

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 Sheets of Leewood Homeowners Association, Inc. as of December 31, 2008 and 2007, 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, 2008 and 2007 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.

Goldklang, Cavanaugh & Associates, P.C.

October 7, 2009

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 SHEETS
DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 85,916	\$ 36,277
Interest-Bearing Deposits	157,608	172,987
Investments	48,882	75,164
Assessments Receivable - Net	3,080	4,790
Accounts Receivable Violation Fees - Net	310	9,036
Accounts Receivable - Other	2,689	-
Accrued Interest	915	629
Income Taxes Receivable	957	456
Prepaid Insurance	602	584
Prepaid Expense	<u>3,481</u>	<u>3,164</u>
 Total Assets	 <u>\$ 304,440</u>	 <u>\$ 303,087</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 1,276	\$ 3,209
Income Taxes Payable	-	137
Prepaid Assessments	<u>17,823</u>	<u>6,710</u>
Total Liabilities	<u>\$ 19,099</u>	<u>\$ 10,056</u>
 Replacement Reserves	 \$ 274,213	 \$ 266,417
Accumulated Other Comprehensive Income (Loss)	(6,016)	20,171
Unappropriated Members' Equity	<u>17,144</u>	<u>6,443</u>
Total Members' Equity	<u>\$ 285,341</u>	<u>\$ 293,031</u>
 Total Liabilities and Members' Equity	 <u>\$ 304,440</u>	 <u>\$ 303,087</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>INCOME:</u>		
Assessments	\$ 136,500	\$ 117,000
Interest	8,402	8,935
Other	<u>2,330</u>	<u>2,225</u>
Total Income	<u>\$ 147,232</u>	<u>\$ 128,160</u>
 <u>EXPENSES:</u>		
Legal and Audit	\$ 8,042	\$ 6,987
Insurance	2,361	2,161
Copies and Postage	1,269	1,909
Administrative	1,017	1,580
Electricity	1,624	679
Grounds Maintenance	37,263	48,697
Trash Removal	40,071	37,045
Snow Removal	196	1,505
Common Area Maintenance	5,916	1,825
Bad Debt	10,658	600
Income Taxes	<u>1,518</u>	<u>1,631</u>
Total Expenses	<u>\$ 109,935</u>	<u>\$ 104,619</u>
Net Income before Contribution to Reserves	\$ 37,297	\$ 23,541
Contribution to Reserves	<u>(40,902)</u>	<u>(26,878)</u>
Net Income (Loss)	\$ (3,605)	\$ (3,337)
Unrealized Holding Gains (Losses) Arising During Period	<u>(26,187)</u>	<u>2,325</u>
Comprehensive Income (Loss)	<u>\$ (29,792)</u>	<u>\$ (1,012)</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Replacement Reserves</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2006	\$ 266,128	\$ 17,846	\$ 19,248	\$ 303,222
Additions:				
Contribution to Reserves	26,878			26,878
Unrealized Gain on Investments		2,325		2,325
Inter-Equity Transfer	9,468		(9,468)	
Deductions:				
Curbs	(2,608)			(2,608)
Drainage	(6,000)			(6,000)
Fence	(3,107)			(3,107)
Lighting	(21,752)			(21,752)
Reserve Study	(2,590)			(2,590)
Net Loss			(3,337)	(3,337)
Balance as of December 31, 2007	\$ 266,417	\$ 20,171	\$ 6,443	\$ 293,031
Additions:				
Contribution to Reserves	32,500			32,500
Interest Contributions	8,402			8,402
Unrealized Loss on Investments		(26,187)		(26,187)
Inter-Equity Transfer	(14,306)		14,306	
Deductions:				
Roads	(4,557)			(4,557)
Sidewalks	(13,386)			(13,386)
Fence	(857)			(857)
Net Loss			(3,605)	(3,605)
Balance as of December 31, 2008	<u>\$ 274,213</u>	<u>\$ (6,016)</u>	<u>\$ 17,144</u>	<u>\$ 285,341</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (3,605)	\$ (3,337)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable - Net	1,710	(3,440)
Accounts Receivable Violation Fees - Net	8,726	(2,471)
Accounts Receivable - Other	(2,975)	-
Accrued Interest	-	(137)
Income Taxes Receivable	(501)	(456)
Prepaid Insurance	(18)	(173)
Prepaid Expense	(317)	(3,164)
Increase (Decrease) in:		
Accounts Payable	(1,933)	(9,340)
Income Taxes Payable	(137)	(2,068)
Prepaid Assessments	11,113	3,080
Net Cash Flows from Operating Activities	<u>\$ 12,063</u>	<u>\$ (21,506)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 32,500	\$ 18,000
Received from Interest (Reserves)	8,402	8,878
Disbursed for Reserve Expenditures	(18,800)	(36,057)
Received from Interest-Bearing Deposits/Investments	122,848	86,369
Disbursed for Interest-Bearing Deposits/Investments	(107,374)	(81,967)
Net Cash Flows from Investing Activities	<u>\$ 37,576</u>	<u>\$ (4,777)</u>
Net Change in Cash and Cash Equivalents	\$ 49,639	\$ (26,283)
Cash and Cash Equivalents at Beginning of Year	<u>36,277</u>	<u>62,560</u>
Cash and Cash Equivalents at End of Year	<u>\$ 85,916</u>	<u>\$ 36,277</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 1,060</u>	<u>\$ 4,160</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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, 2008 AND 2007
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2007. 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 \$30,000 for 2008. For 2008, the Association budgeted to contribute \$32,500 to reserves. Additionally, the Association elected to contribute interest earned of \$8,402 to replacement reserves. In addition, the Association elected to transfer \$14,306 to 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, 2008 and 2007, the Association had designated \$274,213 and \$266,417, 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 2008 and 2007, the income taxes were calculated using the corporate method.

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

As of December 31, 2008, the Association maintained its funds in the following manner:

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(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	\$ 18,194	\$ -	\$ -	\$ 18,194
Charles Schwab	Money Fund	67,722			67,722
E-Trade	Certificate of Deposit		31,024		31,024
Capital One	Certificates of Deposit (3)		71,584		71,584
First Federal CA	Certificate of Deposit		30,000		30,000
Sallie Mae	Certificate of Deposit		25,000		25,000
Schwab	GNMA			6,231	6,231
Schwab-Vanguard 500	Index Fund			42,651	42,651
	<u>Totals</u>	<u>\$ 85,916</u>	<u>\$ 157,608</u>	<u>\$ 48,882</u>	<u>\$ 292,406</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, 2008 and 2007 was \$67,722 and \$18,267, respectively. On September 19, 2008, the U.S. Department of the Treasury approved a temporary guarantee program. The temporary guarantee program provides coverage to shareholders for amounts that they held in participating money funds as of the close of business on September 19, 2008. The coverage on these funds extends through September 18, 2009. The guarantee will be triggered if a participating fund's net asset value falls below \$0.995.

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, 2008 and 2007 was \$42,651 and \$67,723, respectively.

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, 2008, the combined cost of the GNMA bond and the Vanguard 500 mutual fund was \$54,993. The market value was \$48,882, and the accumulated other comprehensive loss was \$6,016.

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.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(CONTINUED)

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.

	2008	2007
Assessments Receivable	\$ 4,171	\$ 4,790
Less: Allowance for Doubtful Assessments	<u>(1,091)</u>	<u>(-)</u>
Assessments Receivable - Net	<u>\$ 3,080</u>	<u>\$ 4,790</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.

	2008	2007
Accounts Receivable - Violation Fees	\$ 4,470	\$ 10,836
Less: Allowance for Doubtful Assessments	<u>(4,160)</u>	<u>(1,800)</u>
Accounts Receivable Violation Fees - Net	<u>\$ 310</u>	<u>\$ 9,036</u>

NOTE 8 - SUBSEQUENT EVENT:

Subsequent to year-end, the Association entered into a contract for roadwork for approximately \$17,504. This project will be funded through replacement reserves.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(UNAUDITED)

The Association had a replacement reserve study conducted by Reserve Advisors, Inc. during 2007 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 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