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Independent Auditor's Report

We have audited the accompanying Balance Sheets of Leewood Homeowners Association, Inc. as of December 31, 2007 and 2006, and the related Statements of 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, 2007 and 2006 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 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.

June 11, 2008

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LEEWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

2007 2006

ASSETS

Cash and Cash Equivalents	\$	36,277	\$	62,560
Interest-Bearing Deposits		172,987		176,715
Investments		75,164		73,513
Assessments Receivable		4,790		1,350
Accrued Interest		629		492
Income Taxes Receivable		456		-
Accounts Receivable Violation Fees - Net		9,036		6,565
Prepaid Insurance		584		411
Prepaid Expense		3,164		-
Total Assets		\$ 303,087		\$ 321,606

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$	3,209	\$	12,549
Income Taxes Payable		137		2,205
Prepaid Assessments		6,710		3,630
Total Liabilities		\$ 10,056		\$ 18,384
Replacement Reserves		266,417		266,128
Accumulated Other Comprehensive Income		20,171		17,846
Unappropriated Members' Equity		6,443		19,248
Total Members' Equity		\$ 293,031		\$ 303,222
Total Liabilities and Members' Equity		\$ 303,087		\$ 321,606

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>	
	\$ 117,000	\$ 105,300	INCOME:
Assessments	-	68,075	
Deferred Assessments	8,878	11,257	
Interest	2,282	6,585	
Other	\$ 128,160	\$ 191,217	
Total Income	\$ 128,160	\$ 191,217	
	\$ 6,987	\$ 3,922	EXPENSES:
Legal and Audit	2,161	1,705	
Insurance	1,909	2,775	
Copies and Postage	1,580	2,138	
Administrative	679	-	
Electricity	48,697	49,917	
Grounds Maintenance	37,045	39,732	
Trash Removal	1,505	705	
Snow Removal	1,825	1,378	
Common Area Maintenance	600	270	
Bad Debt	1,631	3,645	
Income Taxes	\$ 104,619	\$ 106,187	
Total Expenses	\$ 104,619	\$ 106,187	
Net Income before Contribution to Reserves	\$ 23,541	\$ 85,030	
Contribution to Reserves	(26,878)	(56,257)	
Net Income (Loss)	\$ (3,337)	\$ 28,773	

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	Balance as of December 31, 2005	Balance as of December 31, 2006	Balance as of December 31, 2007
Replacements Reserves	\$ 274,919	\$ 266,128	\$ 266,417
Accumulated Other Comprehensive Income	\$ 10,276	\$ 17,846	\$ 20,171
Unappropriated Members' Equity (Deficit)	\$ (9,525)	\$ 19,248	\$ 6,443
Total Members' Equity	\$ 275,670	\$ 303,222	\$ 293,031
Additions:			
Contribution to Reserves	56,257	26,878	(2,590)
Unrealized Gain on Investments	7,570	2,325	(21,752)
Net Income	28,773		(3,107)
Deductions:			
Curbs	(14,402)	(14,402)	(6,000)
Roads	(50,334)	(50,334)	(6,000)
Sidewalks	(312)	(312)	(2,608)
Inter-Equity Transfer		9,468	(2,608)
Curbs			(2,608)
Drainage			(6,000)
Fence			(3,107)
Lighting			(21,752)
Reserve Study			(2,590)
Net Loss			(3,337)

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Net Income (Loss)	\$ (3,337)	\$ 28,773
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	(3,440)	(540)
Accrued Interest	(137)	193
Accounts Receivable Violation Fees - Net	(2,471)	(4,745)
Income Taxes Receivable	(456)	-
Prepaid Insurance	(173)	352
Prepaid Expense	(3,164)	-
Increase (Decrease) in:		
Accounts Payable	(9,340)	11,609
Income Taxes Payable	(2,068)	1,943
Prepaid Assessments	3,080	(5,350)
Deferred Assessments	-	(68,075)
Net Cash Flows from Operating Activities	\$ (21,506)	\$ (35,840)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Assessments (Reserves)	\$ 18,000	\$ 45,000
Received from Interest (Reserves)	8,878	11,257
Disbursed for Reserve Expenditures	(36,057)	(65,047)
Received from Interest-Bearing Deposits/Investments	86,369	44,610
Disbursed for Interest-Bearing Deposits/Investments	(81,967)	(4,587)
Net Cash Flows from Investing Activities	\$ (4,777)	\$ 31,233
Net Change in Cash and Cash Equivalents	(26,283)	(4,607)
Cash and Cash Equivalents at Beginning of Year	62,560	67,167
Cash and Cash Equivalents at End of Year	\$ 36,277	\$ 62,560
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	\$ 4,160	\$ 1,001

See Accompanying Notes to Financial Statements

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.

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 \$18,000 from assessments has been included in the 2007 financial statements. Additionally, the Association elected to contribute interest earned of \$8,878 to replacement reserves. In addition, the Association elected to transfer \$9,468 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, 2007 and 2006, the Association had designated \$266,417 and \$266,128, 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 2007 and 2006, the Association's income taxes were calculated using the corporate and exempt method, respectively.

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

As of December 31, 2007, the Association maintained its funds in the following manner:

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(CONTINUED)

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

Institution	Type	Account	Cash and Cash Equivalents	Interest- Bearing Deposits	Investments	Total
Wachovia	Checking	\$ 6,943	\$ -	\$ -	\$ -	\$ 6,943
Wachovia	Money Market	11,067	18,267			11,067
Charles Schwab	Money Fund					18,267
E-Trade	Certificate of Deposit	29,473				29,473
Capital One	Certificate of Deposit	68,514				68,514
Washington Mutual	Certificate of Deposit	75,000				75,000
Schwab	GNMA				7,441	7,441
Schwab-Vanguard 500	Index Fund				67,723	67,723
Totals		\$ 36,277	\$ 172,987	\$ 75,164	\$ 284,428	\$ 284,428

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, 2007 was \$18,267.

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, 2007 was \$67,723.

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, 2007, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$54,936. The market value was \$75,164, and the accumulated other comprehensive income was \$20,171.

NOTE 6 - 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.

	\$ 9,036	\$ 10,836	\$ 9,380
	(1,800)		(2,815)
	<u>9,036</u>	<u>10,836</u>	<u>9,380</u>
2007		2006	

Accounts Receivable - Violation Fees
 Less: Allowance for Doubtful Assessments
 Assessments Receivable Violation Fees - Net

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

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007 AND 2006
 (CONTINUED)

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2007
(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.

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