

Goldklang, Cavanaugh & Associates, P.C.

Certified Public Accountants

Principals

Howard A. Goldklang, CPA, MBA
Kevin D. Cavanaugh, CPA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA

MEMBERS OF

American Institute of CPAs
Virginia Society of CPAs
Greater Washington Society of CPAs
Maryland Society of CPAs
Texas Society of CPAs

Managers

Jamie L. Brodnax, CPA
Allison A. Day, CPA
Jeremy W. Powell, CPA
Renee L. Watson, CPA

Independent Auditor's Report

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

We have audited the accompanying Balance Sheet of Leewood Homeowners Association, Inc. as of December 31, 2006, and the related Statements of Income and Comprehensive Income, Members' Equity, and Cash Flows for the year 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 audit. The financial statements of Leewood Homeowners Association Inc., as of December 31, 2005 were audited by other auditors whose report dated April 11, 2007 expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Leewood Homeowners Association, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the year 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 10 is not a required part of the basic financial statements of Leewood Homeowners Association, Inc, but is supplementary information required by the American Institute of Certified Public Accountants. 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, Cavanaugh & Associates, P.C.

April 8, 2008

Maryland
1700 Rockville Pike, Suite 400
Rockville, Maryland 20852
Phone (301) 998-6581
Fax (866) 416-9212

Virginia and Administrative Office
1801 Robert Fulton Drive, Suite 200
Reston, Virginia 20191
Phone (703) 391-9003
Fax (703) 391-9004
www.gcacpas.com

Texas
777 Lonesome Dove Trail, Suite B
Hurst, Texas 76054
Phone (800) 934-7006
Fax (866) 416-9212

LEEWOOD HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2006

ASSETS

Cash and Cash Equivalents	\$	62,560
Interest-Bearing Deposits		176,715
Investments		73,513
Assessments Receivable		1,350
Accrued Interest		492
Accounts Receivable Violation Fees - Net		6,565
Prepaid Insurance		<u>411</u>
Total Assets	\$	<u>321,606</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$	12,549
Income Taxes Payable		2,205
Prepaid Assessments		<u>3,630</u>
Total Liabilities	\$	<u>18,384</u>
Replacement Reserves	\$	266,128
Accumulated Other Comprehensive Income		17,846
Unappropriated Members' Equity		<u>19,248</u>
Total Members' Equity	\$	<u>303,222</u>
Total Liabilities and Members' Equity	\$	<u>321,606</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

INCOME:

Assessments	\$ 105,300
Deferred Assessments	68,075
Interest	11,257
Other	<u>6,585</u>
Total Income	<u>\$ 191,217</u>

EXPENSES:

Legal and Audit	\$ 3,922
Insurance	1,705
Copies and Postage	2,775
Administrative	2,138
Grounds Maintenance	49,917
Trash Removal	39,732
Snow Removal	705
Common Area Maintenance	1,378
Bad Debt	270
Income Taxes	<u>3,645</u>
Total Expenses	<u>\$ 106,187</u>
Net Income before Contribution to Reserves	\$ 85,030
Contribution to Reserves	<u>(56,257)</u>
Net Income	\$ 28,773
Unrealized Gain on Investments	<u>7,570</u>
Comprehensive Income	<u><u>\$ 36,343</u></u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Replacement Reserves</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2005	\$ 274,919	\$ 10,276	\$ (9,525)	\$ 275,670
Additions:				
Contribution to Reserves	56,257			56,257
Unrealized Gain on Investments		7,570		7,570
Net Income			28,773	28,773
Deductions:				
Curbs	(14,402)			(14,402)
Roads	(50,334)			(50,334)
Sidewalks	(312)			(312)
Balance as of December 31, 2006	<u>\$ 266,128</u>	<u>\$ 17,846</u>	<u>\$ 19,248</u>	<u>\$ 303,222</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 28,773
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Decrease (Increase) in:	
Assessments Receivable	(540)
Accrued Interest	193
Accounts Receivable Violation Fees - Net	(4,745)
Prepaid Insurance	352
Increase (Decrease) in:	
Accounts Payable	11,609
Income Taxes Payable	1,943
Prepaid Assessments	(5,350)
Deferred Assessments	(68,075)
Net Cash Flows from Operating Activities	<u>\$ (35,840)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Received from Assessments (Reserves)	\$ 45,000
Received from Interest (Reserves)	11,257
Disbursed for Reserve Expenditures	(65,047)
Received from Interest-Bearing Deposits/Investments	44,610
Disbursed for Interest-Bearing Deposits/Investments	(4,587)
Net Cash Flows from Investing Activities	<u>\$ 31,233</u>
Net Change in Cash and Cash Equivalents	(4,607)
Cash and Cash Equivalents at Beginning of Year	<u>67,167</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 62,560</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	<u><u>\$ 1,001</u></u>
----------------------------	------------------------

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2006
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by an engineer during 2007 and utilizes the component method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$45,000 from assessments has been included in the 2006 financial statements. Additionally, the Association elected to contribute interest earned of \$11,257 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, 2006, the Association had designated \$266,128 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 2006, the Association's income taxes were calculated using the exempt method.

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

As of December 31, 2006, the Association maintained funds in the following manner:

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006
 (CONTINUED)

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

<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	\$ 2,805	\$ -	\$ -	\$ 2,805
Wachovia	Money Market	34,967			34,967
Charles Schwab	Money Fund	24,788			24,788
E-Trade	Certificate of Deposit		27,999		27,999
Capital One	Certificates of Deposit		65,716		65,716
Charles Schwab	Certificates of Deposit (Various Institutions)		83,000		83,000
Schwab	GNMA			9,252	9,252
Schwab-Vanguard 500	Index Fund			64,261	64,261
	Totals	<u>\$ 62,560</u>	<u>\$ 176,715</u>	<u>\$ 73,513</u>	<u>\$ 312,788</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 share value of \$1, this account is subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2006 was \$24,788.

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, 2006 was \$64,261.

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

As of December 31, 2006, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$55,667. The market value was \$73,513, and the accumulated other comprehensive income was \$17,846.

NOTE 6 - ACCOUNTS RECEIVABLE VIOLATION FEES - NET:

The Association assesses penalties to members in violation of the architectural rules. An allowance of 30% is included for the portion of penalties that will be forgiven each year.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006
(CONTINUED)

NOTE 6 - ACCOUNTS RECEIVABLE VIOLATION FEES - NET: (CONTINUED)

Accounts Receivable - Violation Fees	\$ 9,380
Less: Allowance for Doubtful Assessments	<u>(2,815)</u>
Assessments Receivable Violation Fees - Net	<u>\$ 6,565</u>

NOTE 7 - SUBSEQUENT EVENT:

Subsequent to year end, the Association entered into a contract to install new lights at a total cost of approximately \$21,751.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2006
(UNAUDITED)

The Association had a replacement reserve study conducted by an engineer during 2007 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the component method of funding for replacement reserves. 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 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