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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, 2016 and 2015, 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, 2016 and 2015, 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
August 8, 2017

LEEWOOD HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 96,139	\$ 93,197
Interest-Bearing Deposits	389,330	264,908
Investments	60,785	111,397
Assessments Receivable - Net	4,831	8,221
Accounts Receivable - Other	-	1,637
Accrued Interest	1,159	523
Income Taxes Receivable	-	383
Prepaid Expenses	<u>6,686</u>	<u>5,140</u>
Total Assets	<u>\$ 558,930</u>	<u>\$ 485,406</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 3,762	\$ 266
Income Taxes Payable	6,412	-
Prepaid Assessments	<u>19,272</u>	<u>11,033</u>
Total Liabilities	<u>\$ 29,446</u>	<u>\$ 11,299</u>
Replacement Reserves	\$ 438,763	\$ 362,747
Accumulated Other Comprehensive Income	30,087	51,764
Unappropriated Members' Equity	<u>60,634</u>	<u>59,596</u>
Total Members' Equity	<u>\$ 529,484</u>	<u>\$ 474,107</u>
Total Liabilities and Members' Equity	<u>\$ 558,930</u>	<u>\$ 485,406</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>INCOME:</u>		
Assessments	\$ 175,500	\$ 175,500
Bad Debt Recovery	-	4,853
Interest	3,606	3,737
Gain on Sale of Investments	30,041	-
Other	871	325
Total Income	<u>\$ 210,018</u>	<u>\$ 184,415</u>
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 6,964	\$ 5,513
Insurance	3,212	2,982
Copies and Postage	1,053	1,832
Administrative	2,242	1,896
Electricity	3,050	3,078
Grounds Maintenance	41,147	46,914
Trash Removal	49,403	47,153
Snow Removal	6,772	6,420
Common Area Maintenance	500	-
Bad Debt	3	-
Income Taxes	6,687	617
Total Expenses	<u>\$ 121,033</u>	<u>\$ 116,405</u>
Net Income before Contribution to Reserves	\$ 88,985	\$ 68,010
Contribution to Reserves	<u>(87,947)</u>	<u>(61,937)</u>
Net Income	\$ 1,038	\$ 6,073
Reclassification Adjustment for Net (Gains) Losses Included in Net Income	\$ (30,041)	\$ -
Unrealized Holding Gains (Losses) Arising During Period	8,364	(816)
Other Comprehensive Income (Loss)	<u>\$ (21,677)</u>	<u>\$ (816)</u>
Comprehensive Income (Loss)	<u>\$ (20,639)</u>	<u>\$ 5,257</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<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, 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)
Change in Market Value of Investments		(816)		(816)
Balance as of December 31, 2015	\$ 362,747	\$ 51,764	\$ 59,596	\$ 474,107
Additions:				
Contribution to Reserves	54,300			54,300
Interest Contributions	3,606			3,606
Gain on Sale of Investments	30,041	(30,041)		
Net Income			1,038	1,038
Change in Market Value of Investments		8,364		8,364
Deduction:				
Fence	(11,931)			(11,931)
Balance as of December 31, 2016	<u>\$ 438,763</u>	<u>\$ 30,087</u>	<u>\$ 60,634</u>	<u>\$ 529,484</u>

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 1,038	\$ 6,073
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	3	(4,853)
Realized Gain on Investments	(30,041)	-
Decrease (Increase) in:		
Assessments Receivable	3,387	479
Accounts Receivable - Other	1,637	(1,637)
Accrued Interest	(636)	(85)
Income Taxes Receivable	383	176
Prepaid Expenses	(1,546)	(354)
Increase (Decrease) in:		
Accounts Payable	3,496	67
Income Taxes Payable	6,412	-
Prepaid Assessments	8,239	8,881
Net Cash Flows from Operating Activities	<u>\$ (7,628)</u>	<u>\$ 8,747</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 54,300	\$ 58,200
Received from Interest (Reserves)	3,606	3,737
Received from Gain on Sale of Investment (Reserves)	30,041	-
Disbursed for Reserve Expenditures	(11,931)	(81,409)
Received from Interest-Bearing Deposits/Investments	251,490	275
Disbursed for Interest-Bearing Deposits/Investments	(316,936)	(52,560)
Net Cash Flows from Investing Activities	<u>\$ 10,570</u>	<u>\$ (71,757)</u>
Net Change in Cash and Cash Equivalents	\$ 2,942	\$ (63,010)
Cash and Cash Equivalents at Beginning of Year	<u>93,197</u>	<u>156,207</u>
Cash and Cash Equivalents at End of Year	<u>\$ 96,139</u>	<u>\$ 93,197</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 275</u>	<u>\$ 1,000</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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) 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 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

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 Association updated this study during 2017. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The 2012 study recommends a contribution to reserves of \$54,300 for 2016 plus interest of \$3,051. For 2016, the Association budgeted to contribute \$54,300 to reserves. Additionally, the Association elected to contribute interest earned of \$3,606 and the realized gain on the sale of mutual funds of \$30,041 to replacement reserves during 2016.

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, 2016 and 2015, the Association had designated \$438,763 and \$362,747, 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

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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 2016 and 2015, 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, 2016 and 2015, 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 AND INTEREST-BEARING DEPOSITS:

As of December 31, 2016, 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	\$ 79,887	\$ -	\$ 79,887
Charles Schwab	Deposit Account	16,252		16,252
Capital One	Certificate of Deposit		49,330	49,330
Charles Schwab (Various Institutions)	Certificates of Deposit (7)		340,000	340,000
	Totals	<u>\$ 96,139</u>	<u>\$ 389,330</u>	<u>\$ 485,469</u>

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

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, 2016 AND 2015
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET: CONTINUED)

	2016	2015
Assessments Receivable	\$ 7,125	\$10,512
Less: Allowance for Doubtful Assessments	(2,294)	(2,291)
Assessments Receivable - Net	\$ 4,831	\$ 8,221

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 Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2016</u>				
GNMA Mortgage Back Securities	\$ 943	\$ -	\$ (864)	\$ 79
Equity Securities - Mutual Funds	29,755	30,951	-	60,706
Total Available-for-Sale Securities	\$ 30,698	\$ 30,951	\$ (864)	\$ 60,785
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2015</u>				
GNMA Mortgage Back Securities	\$ 1,042	\$ -	\$ (862)	\$ 180
Equity Securities - Mutual Funds	58,591	52,626	-	111,217
Total Available-for-Sale Securities	\$ 59,633	\$ 52,626	\$ (862)	\$ 111,397

During 2016, the Association sold 305 shares of its Vanguard 500 Mutual Fund with a fair value at the date of sale of \$60,597. The gross realized gains on such sales totaled \$30,041.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

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.

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, 2016 and 2015 was \$60,706 and \$111,217.

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, 2016.

<u>December 31, 2016</u>	<u>Less than 12 months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Gross</u>		<u>Gross</u>		<u>Gross</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
<u>Description of Securities</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
GNMA Mortgage Back Securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ 864</u>	<u>\$ 79</u>	<u>\$ 864</u>

<u>December 31, 2015</u>	<u>Less than 12 months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Gross</u>		<u>Gross</u>		<u>Gross</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
<u>Description of Securities</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
GNMA Mortgage Back Securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180</u>	<u>\$ 862</u>	<u>\$ 180</u>	<u>\$ 862</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 August 8, 2017, the date the financial statements were available to be issued.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2017 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>	2017 Estimated Remaining Useful Life <u>(Years)</u>	2017 Estimated Replacement <u>Cost</u>
Asphalt	0-23	\$ 726,273
Catch Basin	2-12	20,000
Concrete	0-30	611,000
Drainage	3	5,000
Fences	1-19	76,900
Mailbox and Signage	15-16	35,000
Reserve Study Update	5	2,650