

# Goldklang Group<sup>®</sup>

CPAs, P.C.

## Principals

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## Associate Principals

Jeremy W. Powell, CPA  
Renee L. Watson, CPA

## Managers

Allison A. Day, CPA  
Matthew T. Stiefvater, CPA

### Independent Auditor's Report

#### Board of Directors

Leewood Homeowners Association, Inc.

We have audited the accompanying Balance Sheets of Leewood Homeowners Association, Inc. as of December 31, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 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.

*Goldklang Group CPAs, P.C.*

February 20, 2013

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LEEWOOD HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 52,324	\$ 103,007
Interest-Bearing Deposits	180,809	193,694
Investments	64,614	64,763
Assessments Receivable - Net	3,599	9,656
Accounts Receivable Violation Fees - Net	2,700	900
Accounts Receivable - Other	-	800
Accrued Interest	69	73
Income Taxes Receivable	-	1,096
Prepaid Insurance	619	436
Prepaid Expenses	<u>4,645</u>	<u>3,551</u>
 Total Assets	 <u>\$ 309,379</u>	 <u>\$ 377,976</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 125	\$ 3,779
Prepaid Assessments	<u>15,930</u>	<u>23,667</u>
Total Liabilities	<u>\$ 16,055</u>	<u>\$ 27,446</u>
 Replacement Reserves	 \$ 263,333	 \$ 319,643
Accumulated Other Comprehensive Income	11,081	11,128
Unappropriated Members' Equity	<u>18,910</u>	<u>19,759</u>
Total Members' Equity	<u>\$ 293,324</u>	<u>\$ 350,530</u>
 Total Liabilities and Members' Equity	 <u>\$ 309,379</u>	 <u>\$ 377,976</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>INCOME:</u>		
Assessments	\$ 156,000	\$ 156,000
Interest	3,407	3,320
Other	<u>3,000</u>	<u>1,355</u>
Total Income	<u>\$ 162,407</u>	<u>\$ 160,675</u>
<u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 10,884	\$ 6,293
Insurance	2,293	1,743
Copies and Postage	1,353	1,299
Administrative	1,718	1,890
Electricity	1,707	1,657
Grounds Maintenance	45,727	45,835
Trash Removal	42,719	41,839
Snow Removal	4,460	5,875
Bad Debt	3,007	1,844
Income Taxes	<u>559</u>	<u>554</u>
Total Expenses	<u>\$ 114,427</u>	<u>\$ 108,829</u>
Net Income before Contribution to Reserves	\$ 47,980	\$ 51,846
Contribution to Reserves	<u>(48,791)</u>	<u>(47,020)</u>
Net Income	\$ (811)	\$ 4,826
Unrealized Holding Gain (Loss) Arising During Period	<u>(47)</u>	<u>6,940</u>
Comprehensive Income (Loss)	<u><u>\$ (858)</u></u>	<u><u>\$ 11,766</u></u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Replacement Reserves</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2009	\$ 293,050	\$ 4,188	\$ 25,123	\$ 322,361
Additions:				
Contribution to Reserves	43,700			43,700
Interest Contributions	3,320			3,320
Unrealized Gain on Investments		6,940		6,940
Net Income			4,826	4,826
Inter-Equity Transfer	10,190		(10,190)	
Deductions:				
Drainage	(2,532)			(2,532)
Fence	(90)			(90)
Concrete	(560)			(560)
Roads	(27,435)			(27,435)
Balance as of December 31, 2010	\$ 319,643	\$ 11,128	\$ 19,759	\$ 350,530
Additions:				
Contribution to Reserves	45,400			45,400
Interest Contributions	3,391			3,391
Inter-Equity Transfer	38		(38)	
Deductions:				
Roads	(91,914)			(91,914)
Signs	(275)			(275)
Fence	(12,950)			(12,950)
Net Loss			(811)	(811)
Unrealized Loss on Investments		(47)		(47)
Balance as of December 31, 2011	<u>\$ 263,333</u>	<u>\$ 11,081</u>	<u>\$ 18,910</u>	<u>\$ 293,324</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (811)	\$ 4,826
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	2,107	-
Allowance for Doubtful Assessments - Violation Fees	(900)	(900)
Decrease (Increase) in:		
Assessments Receivable	3,950	(6,306)
Accounts Receivable Violation Fees	(900)	2,420
Accounts Receivable - Other	800	(781)
Accrued Interest	4	156
Income Taxes Receivable	1,096	(506)
Prepaid Insurance	(183)	(1)
Prepaid Expenses	(1,094)	(70)
Increase (Decrease) in:		
Accounts Payable	(3,654)	1,627
Prepaid Assessments	(7,737)	8,654
Net Cash Flows from Operating Activities	<u>\$ (7,322)</u>	<u>\$ 9,119</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 45,400	\$ 43,700
Received from Interest (Reserves)	3,391	3,320
Disbursed for Reserve Expenditures	(105,139)	(30,617)
Received from Interest-Bearing Deposits/Investments	14,182	6,940
Disbursed for Interest-Bearing Deposits/Investments	(1,195)	(93,803)
Net Cash Flows from Investing Activities	<u>\$ (43,361)</u>	<u>\$ (70,460)</u>
Net Change in Cash and Cash Equivalents	\$ (50,683)	\$ (61,341)
Cash and Cash Equivalents at Beginning of Year	<u>103,007</u>	<u>164,348</u>
Cash and Cash Equivalents at End of Year	<u>\$ 52,324</u>	<u>\$ 103,007</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 850</u>	<u>\$ 1,650</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010

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.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2010 financial statements to conform to the 2011 presentation.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

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.

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2007. The Association updated this reserve study in 2012. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The 2007 study recommends a contribution to reserves of \$45,400 for 2011. For 2011, the Association budgeted to contribute \$45,400 to reserves. Additionally, the Association elected to contribute interest earned of \$3,391 to replacement reserves. In addition, the Association elected to transfer \$38 from unappropriated members' equity to reserves.

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, 2011 and 2010, the Association had designated \$263,333 and \$319,643, 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 2011 and 2010, the income taxes were calculated using the corporate method.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2011 and 2010, the Association did not incur any penalties and 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, 2011, 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>
Wells Fargo	Checking	\$ 23,403	\$ -	\$ -	\$ 23,403
Charles Schwab	Money Fund	28,921			28,921
E-Trade	Certificate of Deposit		32,364		32,364
Capital One	Certificates of Deposit (2)		63,445		63,445
Aurora Bank	Certificate of Deposit		50,000		50,000
BMW North America	Certificate of Deposit		35,000		35,000
Schwab	GNMA			1,402	1,402
Schwab-Vanguard 500	Index Fund			63,212	63,212
	Totals	<u>\$ 52,324</u>	<u>\$ 180,809</u>	<u>\$ 64,614</u>	<u>\$ 297,747</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, 2011 and 2010 was \$28,921 and \$61,335, 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, 2011 and 2010 was \$63,212 and \$61,993, respectively.

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



LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

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

The Association 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 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>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ -	\$ 1,402	\$ -	\$ 1,402
Schwab Index Fund	63,212	-	-	63,212
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ -	\$ 2,770	\$ -	\$ 2,770
Schwab Index Fund	61,993	-	-	61,993

As of December 31, 2011, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$53,533. The market value was \$64,614, and the accumulated other comprehensive income was \$11,081.

As of December 31, 2010, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$53,635. The market value was \$64,763, and the accumulated other comprehensive loss was \$11,128.

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.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET: (CONTINUED)

	<u>2011</u>	<u>2010</u>
Assessments Receivable	\$ 5,706	\$ 9,656
Less: Allowance for Doubtful Assessments	<u>(2,107)</u>	<u>( - )</u>
Assessments Receivable - Net	<u>\$ 3,599</u>	<u>\$ 9,656</u>

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.

	<u>2011</u>	<u>2010</u>
Accounts Receivable Violation Fees	\$ 2,700	\$ 1,800
Less: Allowance for Doubtful Accounts	<u>( - )</u>	<u>(900)</u>
Accounts Receivable Violation Fees - Net	<u>\$ 2,700</u>	<u>\$ 900</u>

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 20, 2013, the date the financial statements were available to be issued.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2011  
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2012 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>2012 Estimated Remaining Useful Life (Years)</u>	<u>2012 Estimated Replacement Cost</u>
Asphalt	1-24	\$ 748,845
Catch Basins	2	4,000
Concrete	2-4	31,200
Drainage	4	5,000
Fences	1-5	60,190
Light Poles and Fixtures	N/A	26,000
Mailbox Stations	21	22,400
Reserve Study Update	2	2,600