activities			
Purchase of certificates of deposit	-	(77,595)	(77,595)
Redemption of certificates of deposit	-	77,207	77,207
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by/to investing activities	-	(388)	(388)
Net increase (decrease) in cash	(28,872)	(23,171)	(52,043)
Cash at beginning of year	<u>72,064</u>	<u>441,107</u>	<u>513,171</u>
Cash at end of year	<u>\$ 43,192</u>	<u>\$ 417,936</u>	<u>\$ 461,128</u>

The accompanying notes are an integral part of these financial statements.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(SEE AUDITOR'S REPORT)

	<u>Unrestricted General Fund</u>	<u>Restricted Replacement 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	\$ (19,052)	\$ -	\$ (19,052)
Adjustments to reconcile excess of revenues over expenses to net cash providing by operating activities:			
(Increase) or Decrease in:			
Assessments receivable	(646)	988	342
Prepaid expense	8,493	-	8,493
Due from other fund	(3,200)	(987)	(4,187)
Increase or (Decrease) in:			
Deferred revenue	-	21,969	21,969
Prepaid assessments	4,102	-	4,102
Accounts payable	(20,117)	(47,953)	(68,070)
Income tax payable	561	-	561
Due to other fund	987	3,200	4,187
Net cash provided by/to operating activities	<u>\$ (28,872)</u>	<u>\$ (22,783)</u>	<u>\$ (51,655)</u>

The accompanying notes are an integral part of these financial statements.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

1. ORGANIZATION

Parkwood Homeowners Association, Inc. (the "Association") is incorporated as a not-for-profit in the State of Nevada. The Association is responsible for the operation and maintenance of the common property within the Parkwood development. The development consists of 112 units located in Reno, Nevada. The Association began its operations on October 20, 1976.

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.

Basis of Accounting. The financial statements have been prepared on the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

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.

Revenue Recognition and Adoption of Accounting Standards Codification (ASC) 606. 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 separately for unrestricted general fund (operating) activities and restricted replacement fund (reserve) activities. The Association recognizes all other revenue types at the time the related performance obligation is satisfied.

This Association disaggregates revenue from contracts with members into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic conditions. The accompanying financial statements include the disaggregated revenue as operating assessments in the unrestricted general fund and reserve assessments in the restricted replacement fund.

The Association recognizes operating assessment revenue in the month in which it is billed. Management does not believe an estimate for any variable consideration at the time of billing to owners exists based on historical cash collection trends. Operating revenue is used for the maintenance and management of common area property; as such, satisfaction of the performance obligation is considered to be completed when services are provided for the members.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

The Association recognizes reserve assessment revenue when the related reserve expenditures occur. The Association utilizes the policy of expending investment income prior to reserve assessments. Excess reserve assessments are recorded as deferred revenue – unspent reserve assessments in the accompanying balance sheet at the year end.

The Association has adopted Accounting Standards Update (ASC) 606 – *Revenue from Contracts with Customers*, as amended, as management believes the standard improves the usefulness and understandability of the Association’s financial reporting. Analysis of various provisions of this standard resulted in significant changes in the way the Association recognizes reserve assessment revenue. As of July 1, 2021, a restatement of beginning reserve members’ equity is reflected in the accompanying financial statements for prior unexpended reserve assessments. For the year ended June 30, 2022, all unexpended reserve assessments are reflected as deferred revenue-unspent reserve assessments in the accompanying balance sheet. The presentation and disclosures of revenue have been enhanced in accordance with this standard.

Interest Earned. The Board’s policy is to allocate to each fund interest earned on all accounts.

Cash Equivalents. Cash equivalents are defined as highly liquid investments, including money market accounts and certificates of deposit, which have an original maturity of three months or less. There were no cash equivalents at June 30, 2022.

Date of Management’s Review. Management has evaluated events and transactions occurring after the balance sheet date through November 11, 2022, 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.

Property and Equipment. Real property, including common area land, and related improvements to such property are owned by the homeowners. Therefore, the original costs 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.

3. OWNERS’ ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association’s operations, capital acquisitions and major repairs and replacements.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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. Better Reserve Consultants conducted a study in March, 2021 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 2.50 percent and interest of 0.05 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.

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, or delay major repairs and replacements until funds are available.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table provides information about significant changes in deferred revenue-unspent reserve assessments for the year ended June 30, 2022:

Prior year unspent reserve assessments, expended for current year reserve expenditures	-
Collected reserve assessments, unspent on current year reserve expenditures	<u>21,969</u>
Deferred revenue - unspent reserve assessments, end of year	<u>\$ 514,605</u>

6. RESTATEMENT DUE TO CHANGE IN ACCOUNTING POLICY

As discussed in Note 2, effective July 1, 2021, the Association adopted ASC 606, *Revenue from Contracts with Customers*. The Association has adopted ASC 606 using the modified retrospective approach and recorded the cumulative impact of adoption as an adjustment to members' equity. The cumulative effect was to increase deferred revenue-reserve assessments and decrease reserve members' equity by \$492,636 for prior unexpended reserve assessments.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

The following table provides the impact of adopting ASC 606 on the Association's financial statement as of June 30, 2022:

	<u>As Reported</u>	<u>Balance Without Adoption of ASC 606</u>	<u>Change Due to Adoption</u>
Balance Sheet			
Deferred revenue - reserve	\$ 514,605	\$ -	\$ 514,605
Members' equity - reserve	-	514,605	(514,605)
Statement of Revenue and Expenses			
Assessment revenue - reserve	165,031	187,000	(21,969)
Change in members' equity - reserve	-	21,969	21,969

7. FEDERAL INCOME TAXES

In 2022, the Association elected to file as a homeowners association in accordance with Internal Revenue Code section 528, using form 1120-H. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenues from uniform assessments to owners. The Association's investment income and other nonexempt income were subject to tax.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of June 30, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. 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. ASSESSMENTS RECEIVABLE, NET

An allowance for uncollectible amounts of \$0 has been recorded as of June 30, 2022. The Association's policy is to retain legal counsel and place liens on the units of members whose assessments are delinquent. The Association writes off assessments receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Any excess assessments at year end are retained by the Association for use in future years.

9. 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, 2022 investments of \$417,936 were in excess of the \$250,000 FDIC insurance limit by \$167,936.

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
JUNE 30, 2022
(UNAUDITED)
(SEE AUDITOR'S REPORT)

Better Reserve Consultants conducted a study in March, 2021 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 2.50 percent and interest of 0.05 percent, net of taxes, on amounts funded for future repairs and replacements. The projected reserve fund cash balance as of June 30, 2022 was \$649,084. The actual reserve fund cash balance as of June 30, 2022 was \$495,531.

<u>Components</u>	<u>Estimated Remaining Useful Life</u>	<u>Today's Cost</u>
Clubhouse	0-13	\$ 125,850
Common Area	0-28	123,600
Exterior of Homes	0-28	890,000
Pool Area	0-24	79,100
Roads and Parking	3-29	352,974
Tennis Courts	2-27	105,000
Reserve Study	0-2	3,700
		<u>\$ 1,680,224</u>

PARKWOOD HOMEOWNERS ASSOCIATION, INC.
 SCHEDULE OF ACTUAL VS. BUDGETED EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2022
 (SEE AUDITOR'S REPORT)

	<u>Actual</u>	<u>Budgeted</u>	<u>Variance</u>
<u>Operating Fund</u>			
Administrative	\$ 17,556	\$ 13,045	\$ (4,511)
Income Tax	812	1,600	788
Insurance	39,959	46,150	6,191
Maintenance	98,553	88,486	(10,067)
Management Fees	14,400	14,400	-
Payroll	67,338	61,330	(6,008)
Utilities	62,112	63,732	1,620
Total Expenses	<u>\$ 300,730</u>	<u>\$ 288,743</u>	<u>\$ (11,987)</u>
<u>Reserve Fund</u>			
Concrete Replacement	\$ 14,419	\$ 3,000	\$ (11,419)
Landscaping	15,602	16,000	398
Plumbing Water, Gas Lines	7,996	-	(7,996)
Roofing - Gutters	1,735	-	(1,735)
Decks/Balconies	17,452	20,000	2,548
Fence Painting & Repairs	469	-	(469)
Fences, Perimeter & Patios	15,134	-	(15,134)
Materials and Siding	245	-	(245)
Painting	39,010	60,050	21,040
Pool	3,060	-	(3,060)
Tennis Courts - Resurfacing	840	-	(840)
Utility Line Repair or Replacement	5,149	20,000	14,851
Golf Cart Major Repairs	-	800	800
Gym Equipment	-	10,000	10,000
Pool- Heater-Fence	-	14,000	14,000
Security System	-	4,800	4,800
Reserve Study	-	700	700
Major Landscape -Trees	26,370	22,500	(3,870)
Structural Repairs	14,700	-	(14,700)
Common Areas: Fences, Perimeter	4,673	14,500	9,827
Roofing /Flashing	1,745	5,000	3,255
Common Area: Landscaping, Irrig	782	-	(782)
Clubhouse Roof-Skylights-Locks	-	33,875	33,875
Correction	(3,162)	-	3,162
	<u>\$ 166,219</u>	<u>\$ 225,225</u>	<u>\$ 59,006</u>