



Principals

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Independent Auditor's Report

To the Board of Directors of
Leewood Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Leewood Homeowners Association, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and comprehensive income, members' equity and cash flows for the years 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 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 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 Leewood Homeowners Association, Inc. as of December 31, 2015 and 2014, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on 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.

Goldklang Group CPAs, P.C.

Reston, Virginia
February 14, 2017

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 93,197	\$ 156,207
Interest-Bearing Deposits	264,908	214,633
Investments	111,397	110,203
Assessments Receivable - Net	8,221	3,847
Accounts Receivable - Other	1,637	-
Accrued Interest	523	438
Income Taxes Receivable	383	559
Prepaid Expenses	<u>5,140</u>	<u>4,786</u>
Total Assets	<u>\$ 485,406</u>	<u>\$ 490,673</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 266	\$ 199
Prepaid Assessments	<u>11,033</u>	<u>2,152</u>
Total Liabilities	<u>\$ 11,299</u>	<u>\$ 2,351</u>
Replacement Reserves	\$ 362,747	\$ 382,219
Accumulated Other Comprehensive Income	51,764	52,580
Unappropriated Members' Equity	<u>59,596</u>	<u>53,523</u>
Total Members' Equity	<u>\$ 474,107</u>	<u>\$ 488,322</u>
Total Liabilities and Members' Equity	<u>\$ 485,406</u>	<u>\$ 490,673</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>INCOME:</u>		
Assessments	\$ 175,500	\$ 175,500
Bad Debt Recovery	4,853	-
Interest	3,737	3,319
Other	<u>325</u>	<u>325</u>
Total Income	<u>\$ 184,415</u>	<u>\$ 179,144</u>
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 5,513	\$ 5,933
Insurance	2,982	2,758
Copies and Postage	1,832	830
Administrative	1,896	1,533
Electricity	3,078	2,657
Grounds Maintenance	46,914	41,642
Trash Removal	47,153	46,120
Snow Removal	6,420	3,266
Common Area Maintenance	-	14
Bad Debt	-	545
Income Taxes	<u>617</u>	<u>526</u>
Total Expenses	<u>\$ 116,405</u>	<u>\$ 105,824</u>
Net Income before Contribution to Reserves	\$ 68,010	\$ 73,320
Contribution to Reserves	<u>(61,937)</u>	<u>(60,519)</u>
Net Income	\$ 6,073	\$ 12,801
Unrealized Holding Gain (Loss) Arising During Period	<u>(816)</u>	<u>11,146</u>
Comprehensive Income	<u>\$ 5,257</u>	<u>\$ 23,947</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<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, 2013	\$ 322,087	\$ 41,434	\$ 40,722	\$ 404,243
Additions:				
Contribution to Reserves	57,200			57,200
Interest Contributions	3,319			3,319
Unrealized Gain on Investments		11,146		11,146
Net Income			12,801	12,801
Deduction:				
Fence	(387)			(387)
Balance as of December 31, 2014	\$ 382,219	\$ 52,580	\$ 53,523	\$ 488,322
Additions:				
Contribution to Reserves	58,200			58,200
Interest Contributions	3,737			3,737
Net Income			6,073	6,073
Deductions:				
Curbs	(12,868)			(12,868)
Drainage	(9,050)			(9,050)
Entrance Signs	(2,371)			(2,371)
Sidewalks	(9,866)			(9,866)
Signs	(3,930)			(3,930)
Streets	(43,324)			(43,324)
Unrealized Loss on Investments		(816)		(816)
Balance as of December 31, 2015	<u>\$ 362,747</u>	<u>\$ 51,764</u>	<u>\$ 59,596</u>	<u>\$ 474,107</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 6,073	\$ 12,801
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(4,853)	545
Decrease (Increase) in:		
Assessments Receivable	479	(67)
Accounts Receivable - Other	(1,637)	-
Accrued Interest	(85)	-
Income Taxes Receivable	176	(424)
Prepaid Expenses	(354)	(269)
Increase (Decrease) in:		
Accounts Payable	67	(743)
Income Taxes Payable	-	(274)
Prepaid Assessments	8,881	(9,388)
Net Cash Flows from Operating Activities	<u>\$ 8,747</u>	<u>\$ 2,181</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 58,200	\$ 57,200
Received from Interest (Reserves)	3,737	3,319
Disbursed for Reserve Expenditures	(81,409)	(387)
Received from Interest-Bearing Deposits/Investments	275	275
Disbursed for Interest-Bearing Deposits/Investments	(52,560)	(2,163)
Net Cash Flows from Investing Activities	<u>\$ (71,757)</u>	<u>\$ 58,244</u>
Net Change in Cash and Cash Equivalents	\$ (63,010)	\$ 60,425
Cash and Cash Equivalents at Beginning of Year	<u>156,207</u>	<u>95,782</u>
Cash and Cash Equivalents at End of Year	<u>\$ 93,197</u>	<u>\$ 156,207</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 1,000</u>	<u>\$ 1,250</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2014 financial statements to conform to the 2015 presentation.

G) Investments - The Association's marketable securities have been classified and accounted for either as available-for-sale or held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and the ability to hold the

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale. The cost of securities sold is based upon the specific identification method. The Association reviews its marketable securities annually to determine if any security has experienced an other-than-temporary decline in fair value. If a determination is made that the decline is other-than-temporary, the Association writes down the investment to its market value and records the related write-down as an investment loss in its Statement of Income.

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 2012. 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 \$53,200 for 2015 plus interest of \$3,444. For 2015, the Association budgeted to contribute \$58,200 to reserves. Additionally, the Association elected to contribute interest earned of \$3,737 to replacement 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, 2015 and 2014, the Association had designated \$362,747 and \$382,219, 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

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 2015 and 2014, the income taxes were calculated using the corporate method.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2015 and 2014, the Association incurred \$0 and \$26, respectively, in 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 AND INTEREST-BEARING DEPOSITS:

As of December 31, 2015, 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>Total</u>
Wells Fargo	Checking	\$ 55,602	\$ -	\$ 55,602
Charles Schwab	Deposit Account	37,595		37,595
Capital One	Certificates of Deposit (2)		64,908	64,908
Ally Bank	Certificate of Deposit		25,000	25,000
Enerbank USA	Certificate of Deposit		25,000	25,000
Goldman Sachs	Certificate of Deposit		150,000	150,000
	Totals	<u>\$ 93,197</u>	<u>\$ 264,908</u>	<u>\$ 358,105</u>

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, 2015 AND 2014
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET: CONTINUED)

	2015	2014
Assessments Receivable	\$ 10,512	\$ 9,680
Less: Allowance for Doubtful Assessments	<u>(2,291)</u>	<u>(5,833)</u>
Assessments Receivable - Net	<u>\$ 8,221</u>	<u>\$ 3,847</u>

NOTE 7 - INVESTMENTS:

Available-for-sale debt and equity securities are recorded at fair value, with the unrealized gains and losses, reported in other comprehensive income. The net carrying value of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. In accordance with ASC 820-10, the fair value of the debt and equity securities was obtained using Level 1 Inputs. The amortized cost, gross unrealized gains and losses, and fair value of the available-for-sale debt and equity securities are summarized below:

Available-for-Sale Debt and Equity Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2015</u>				
Residential Mortgage-Backed Securities	\$ 1,042	\$ -	\$ (862)	\$ 180
Equity Securities - Mutual Funds	\$ 58,591	\$ 52,626	\$ -	\$ 111,217
Total Available-for-Sale Debt and Equity Securities	<u>\$ 58,769</u>	<u>\$ 52,626</u>	<u>\$ (862)</u>	<u>\$ 111,397</u>
<u>December 31, 2014</u>				
Residential Mortgage-Backed Securities	\$ 1,216	\$ -	\$ (858)	\$ 358
Equity Securities - Mutual Funds	\$ 56,407	\$ 53,438	\$ -	\$ 109,845
Total Available-for-Sale Debt and Equity Securities	<u>\$ 57,623</u>	<u>\$ 53,438</u>	<u>\$ (858)</u>	<u>\$ 110,203</u>

The residential mortgage-backed securities mature within 1-5 years. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

The Association has funds maintained in a mutual fund. The value of this mutual fund is subject to market fluctuation risk and can increase or decrease with the market. These changes in market value are recorded as an unrealized gain or loss on investments as a separate component of members' equity. Therefore, the credit risk as of December 31, 2015 and 2014 was \$111,217 and \$109,845, respectively.

The following table shows the Association's gross unrealized losses and fair value aggregated by investment category and the length of time that the securities have been in a continuous unrealized loss position as of December 31, 2015 and 2014.

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>December 31, 2015</u>						
GNMA Mortgage Backed Securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180</u>	<u>\$ 862</u>	<u>\$ 180</u>	<u>\$ 862</u>
	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>December 31, 2014</u>						
GNMA Mortgage Backed Securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ 858</u>	<u>\$ 358</u>	<u>\$ 858</u>

The gross unrealized loss is equal to the premium paid at purchase and will be recognized when the investment matures or is sold.

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 14, 2017, the date the financial statements were available to be issued.

Subsequent to year-end, the Association entered into a contract for fence replacement in the amount of \$11,930. This project will be funded from replacement reserves.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2015
(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. The estimated replacement costs presented below 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; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

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	\$ 753,060
Catch Basins	2	4,500
Concrete	3-4	53,200
Drainage	4	5,000
Fences	1-5	60,190
Mailbox Stations	21	22,400
Pipes	30	32,500
Reserve Study Update	2	2,600