



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, 2013 and 2012, and the related statements of 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, 2013 and 2012, 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 11 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
October 14, 2014

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 95,782	\$ 207,402
Interest-Bearing Deposits	214,359	99,011
Investments	97,443	74,235
Assessments Receivable - Net	4,325	3,280
Accounts Receivable - Other	-	258
Accrued Interest	438	33
Income Taxes Receivable	135	488
Prepaid Insurance	683	652
Prepaid Expenses	<u>3,834</u>	<u>3,768</u>
Total Assets	<u>\$ 416,999</u>	<u>\$ 389,127</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 942	\$ 2,971
Income Taxes Payable	274	-
Prepaid Assessments	<u>11,540</u>	<u>21,110</u>
Total Liabilities	<u>\$ 12,756</u>	<u>\$ 24,081</u>
Replacement Reserves	\$ 322,087	\$ 315,492
Accumulated Other Comprehensive Income	41,434	19,566
Unappropriated Members' Equity	<u>40,722</u>	<u>29,988</u>
Total Members' Equity	<u>\$ 404,243</u>	<u>\$ 365,046</u>
Total Liabilities and Members' Equity	<u>\$ 416,999</u>	<u>\$ 389,127</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>INCOME:</u>		
Assessments	\$ 175,500	\$ 171,600
Interest	3,486	3,135
Other	<u>50</u>	<u>125</u>
Total Income	<u>\$ 179,036</u>	<u>\$ 174,860</u>
 <u>EXPENSES:</u>		
Legal, Audit and Tax Preparation	\$ 6,325	\$ 4,834
Insurance	2,701	2,575
Copies and Postage	990	835
Administrative	948	1,947
Electricity	1,736	1,707
Grounds Maintenance	45,353	48,219
Trash Removal	45,677	44,008
Snow Removal	1,643	557
Common Area Maintenance	4,559	1,194
Bad Debt	1,745	2,099
Income Taxes	<u>939</u>	<u>499</u>
Total Expenses	<u>\$ 112,616</u>	<u>\$ 108,474</u>
Net Income before Contribution to Reserves	\$ 66,420	\$ 66,386
Contribution to Reserves	<u>(55,686)</u>	<u>(55,308)</u>
Net Income	\$ 10,734	\$ 11,078
Unrealized Holding Gain Arising During Period	<u>21,868</u>	<u>8,485</u>
Comprehensive Income	<u>\$ 32,602</u>	<u>\$ 19,563</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<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, 2011	\$ 263,333	\$ 11,081	\$ 18,910	\$ 293,324
Additions:				
Contribution to Reserves	52,200			52,200
Interest Contributions	3,108			3,108
Unrealized Gain on Investments		8,485		8,485
Net Income			11,078	11,078
Deductions:				
Reserve Study	(2,719)			(2,719)
Fence	(430)			(430)
Balance as of December 31, 2012	\$ 315,492	\$ 19,566	\$ 29,988	\$ 365,046
Additions:				
Contribution to Reserves	52,200			52,200
Interest Contributions	3,486			3,486
Unrealized Gain on Investments		21,868		21,868
Net Income			10,734	10,734
Deductions:				
Drainage Repairs	(8,272)			(8,272)
Fence	(17,673)			(17,673)
Lighting	(23,085)			(23,085)
Miscellaneous	(61)			(61)
Balance as of December 31, 2013	<u>\$ 322,087</u>	<u>\$ 41,434</u>	<u>\$ 40,722</u>	<u>\$ 404,243</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 10,734	\$ 11,078
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense	1,745	2,099
Decrease (Increase) in:		
Assessments Receivable	(2,790)	(1,780)
Accounts Receivable Violation Fees	-	2,700
Accounts Receivable - Other	258	(258)
Accrued Interest	(405)	36
Income Taxes Receivable	353	-
Prepaid Insurance	(31)	(33)
Prepaid Expenses	(66)	389
Increase (Decrease) in:		
Accounts Payable	(2,029)	2,846
Income Taxes Payable	274	-
Prepaid Assessments	(9,570)	5,180
Net Cash Flows from Operating Activities	<u>\$ (1,527)</u>	<u>\$ 22,257</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 52,200	\$ 52,200
Received from Interest (Reserves)	3,486	3,108
Disbursed for Reserve Expenditures	(49,091)	(3,149)
Received from Interest-Bearing Deposits/Investments	36,347	82,473
Disbursed for Interest-Bearing Deposits/Investments	(153,035)	(1,811)
Net Cash Flows from Investing Activities	<u>\$ (110,093)</u>	<u>\$ 132,821</u>
Net Change in Cash and Cash Equivalents	\$ (111,620)	\$ 155,078
Cash and Cash Equivalents at Beginning of Year	<u>207,402</u>	<u>52,324</u>
Cash and Cash Equivalents at End of Year	<u>\$ 95,782</u>	<u>\$ 207,402</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 312</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 2012 financial statements to conform to the 2013 presentation.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

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 the updated study.

The study recommends a contribution to reserves of \$43,200 for 2013 plus interest of \$3,993. For 2013, the Association budgeted to contribute \$52,200 to reserves. Additionally, the Association elected to contribute interest earned of \$3,486 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, 2013 and 2012, the Association had designated \$322,087 and \$315,492, 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 2013 and 2012, 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, 2013 and 2012, 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.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

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

As of December 31, 2013, 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>Investments</u>	<u>Total</u>
Wells Fargo	Checking	\$ 44,500	\$ -	\$ -	\$ 44,500
Charles Schwab	Deposit Accounts	51,282			51,282
Capital One	Certificates of Deposit (2)		64,359		64,359
Goldman Sachs	Certificate of Deposit		150,000		150,000
Charles Schwab	GNMA			670	670
Charles Schwab	Vanguard 500 Index Fund			96,773	96,773
	Totals	<u>\$ 95,782</u>	<u>\$ 214,359</u>	<u>\$ 97,443</u>	<u>\$ 407,584</u>

The Association has funds maintained in a Vanguard 500 index 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 also subject to market fluctuation risk, therefore, the market fluctuation risk as of December 31, 2013 and 2012 was \$96,773 and \$73,215, respectively.

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

The Association implemented FASB ASC 820-10. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820-10 uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 - Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 - Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

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

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ 670	\$ -	\$ -	\$ 670
Vanguard 500 Index Fund	96,773	-	-	96,773
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
GNMA Bond	\$ 1,020	\$ -	\$ -	\$ 1,020
Vanguard 500 Index Fund	73,215	-	-	73,215

As of December 31, 2013, the combined cost of the GNMA bond and the Vanguard 500 index fund was \$56,009. The market value was \$97,443, and the accumulated other comprehensive income was \$41,434.

As of December 31, 2012, the combined cost of the GNMA bond and the Vanguard 500 index fund was \$54,669. The market value was \$74,235, and the accumulated other comprehensive income was \$19,566.

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.

	<u>2013</u>	<u>2012</u>
Assessments Receivable	\$ 9,985	\$ 7,486
Less: Allowance for Doubtful Assessments	<u>(5,660)</u>	<u>(4,206)</u>
Assessments Receivable - Net	<u>\$ 4,325</u>	<u>\$ 3,280</u>

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 14, 2014, the date the financial statements were available to be issued.

LEEWOOD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2013
(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.

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	\$ 748,845
Catch Basins	2	4,000
Concrete	2-4	31,200
Drainage	4	5,000
Fences	1-5	60,190
Light Poles and Fixtures	N/A	26,000
Mailbox Stations	21	22,400
Reserve Study Update	2	2,600