

Goldklang Group

CPAs, P.C.

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Independent Auditor's Report

Board of Directors
Leewood Homeowners Association, Inc.
Springfield, Virginia

We have audited the accompanying Balance Sheets of Leewood Homeowners Association, Inc. as of December 31, 2009 and 2008, and the related Statements of Income and Comprehensive Income, Members' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no opinion on it. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Association, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leewood Homeowners Association, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements of Leewood Homeowners Association, Inc, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goldklang Group CPAs, P.C.

January 11, 2011

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 164,348	\$ 85,916
Interest-Bearing Deposits	106,448	157,608
Investments	58,206	48,882
Assessments Receivable - Net	3,350	3,080
Accounts Receivable Violation Fees - Net	2,420	310
Accounts Receivable - Other	19	2,689
Accrued Interest	229	915
Income Taxes Receivable	590	957
Prepaid Insurance	435	602
Prepaid Expenses	<u>3,481</u>	<u>3,481</u>
 Total Assets	 <u>\$ 339,526</u>	 <u>\$ 304,440</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 2,152	\$ 1,276
Prepaid Assessments	<u>15,013</u>	<u>17,823</u>
Total Liabilities	<u>\$ 17,165</u>	<u>\$ 19,099</u>
 Replacement Reserves	 \$ 293,050	 \$ 274,213
Accumulated Other Comprehensive Income (Loss)	4,188	(6,016)
Unappropriated Members' Equity	<u>25,123</u>	<u>17,144</u>
Total Members' Equity	<u>\$ 322,361</u>	<u>\$ 285,341</u>
 Total Liabilities and Members' Equity	 <u>\$ 339,526</u>	 <u>\$ 304,440</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>INCOME:</u>		
Assessments	\$ 156,000	\$ 136,500
Interest	6,212	8,402
Other	<u>2,860</u>	<u>2,330</u>
Total Income	<u>\$ 165,072</u>	<u>\$ 147,232</u>
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 4,414	\$ 8,042
Insurance	1,908	2,361
Copies and Postage	1,081	1,269
Administrative	1,226	1,017
Electricity	1,797	1,624
Grounds Maintenance	40,900	37,263
Trash Removal	41,768	40,071
Snow Removal	3,322	196
Common Area Maintenance	-	5,916
Bad Debt	600	10,658
Income Taxes	<u>1,135</u>	<u>1,518</u>
Total Expenses	<u>\$ 98,151</u>	<u>\$ 109,935</u>
Net Income before Contribution to Reserves	\$ 66,921	\$ 37,297
Contribution to Reserves	<u>(52,412)</u>	<u>(40,902)</u>
Net Income (Loss)	\$ 14,509	\$ (3,605)
Unrealized Holding Gains (Losses) Arising During Period	<u>10,204</u>	<u>(26,187)</u>
Comprehensive Income (Loss)	<u>\$ 24,713</u>	<u>\$ (29,792)</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Replacement Reserves</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2007	\$ 266,417	\$ 20,171	\$ 6,443	\$ 293,031
Additions:				
Contribution to Reserves	32,500			32,500
Interest Contributions	8,402			8,402
Inter-Equity Transfer	(14,306)		14,306	
Deductions:				
Roads	(4,557)			(4,557)
Sidewalks	(13,386)			(13,386)
Fence	(857)			(857)
Unrealized Loss on Investment		(26,187)		(26,187)
Net Loss			(3,605)	(3,605)
Balance as of December 31, 2008	\$ 274,213	\$ (6,016)	\$ 17,144	\$ 285,341
Additions:				
Contribution to Reserves	46,200			46,200
Interest Contributions	6,212			6,212
Unrealized Gain on Investments		10,204		10,204
Net Income			14,509	14,509
Inter-Equity Transfer	6,530		(6,530)	
Deductions:				
Curbs	(27)			(27)
Fence	(72)			(72)
Asphalt	(13,934)			(13,934)
Mailbox	(26,072)			(26,072)
Balance as of December 31, 2009	<u>\$ 293,050</u>	<u>\$ 4,188</u>	<u>\$ 25,123</u>	<u>\$ 322,361</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 14,509	\$ (3,605)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable - Net	(270)	1,710
Accounts Receivable Violation Fees - Net	(2,110)	8,726
Accounts Receivable - Other	2,670	(2,975)
Accrued Interest	686	-
Income Taxes Receivable	367	(501)
Prepaid Insurance	167	(18)
Prepaid Expenses	-	(317)
Increase (Decrease) in:		
Accounts Payable	876	(1,933)
Income Taxes Payable	-	(137)
Prepaid Assessments	(2,810)	11,113
Net Cash Flows from Operating Activities	<u>\$ 14,085</u>	<u>\$ 12,063</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 46,200	\$ 32,500
Received from Interest (Reserves)	6,212	8,402
Disbursed for Reserve Expenditures	(40,105)	(18,800)
Received from Interest-Bearing Deposits/Investments	75,408	122,848
Disbursed for Interest-Bearing Deposits/Investments	(23,368)	(107,374)
Net Cash Flows from Investing Activities	<u>\$ 64,347</u>	<u>\$ 37,576</u>
Net Change in Cash and Cash Equivalents	\$ 78,432	\$ 49,639
Cash and Cash Equivalents at Beginning of Year	<u>85,916</u>	<u>36,277</u>
Cash and Cash Equivalents at End of Year	<u>\$ 164,348</u>	<u>\$ 85,916</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 1,725</u>	<u>\$ 1,060</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - NATURE OF OPERATIONS:

The Association was organized under the laws of the Commonwealth of Virginia in 1976 for the purposes of maintaining and preserving the common property of the Association. The Association is located in Springfield, Virginia and consists of 195 homes. The Board of Directors administers the Association's operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to 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 homeowners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. The Association utilizes the allowance method of accounting for bad debt.

C) Common Property - Common real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, the land, roads and site improvements.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2007. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The study recommends a contribution to reserves of \$42,000 for 2009. For 2009, the Association budgeted to contribute \$46,200 to reserves. Additionally, the Association elected to contribute interest earned of \$6,212 to replacement reserves. In addition, the Association elected to transfer \$6,530 from unappropriated members' equity.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2009 and 2008, the Association had designated \$293,050 and \$274,213, respectively, for replacement reserves. These designated reserves were funded by cash, interest-bearing deposits and investments.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2009 and 2008, the income taxes were calculated using the corporate method.

Effective January 1, 2009, the Association implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2009 and 2008, the Association did not incur any penalties and

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

interest related to income taxes. The Association's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the Commonwealth of Virginia.

NOTE 5 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS:

As of December 31, 2009, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest-Bearing Deposits</u>	<u>Investments</u>	<u>Total</u>
Wachovia	Checking	\$ 31,764	\$ -	\$ -	\$ 31,764
Charles Schwab	Money Fund	132,584			132,584
E-Trade	Certificate of Deposit		31,821		31,821
Capital One	Certificates of Deposit (3)		74,627		74,627
Schwab	GNMA			4,258	4,258
Schwab-Vanguard 500	Index Fund			53,948	53,948
	Totals	<u>\$ 164,348</u>	<u>\$ 106,448</u>	<u>\$ 58,206</u>	<u>\$ 329,002</u>

The Association has funds maintained in a Charles Schwab money fund. Although the value per share of this account has not changed since it was opened and its goal is to maintain a per share value of \$1, this account is subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2009 and 2008 was \$132,584 and \$67,722, respectively.

The Association has funds maintained in a Vanguard 500 mutual fund. The value of this mutual fund is subject to market fluctuation risks and can increase or decrease with the market. The mutual fund is recorded at market value and the change in market value is recorded as accumulated other comprehensive income or loss. The mutual fund is subject to market fluctuation risk, therefore, the market fluctuation risk as of December 31, 2009 and 2008 was \$53,948 and \$42,651, respectively.

The Association also maintains a GNMA bond. This bond has been classified available for sale and is therefore recorded at market value.

The Association has implemented FASB ASC 820-10 (formerly SFAS No. 157, Fair Value Measurements). ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 uses

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 5 - CASH, INTEREST-BEARING DEPOSITS AND INVESTMENTS: (CONTINUED)

the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 - Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 - Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ -	\$ 4,258	\$ -	\$ 4,258
Schwab Index Fund	53,948	-	-	53,948
<u>2008</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ -	\$ 6,231	\$ -	\$ 6,231
Schwab Index Fund	42,651	-	-	42,651

As of December 31, 2009, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$54,018. The market value was \$58,206, and the accumulated other comprehensive income was \$4,188.

As of December 31, 2008, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$54,898. The market value was \$48,882, and the accumulated other comprehensive loss was \$6,016.

NOTE 6 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

	<u>2009</u>	<u>2008</u>
Assessments Receivable	\$ 3,350	\$ 4,171
Less: Allowance for Doubtful Assessments	<u>(-)</u>	<u>(1,091)</u>
Assessments Receivable - Net	<u>\$ 3,350</u>	<u>\$ 3,080</u>

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(CONTINUED)

NOTE 7 - ACCOUNTS RECEIVABLE VIOLATION FEES - NET:

The Association assesses penalties to members in violation of the architectural rules. An allowance is included for the estimated portion of penalties that will be forgiven each year.

	2009	2008
Accounts Receivable - Violation Fees	\$ 4,220	\$ 4,470
Less: Allowance for Doubtful Assessments	<u>(1,800)</u>	<u>(4,160)</u>
Accounts Receivable Violation Fees - Net	<u>\$ 2,420</u>	<u>\$ 310</u>

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 11, 2011, the date the financial statements were available to be issued.

Subsequent to year-end, the Association paid \$11,872 for asphalt repair and seal coating. The Association also paid \$11,747 for hot patch asphalt repairs in 2010. These projects were funded through replacement reserves.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2009
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2007 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2007 Estimated Remaining Useful Life (Years)</u>	<u>2007 Estimated Replacement Cost</u>
Asphalt	1-29	\$ 515,360
Catch Basins	7-19	46,665
Curbs	4-7	27,720
Sidewalks	1	30,000
Fences	6-15	91,275
Mailboxes	1	22,750
Drainage Improvements	1	4,000