



LEISURE WORLD OF
MARYLAND TRUST

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT,
WITH
SUPPLEMENTARY INFORMATION

December 31, 2010 and 2009



100 Lakelorest Boulevard
Suite 650
Gaithersburg, MD 20877
P: 301-948-9825
F: 301-948-3220
www.deleonandstang.com

Allen P. DeLeon, CPA, P.C.
Richard C. Stang, CPA, P.C.
Jeanie Price

INDEPENDENT AUDITORS' REPORT

Leisure World Community Corporation, Trustee
Leisure World of Maryland Trust
Silver Spring, Maryland

We have audited the accompanying balance sheets of **Leisure World of Maryland Trust** as of December 31, 2010 and 2009, and the related statements of revenues and expenses, trust accountability and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion about the financial statements based on our audit.

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 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 management, 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 Leisure World of Maryland Trust as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DeLeon & Stang
DeLeon & Stang, CPAs
Gaithersburg, Maryland
March 31, 2011

LEISURE WORLD OF MARYLAND TRUST
Balance Sheets
December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 628,393	\$ 116,442
Accounts receivable, net	1,387,577	1,407,084
Inventories	533,333	540,258
Prepaid expenses and other current assets	278,203	289,199
TOTAL CURRENT ASSETS	2,827,506	2,352,983
Fixed assets, net of accumulated depreciation	15,493,995	15,979,189
Restricted assets	3,038,676	1,566,985
TOTAL ASSETS	\$ 21,360,177	\$ 19,899,157
LIABILITIES AND TRUST ACCOUNTABILITY		
CURRENT LIABILITIES		
Due to restricted assets	\$ 500,000	\$ 500,000
Accounts payable and accrued liabilities	1,596,886	1,406,939
Accrued payroll and related liabilities	661,442	502,130
Deferred revenue	1,342,525	371,302
TOTAL CURRENT LIABILITIES	4,100,852	2,780,371
Commitments and contingencies		
Trust accountability	17,259,325	17,118,786
TOTAL LIABILITIES AND TRUST ACCOUNTABILITY	\$ 21,360,177	\$ 19,899,157

LEISURE WORLD OF MARYLAND TRUST
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES:		
Excess of expenses over revenue	\$ (712,736)	\$ (550,793)
<u>Adjustments to reconcile excess of expenses over revenue to net cash provided by operating activities:</u>		
Depreciation	874,399	854,251
Decrease in accounts receivable, net	19,507	540,000
(Increase) decrease in inventories	6,925	(10,029)
(Increase) decrease in prepaid and other current assets	10,996	(146,028)
Increase (decrease) in accounts payable and accrued liabilities	189,947	(512,920)
Increase (decrease) in payroll and related liabilities	159,312	(335,232)
Increase deferred revenues	971,223	15,691
Net cash and cash equivalents provided by operating activities	1,519,571	(145,062)
INVESTING ACTIVITIES:		
Purchases of fixed assets	(389,204)	(1,246,694)
Withdrawals from restricted assets	2,271,096	3,023,543
Contributions to restricted assets	(3,742,787)	(2,627,500)
Net cash and cash equivalents used by investing activities	(1,860,895)	(850,651)
FINANCING ACTIVITIES:		
Proceeds from sale of new units	-	12,840
Funded reserve contributions	2,735,168	2,356,607
Transfer from salary fund	-	250,000
Funded reserve withdrawals	(2,092,242)	(2,749,741)
Equipment purchase fund withdrawals	210,349	972,892
Net cash and cash equivalents provided by financing activities	853,275	842,598
Net increase in cash and cash equivalents	511,951	(153,115)
Cash and cash equivalents at the beginning of the year	116,442	269,555
Cash and cash equivalents at the end of the year	\$ 628,393	\$ 116,440

LEISURE WORLD OF MARYLAND TRUST
Statements of Trust Accountability
For the Years Ended December 31, 2010 and 2009

	2010	Operating Surplus (Deficit)	Funded Reserves Note 4	Mutuals Investment in the Trust Note 8	Offsite Improvements Note 6	Community Facilities Purchased with Funded Reserves	Community Facilities Account-ability Note 9	Valuation Surplus Note 10	Depreciation Note 5	Tele-Communications Fund	Equipment Purchase Fund	Total
BALANCE, JANUARY 1, 2010	\$ 139,506	\$ 1,233,153	\$ 392,575	\$ 442,581	\$ 12,449,645	\$ 13,371,820	\$ 404,500	\$ (11,403,904)	\$ -	\$ 88,910	\$ 17,118,786	
Excess of expenses over revenue	-	-	-	-	-	-	-	(623,149)	-	-	(623,149)	
Royalty income not included in operations	18,250	-	-	-	-	-	-	-	-	-	18,250	
Transfer to contingency reserves	(26,355)	26,355	-	-	-	-	-	-	-	-	-	
Transfer to telecommunications fund	(730,015)	-	-	-	-	-	-	-	730,015	-	-	
Vacation accrual	(110,730)	-	-	-	-	-	-	-	-	-	(110,730)	
Capitalized from work in progress	-	-	-	-	210,349	-	-	-	-	-	210,349	
Gains (loss) from operations	2,893	(2,092,242)	-	-	-	-	-	-	-	-	2,893	
Withdrawals	-	2,723,714	-	-	-	-	-	-	-	-	(2,092,242)	
Contributions	-	-	-	-	-	-	-	-	-	11,454	2,735,168	
BALANCE, DECEMBER 31, 2010	\$ (706,451)	\$ 1,890,980	\$ 392,575	\$ 442,581	\$ 12,659,994	\$ 13,371,820	\$ 404,500	\$ (12,027,053)	\$ 730,015	\$ 100,364	\$ 17,259,325	

	2009	Operating Surplus (Deficit)	Funded Reserves Note 4	Mutuals Investment in the Trust Note 8	Offsite Improvements Note 6	Community Facilities Purchased with Funded Reserves	Community Facilities Account-ability Note 9	Valuation Surplus Note 10	Depreciation Note 5	Telecommunication: Fund	Equipment Purchase Fund	Total
BALANCE, JANUARY 1, 2009	\$ (155,899)	\$ 1,714,657	\$ 392,575	\$ 442,581	\$ 11,476,753	\$ 13,359,520	\$ 404,500	\$ (10,807,706)	\$ -	\$ -	\$ 16,826,981	
Excess of expenses over revenue	-	-	-	-	-	-	-	(596,198)	-	-	(596,198)	
Capital contributions from sale of units	-	540	-	-	-	12,300	-	-	-	-	12,840	
Capitalized from work in progress	-	-	-	-	-	972,892	-	-	-	-	972,892	
Gains (loss) from operations	45,405	-	-	-	-	-	-	-	-	-	45,405	
Transfer from salary fund	250,000	(2,749,741)	-	-	-	-	-	-	-	-	250,000	
Withdrawals	-	2,267,697	-	-	-	-	-	-	-	-	(2,749,741)	
Contributions	-	-	-	-	-	-	-	-	-	88,910	2,356,607	
BALANCE, DECEMBER 31, 2009	\$ 139,506	\$ 1,233,153	\$ 392,575	\$ 442,581	\$ 12,449,645	\$ 13,371,820	\$ 404,500	\$ (11,403,904)	\$ -	\$ -	\$ 17,118,786	

See Notes to Financial Statements
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LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements
December 31, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION

The Leisure World of Maryland Trust (Trust) is collectively comprised of two separate Trusts established by Trust Agreements dated March 9, 1966 and April 27, 1979. The Trusts were formed for the general purpose of acquiring, constructing, owning and operating various community facilities located within the Leisure World community.

The Leisure World Community Corporation (LWCC) is appointed Trustee of the Trust, and as such is empowered with all the rights, powers, duties, and authority conferred and charged upon the originally named trustee per the respective Trust Agreements referred to above. LWCC is a non-stock, membership corporation whose members are the Mutuals, as identified in Article Seven of the Articles of Incorporation. Leisure World of Maryland Corporation (LWMC) has been appointed by the Trustee as the management agent of the LWCC. LWMC is a wholly owned subsidiary of LWCC. In February of 2009, at the advice of legal counsel, the Board of Directors requested the General Manager to provide counsel with the necessary documents to be placed in the Homeowners Association Depository maintained by the Clerk of the Circuit Court of Montgomery County, in accordance with the Homeowners Association Act (HOA) of 1988. In addition, the Board of Directors agreed to comply with all requirements of the HOA.

The financial statements of the Trust include the transactions and account balances of the Trust and any transactions of LWMC incurred on behalf of the Trust acting as the agent of the Trust.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the major accounting policies followed by the Trust is set forth below:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash-on-hand and in bank and amounts invested in short-term U.S. government securities with maturities of 90 days or less from excluding accounts reported as restricted assets.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable arise from credit transactions with residents and mutuals located in Leisure World of Maryland. All accounts receivable are granted on an unsecured basis.

Accounts receivables are due under normal trade terms requiring payment within 30 days of the invoice date. Accounts receivable are stated at the amount billed to the resident or mutual. Account balances over 120 days past due are considered delinquent and, unless strong mitigating factors exist, a dollar for dollar allowance is established. Accounts receivable in delinquent status December 31, 2010 and 2009 were \$85,436 and \$99,425, respectively. Provision for uncollectable accounts at December 31, 2010 and 2009 was \$42,188 and \$36,397, respectively.

Inventories

Inventories are stated at the lower of cost or market, with cost determined principally by the first-in, first-out method of inventory valuation.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of work in process associated with community facility construction and/or renovation projects which are not yet reimbursed from the applicable restricted fund responsible for payment of the associated project. Also included are the prepayments of insurance policies and taxes.

Fixed Assets

The policy is to capitalize fixed assets with an initial cost basis of \$2,000 or including, smaller amounts purchased in a group when the total cost exceeds \$2,000. Community facilities are being depreciated using the straight line method over forty years, once the asset is placed in service. Furniture and equipment is depreciated using the straight line method over ten years, except computer equipment, which uses a five year useful life. Vehicles are depreciated using the straight line method over ten years for cars and smaller trucks, and seven years for large or heavy duty trucks.

Depreciation of furniture, equipment and vehicles are charged to trust operations. Depreciation of community facilities are not included in operating expenses in the accompanying statements of revenue and expenses and appear as other expense.

Subsequent Events

The financial statements have been evaluated by management for subsequent events requiring accrual or disclosure through March 31, 2011, report date of the financial statements.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets-Investments

The restricted assets are funds set aside for specific purposes such as the purchase of equipment, the construction of new facilities and payment for repairs and maintenance of community properties. These funds are used only with approval of the Board of Directors (Note 4). The restricted assets consist of cash that is primarily deposited with nine financial institutions and a mutual fund consisting of short-term US Government Treasury Securities. The Trust's policy is to record investments cost, which approximates fair value.

Deferred Revenue

Payments received in advance of earnings are deferred and recognized over the periods in which the payments relate.

Assessments

The major source of revenue for the Trust is assessments of the various Leisure World housing associations (Mutuals). These assessments are used to pay the current and future operating expenses of the Trust.

Fair Value

The Trust does not measure its assets and liabilities at fair value under Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 820, Fair Value Measurements.

Reclassifications

Certain reclassifications have been made to the 2009 financial statement presentation to enhance comparability with 2010.

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LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	<u>2010</u>	<u>2009</u>
Chargeable service/intercompany charges		
Mutuals	\$ 913,424	\$ 929,118
Residents	<u>142,727</u>	<u>148,120</u>
	1,056,151	1,077,238
Pharmacy receivables	117,374	153,278
Medical receivables	<u>217,541</u>	<u>200,594</u>
	334,915	353,872
Less allowance for uncollectible accounts	<u>(42,188)</u>	<u>(36,397)</u>
	292,727	317,475
Other receivables	<u>38,699</u>	<u>12,371</u>
	<u>\$ 1,387,577</u>	<u>\$ 1,407,084</u>

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LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS

Summaries of restricted asset components and activity for 2010 are as follows:

	Funded Reserves										Total Restricted Assets	
	Contingency Fund	Capital and Operating Fund	Resale Improvement Fund	Replacement Fund	Snow Removal Fund	Salary Fund	Property Maintenance Fund	Subtotal	Tele-Communications Fund	Equipment Purchase Fund		New Sales Facility Fund
2010												
Cash and cash equivalents	\$ 154,402	\$ 12,481	\$ 1,144,418	\$ 49,843	\$ (2,311)	\$ 31,361	\$ 788	\$ 1,390,982	\$ 730,015	\$ 284,978	\$ 132,701	\$ 2,538,676
Due from (to) operations	-	-	500,000	-	-	-	-	500,000	-	-	-	500,000
TOTAL	\$ 154,402	\$ 12,481	\$ 1,644,418	\$ 49,843	\$ (2,311)	\$ 31,361	\$ 788	\$ 1,890,982	\$ 730,015	\$ 284,978	\$ 132,701	\$ 3,038,676
Balance, January 1, 2010	\$ 36,165	\$ 12,481	\$ 1,020,468	\$ -	\$ 162,092	\$ 1,744	\$ 201	\$ 1,233,151	\$ -	\$ 201,133	\$ 132,701	\$ 1,566,985
Contributions	241,120	-	984,032	49,843	49,843	29,617	1,395,617	2,750,072	730,015	262,700	-	3,742,787
Withdrawals	(122,883)	-	(360,082)	-	(214,246)	-	(1,395,030)	(2,092,241)	-	(178,855)	-	(2,271,096)
Balance December 31, 2010	\$ 154,402	\$ 12,481	\$ 1,644,418	\$ 49,843	\$ (2,311)	\$ 31,361	\$ 788	\$ 1,890,982	\$ 730,015	\$ 284,978	\$ 132,701	\$ 3,038,676

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LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (Continued)

Summaries of restricted asset components and activity for 2009 are as follows:

2009	Funded Reserves										Total Restricted Assets	
	Contingency Fund	Capital and Operating Fund	Resale Improvement Fund	Replacement Fund	Snow Removal Fund	Salary Fund	Property Maintenance Fund	Subtotal	Tele-Communications Fund	Equipment Purchase Fund		New Sales Facility Fund
Cash and cash equivalents	\$ 36,165	\$ 12,481	\$ 520,468	\$ -	\$ 162,092	\$ 1,744	\$ 201	\$ 733,151	\$ -	\$ 201,133	\$ 132,701	\$ 1,066,985
Due from (to) operations	-	-	500,000	-	-	-	-	500,000	-	-	-	500,000
TOTAL	\$ 36,165	\$ 12,481	\$ 1,020,468	\$ -	\$ 162,092	\$ 1,744	\$ 201	\$ 1,233,151	\$ -	\$ 201,133	\$ 132,701	\$ 1,566,985
Balance, January 1, 2009	\$ 33,115	\$ 12,851	\$ 1,164,866	\$ -	\$ 209,333	\$ 176,356	\$ 118,133	\$ 1,714,654	\$ -	\$ 127,972	\$ 120,401	\$ 1,963,027
Contributions	74,765	540	885,602	-	49,844	75,388	1,182,098	2,268,237	-	346,963	12,300	2,627,500
Withdrawals	(71,715)	(910)	(1,030,000)	-	(97,985)	(250,000)	(1,300,030)	(2,749,740)	-	(273,802)	-	(3,023,542)
Balance December 31, 2009	\$ 36,165	\$ 12,481	\$ 1,020,468	\$ -	\$ 162,092	\$ 1,744	\$ 201	\$ 1,233,151	\$ -	\$ 201,133	\$ 132,701	\$ 1,566,985

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LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (Continued)

The following are descriptions of the purposes of the various funded reserves:

Contingency Fund

This fund was established for the purpose of paying for unplanned expenditures. The monthly per unit contribution to this fund was \$1.11 in 2010 and 2009, respectively (Note 7). In 2009, the Board of Directors approved the use of this fund for legal fees related to Green Briar at Norbeck, cable television consulting, and for funding a marketing plan.

Capital and Operating Fund

This fund was established for the purpose of funding capital equipment. Upon settlement of a new unit within Mutual applying for Trustor and Beneficiary of the Trust Agreements, the Mutual shall pay to Leisure World Community Corporation a contribution equal to two times the monthly trust community facilities fee in effect at the time of settlement.

Resale Improvement Fund

The purpose of this fund is to pay for improvements and additions to existing facilities within the community. The funding for this reserve comes from contributions received from the resale of existing units.

Replacement Fund

This fund was established in 2010 to fund future improvements and replacements of existing facilities. Funding is based on facilities reserve study incorporating components costing greater than \$25,000. The current reserve study is a 20-year cash flow prepared by Leisure World of Maryland. Funding consisted of \$0.74 per unit.

Snow Removal

This fund was established to pay for snow removal chemicals used within the community. The funding for this reserve consisted of per unit contributions of \$0.74 in 2010 and 2009, respectively.

Salary Fund

This fund established in order to accumulate funding for the 27th payroll which occurs approximately every 11 years. Funding during 2010 and 2009 consisted of per unit contributions of \$0.44 and \$1.12, respectively.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (Continued)

Property Maintenance Fund

The purpose of this fund is to pay for repairs and maintenance to community property based on the pre-approved plan. Funding during 2010 and 2009 consisted of per unit contributions of \$20.72 and \$17.55, respectively.

Telecommunications Fund

As part of the extension of the contract to provide cable service in the Leisure World Community, Comcast agreed to pay the Community \$870,015. Through Board action, the Contingency Fund was reimbursed \$140,000 to address both legal and consulting fees incurred as part of the contract negotiations. The fund contribution is determined by recognizing each year for ten years (term of the Agreement) one-tenth of the \$730,015 paid by Comcast upon full execution of the Agreement between Comcast of Potomac, LLC (Comcast) and Leisure World Community Corporation on August 19, 2010. In the event of a Leisure World default that is not cured, the right to receive the compensation shall terminate immediately and a prorated refund shall be paid to Comcast. Expenditures from this fund will be indentified and approved by the Leisure World Community Corporation Board of Directors.

Equipment Purchase Fund

The purpose of the equipment purchase fund is to accumulate money needed for the purchase of replacement equipment. Contributions to this fund are made annually by transferring, at a minimum, an amount equal to the annual depreciation of equipment. Beginning in 2003, management began transferring a portion of the Mutual's assessments for the current year into the fund.

Depreciation expense for the years ended December 31, 2010 and 2009 totaled \$251,249 and \$258,053, respectively. Contributions to the fund totaled depreciation expense plus mutual contributions of \$0.17 and \$1.32 per unit in 2010 and 2009, respectively.

The cost of assets purchased through the fund in 2010 and 2009 totaled \$178,855 and \$273,803, respectively.

New Sales Facility Fund

The new sales facility fund was established to pay for the construction or acquisition of new facilities within the community. The funding of this reserve is generated from new sales contributions, which are considered capital contributions and, accordingly, included as a part of the Trust Accountability and designated as "Community Facilities Accountability." In addition, earnings designated by the Trustee from the investment of these monies remain in the fund.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 4 - RESTRICTED ASSETS (Continued)

New Sales Facility Fund (Continued)

In April 2003, LWCC and Rossmoor - IDI Associates (the current developer of the remaining undeveloped property in Leisure World) revised and updated their 1979 agreement related, among other things, to contributions to Leisure World from the settlement of new units for the purpose of funding construction or acquisition of new facilities within the community. The revised agreement stipulates that Leisure World will receive \$5,850 each for all units settled in the Overlook project and \$6,150 each for all units in future projects. In 2009, two remaining units in Creekside were settled.

NOTE 5 - FIXED ASSETS

The Trust amortizes the Mutuals' investment in community facilities and off-site improvements on a straight-line basis over the estimated useful life of 40 years. This amortization represents a non-cash charge that is not billed to the members and is reflected as a direct charge in the statements of the Trust accountability.

Additionally, the Trust owns assets in the form of furniture and equipment and vehicles used for operations. These assets are depreciated on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 to 10 years. The depreciation recorded on these assets is considered a part of normal operations and is reflected in the statements of revenue and expenses as part of operating expenses.

The Trust completed the renovation of Clubhouse I lobby and replaced all windows in Clubhouse I. As of December 31, 2010, \$210,349 has been expended from resale fund for these projects.

The Trust has completed Norbeck Gate, and finished renovations to the Locker Rooms and Pool Heating System in Clubhouse II. As of December 31, 2009, \$972,892 has been expended from Resale Fund for these projects.

Fixed assets are comprised of the following as of December 31, 2010 and 2009:

	December 31	
	2010	2009
Community facilities	\$ 25,362,483	\$ 25,176,259
Furniture and equipment	2,835,892	2,671,726
Offsite improvements	442,581	442,581
Vehicles	1,413,954	1,614,561
	<u>\$ 30,054,910</u>	<u>\$ 29,905,127</u>
Less accumulated depreciation	14,560,915	13,925,938
	<u>\$ 15,493,995</u>	<u>\$ 15,979,189</u>

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 5 - FIXED ASSETS (Continued)

Community facilities consist of the following as of December 31, 2010 and 2009:

Administration building	\$ 631,007	\$ 631,007
Clubhouse I	3,557,213	3,370,989
Clubhouse II	12,701,567	12,701,567
Medical center	4,628,399	4,628,399
Physical properties, warehouse and office	764,772	764,772
Golf course	1,450,196	1,450,196
Golf maintenance	341,000	341,000
Golf pro shop	372,058	372,058
Donated land	490,000	490,000
Main gatehouse	110,000	110,000
Connecticut avenue gate	187,932	187,932
Norbeck gate	128,339	128,339
	<u>\$ 25,362,483</u>	<u>\$ 25,176,259</u>

NOTE 6 - OFF-SITE IMPROVEMENTS

Montgomery Mutual, Inc. has deeded to the Trust its off-site improvements with no consideration being paid by the Trust. These improvements are recorded at their approximate cost to the Mutual, exclusive of a non-depreciable portion. These off-site improvements include underground utilities, drainage structures, the adjoining land, and the grading of grounds outside the boundaries of the Mutual.

NOTE 7 - ACCOUNTS PAYABLE/RECEIVABLE - MUTUALS

It is the practice of the Trust, through Board action each year, to decide the disposition of any surplus or deficit and any unused or uncommitted amounts in the contingency fund at the end of the fiscal year (Note 4).

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 7 - ACCOUNTS PAYABLE/RECEIVABLE - MUTUALS (Continued)

The December 31, 2010 and 2009 surplus is comprised of the following:

	<u>Community Facilities Operations</u>	<u>Combined Mutual Operations</u>	<u>Total</u>
<u>2010</u>			
Total revenue	\$ 12,123,900	\$ 5,512,843	\$ 17,636,743
Total operating expenses	<u>12,096,329</u>	<u>5,537,521</u>	<u>17,633,850</u>
Gain (loss) from operations	27,571	(24,678)	2,893
Transfer from Contingency Fund	-	-	-
Due from Contingency Fund	-	-	-
Amount due to (from) operations	<u>\$ 27,571</u>	<u>\$ (24,678)</u>	<u>\$ 2,893</u>
<u>2009</u>			
Total revenue	\$ 11,828,249	\$ 5,412,550	\$ 17,240,799
Total operating expenses	<u>11,709,799</u>	<u>5,485,595</u>	<u>17,195,394</u>
Gain (loss) from operations	118,450	(73,045)	45,405
Transfer from Contingency Fund	-	-	-
Due from Contingency Fund	-	-	-
Amount due to (from) operations	<u>\$ 118,450</u>	<u>\$ (73,045)</u>	<u>\$ 45,405</u>

NOTE 8 - MUTUALS' INVESTMENT IN THE TRUST

Prior to December 31, 1982, at the time of its settlement, each new unit was required to contribute a stipulated amount to the Trust. This amount represented the Mutuals' investment in the Trust. Effective January 1, 1983, the amount of this contribution is allocated to the New Sales Facility Fund.

NOTE 9 - COMMUNITY FACILITIES ACCOUNTABILITY

This account represents each unit's one-time contribution to the Trust at the time of its settlement. This amount is representative of the Mutuals' allocable shares of the community facilities under the Trust's control.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 10 - VALUATION SURPLUS

At the time of the transfer of the golf course, Rossmoor Construction Corporation transferred several buildings, parcels of land and streets to the community with no additional cash outlay to the community. The Trust valued these assets at \$490,000. During 1991 and 1990, a portion of these donated community facilities were renovated and sold. The estimated cost of the community facilities sold in 1991 and 1990 was \$45,000 and \$40,500, respectively. These amounts were removed from the valuation surplus leaving a balance of \$404,500 at December 31, 1991. The balance remained \$404,500 at December 31, 2010 and 2009.

The Board of Directors of Leisure World Community Corporation voted on August 25, 2009 to absorb the 2008 deficit with the 2009 surplus, and on November 24, 2009 to fund a marketing plan with the remaining 2009 surplus and contingency fund (Note 4).

NOTE 11 - PENSION PLAN

The Trust maintains a defined contribution pension plan. The Internal Revenue Service advised the Trust on December 1, 1986 that the plan qualifies under Section 401 (a) of the Internal Revenue Code. Contributions made to the plan are, therefore, exempt from federal income taxes.

An employee must be at least 21 years of age and must be employed at least one year to be eligible for participation in this plan. The plan is funded by employee and employer contributions. Employees may contribute up to the maximum allowed under Internal Revenue Service regulations. The employer contributes a matching amount up to 4% of the employee's gross salary. The employer's contribution represents the pension expense for the period. Employer contributions to the plan for the years ended December 31, 2010 and 2009 were \$279,717 and \$352,050, respectively, and are reflected as part of employee benefits in the statements of revenue and expenses. Prior to January 1, 2010 the plan changed its matching contribution percentage from 5% to 4%.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 12 - INCOME TAXES

The Trust files fiduciary tax returns for both federal and Maryland income tax purposes. During 2010 and 2009, the Trust did not incur any liability for federal and Maryland income taxes due to the fact it has incurred net operating losses for tax purposes in prior years. The Trust has net operating loss carryovers of approximately \$3,255,501 expiring between 2011 and 2023. No provision is made for deferred taxes since the net operating loss carry-overs are not expected to be utilized. The Trust has determined that there are no uncertain tax positions required to be recorded or disclosed under Federal Accounting Standards Board Staff Position (FSP), FIN 48.

NOTE 13 - LEASES

The Trust is a lessor of space within the community, as identified below:

In 2009, the bank lease was extended for a five-year period commencing on January 1, 2009, with an additional five-year renewal option. The annual rental for this space is subject to annual increases based on a percentage of the annual increase in the consumer price index with a minimum increase of 2% per year under the lease term. Rent charged under lease totaled \$115,958 and \$113,685 in 2010 and 2009, respectively.

Effective February 1, 2010, Leisure World of Maryland Corporation entered into an agreement to lease office space to Weichert Realtors for a period of five years. The agreement calls for payments of \$40,000 in year one, \$46,000 in year two, and \$50,000 in years three, four, and five. During 2010, the total revenue earned from the space was \$36,663.

The Cathy Gilmour real estate office lease, originally executed on January 1, 2003, required a minimum payment of \$12,000 annually and monthly rent determined by the number of resales closed by the tenant at \$550 per closing. During 2009, the total revenue earned from the space was \$43,000.

In 2007, LWMC finished the second floor of the Medical Center at 3305 North Leisure World Boulevard and leased it to Atlantic Physical Therapy and Rehabilitations, Inc. (APT). The lease commenced on November 1, 2007 and expired on November 1, 2010. The lease was extended for a three-year period effective November 1, 2010. Lease terms require a rent of \$7,500, monthly or \$90,000, annually. Rental income was \$90,000 for 2010 and 2009, respectively, from this tenant.

Prior to May 17, 1993, the Trust leased space for the operation of a post office at \$1 per year. Effective May 17, 1993, LWMC entered into an agreement with the United States Postal Service (USPS) for LWMC to operate the Leisure World Post Office. The USPS pays an annual fee of \$10,000 for LWMC to operate the facility.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 13 - LEASES (Continued)

The Trust is the lessee under several other operating leases for equipment. For the years ended December 31, 2010 and 2009, rental and operating costs expense totaled \$710,718 and \$747,563, respectively. The rental expense reported in the accompanying statements of revenue and expenses exclude amounts allocated to the Mutuals but include interdepartmental rental fees. For the years ended December 31, 2010 and 2009 equipment lease payments to vendors totaled \$211,804 and \$210,771, respectively.

Future minimum lease payments are as follows:

2011	\$ 113,012
2012	90,801
2013	82,422
2014	31,544
2015	<u>1,548</u>
Total	<u>\$ 319,327</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Commitments

A contract was awarded by the Trust, along with the Mutuals, to a new landscape company (McFall & Berry), effective January 1, 2007, to receive landscaping maintenance and snow removal services. The term of the agreement is from January 1, 2007 through December 31, 2009, with a three-year option. The contract may be adjusted in the event that a Mutual is deleted from the contract agreement. During the term of the contract and during any renewal term thereafter, either party may give written notice of cancellation without cause at least 90 days prior to withdrawal or with cause at least 30 days prior to the date on which the termination shall be effective

Effective January 1, 2010 Leisure World extended its contract with McFall & Berry for a period of three years. The contract requires payments of \$1,132,362, \$1,155,009, and \$1,178,109 for the years ended December 31, 2010, 2011, and 2012, respectively.

LEISURE WORLD OF MARYLAND TRUST
Notes to Financial Statements (Continued)
December 31, 2010 and 2009

NOTE 15 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The governing documents of the LWCC (Trust Agreements) were amended in 2005 to allow for the accumulation of reserve funds for future major repairs and replacements; however, LWCC continues to maintain the Trust assets by budgeting funds for planned property maintenance on an annual basis. The 2011 budget continues to follow this practice.

Funding of \$1,395,616 and \$1,181,900 was budgeted as part of the maintenance plan for 2010 and 2009, respectively.

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DELEON & STANG
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

100 Lakeforest Boulevard
Suite 650
Gaithersburg, MD 20877
P: 301-948-9825
F: 301-948-3220
www.deleonandstang.com

Allen P. DeLeon, CPA, P.C.
Richard C. Stang, CPA, P.C.
Jeanie Price

Leisure World Community Corporation, Trustee
Leisure World of Maryland Trust
Silver Spring, Maryland

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

The audited financial statements of **Leisure World of Maryland Trust** and our report thereon are presented in the preceding section of this report. The audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The December 31, 2010 and 2009 financial information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

DeLeon & Stang
DeLeon & Stang, CPAs
Gaithersburg, Maryland
March 31, 2011

...improving the financial lives of our clients, our staff & our community with integrity, trust & innovation.

LEISURE WORLD OF MARYLAND TRUST
Schedules of Inventories
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INVENTORIES		
Physical properties	\$ 293,135	\$ 309,396
Pharmacy drugs	125,523	131,483
Ground maintenance	43,155	45,284
Snow chemicals	32,940	19,248
Golf Pro Shop	15,831	14,499
Administrative supplies	5,102	2,701
Restaurant supplies	10,807	10,807
Vehicle maintenance	4,261	4,261
Golf maintenance	2,579	2,579
Total	<u>\$ 533,333</u>	<u>\$ 540,258</u>

LEISURE WORLD OF MARYLAND TRUST
Schedules of Cost Center Revenue and Expenses
For the Year Ended December 31, 2010

	Revenue	Cost of Revenue	Net Revenue	Operating Expenses	Subtotal (Excess of Expenses Over Revenues)	Assessments	Excess of Revenue Over (Under) Expenses from Operations
Administration	\$ 428,474	\$ -	\$ 428,474	\$ 3,269,381	\$ (2,840,908)	\$ 2,878,735	\$ 37,827
Clubhouse I	362,856	(78,076)	284,780	938,630	(653,850)	665,051	11,201
Clubhouse II	150,907	(82,185)	68,722	738,025	(669,303)	643,855	(25,448)
Food Service	24,720	-	24,720	152,039	(127,319)	129,460	2,141
Medical center	3,388,651	(1,826,440)	1,562,211	1,957,362	(395,151)	329,916	(65,235)
Pharmacy	1,526,231	(1,248,559)	277,672	351,328	(73,656)	33,464	(40,192)
Nurse service	54,489	-	54,489	239,091	(184,602)	195,095	10,493
Social service	60,000	-	60,000	260,330	(200,330)	225,731	25,401
PPD-management	759,123	-	759,123	823,351	(64,228)	79,562	15,334
PPD-grounds maintenance	-	-	-	1,293,607	(1,293,607)	1,301,499	7,892
Special projects	410,680	(51,304)	359,376	368,452	(9,076)	-	(9,076)
Refuse/recycling	88,997	-	88,997	623,306	(534,309)	582,005	47,696
Vehicle	616,576	(60,401)	556,175	563,426	(7,251)	-	(7,251)
Janitorial	411,396	-	411,396	411,396	-	-	-
After hours maintenance	149,712	(20,046)	129,666	180,874	(51,208)	49,590	(1,618)
Electrical maintenance	424,672	(83,558)	341,114	346,744	(5,630)	7,000	1,370
Plumbing maintenance	887,867	(315,587)	572,280	567,763	4,517	8,000	12,517
Carpentry maintenance	474,017	(179,650)	294,367	320,040	(25,673)	6,000	(19,673)
HVAC maintenance	733,860	(248,781)	485,079	487,451	(2,372)	8,000	5,628
Appliance maintenance	594,133	(304,521)	289,612	315,773	(26,161)	6,000	(20,161)
Cable television	-	-	-	819,238	(819,238)	825,063	5,825
Bus transportation	10,200	-	10,200	286,540	(276,340)	288,107	11,767
Supplemental transportation	29,526	-	29,526	157,207	(127,681)	130,358	2,677
Security	48,440	-	48,440	1,296,162	(1,247,722)	1,311,149	63,427
Community street lights	-	-	-	170,440	(170,440)	134,000	(36,440)
Golf course maintenance	261,708	-	261,708	521,667	(259,959)	220,295	(39,664)
Golf pro shop	103,782	(20,080)	83,702	174,227	(90,525)	96,980	6,455
Total	\$ 12,001,017	\$ (4,519,188)	\$ 7,481,829	\$ 17,633,850	\$ (10,152,021)	\$ 10,154,915	\$ 2,893

LEISURE WORLD OF MARYLAND TRUST
Schedules of Cost Center Revenue and Expenses
For the Year Ended December 31, 2009

	Revenue	Cost of Revenue	Revenue from Cost Centers, Net Revenue	Operating Expenses	Subtotal (Excess of Expenses Over Revenues)	Assessments	Excess of Revenue Over (Under) Expenses from Operations
Administration	\$ 432,437	\$ -	\$ 432,437	\$ 3,262,857	\$ (2,830,420)	\$ 2,875,449	\$ 45,029
Clubhouse I	371,621	(88,887)	282,734	897,032	(614,298)	647,701	33,403
Clubhouse II	139,548	(78,077)	61,471	702,858	(641,387)	603,083	(38,304)
Food Service	-	-	-	158,465	(158,465)	154,000	(4,465)
Medical center	3,401,028	(1,789,562)	1,611,466	1,893,490	(282,024)	255,141	(26,883)
Pharmacy	1,680,488	(1,357,436)	323,052	369,165	(46,113)	-	(46,113)
Nurse service	48,163	-	48,163	320,673	(272,510)	267,843	(4,667)
Social service	60,000	-	60,000	257,253	(197,253)	242,475	45,222
PPD-management	730,417	-	730,417	833,808	(103,391)	105,348	1,957
PPD-grounds maintenance	-	-	-	1,280,741	(1,280,741)	1,292,761	12,020
Special projects	407,683	(58,084)	349,599	367,545	(17,946)	3,000	(14,946)
Refuse/recycling	37,206	-	37,206	629,925	(592,719)	576,822	(15,897)
Vehicle	658,589	(57,248)	601,341	601,341	-	-	-
Janitorial	406,788	-	406,788	406,788	-	-	-
After hours maintenance	130,546	(16,583)	113,963	174,256	(60,293)	50,608	(9,685)
Electrical maintenance	461,963	(117,758)	344,205	337,436	6,769	5,000	11,769
Plumbing maintenance	823,742	(239,948)	583,794	589,318	(5,524)	7,000	1,476
Carpentry maintenance	451,511	(177,631)	273,880	304,509	(30,629)	7,000	(23,629)
HVAC maintenance	571,933	(160,237)	411,696	434,274	(22,578)	10,200	(12,378)
Appliance maintenance	582,513	(324,641)	257,872	305,495	(47,623)	8,200	(39,423)
Cable television	-	-	-	516,270	(516,270)	538,800	22,530
Bus transportation	10,720	-	10,720	296,626	(285,906)	289,433	3,527
Supplemental transportation	26,327	-	26,327	163,318	(136,991)	133,924	(3,067)
Security	47,720	-	47,720	1,282,049	(1,234,329)	1,343,157	108,828
Community street lights	-	-	-	134,150	(134,150)	130,800	(3,350)
Golf course maintenance	279,293	-	279,293	503,524	(224,231)	226,053	1,822
Golf pro shop	95,691	(18,490)	77,201	172,228	(95,027)	95,656	629
Total	\$ 11,855,927	\$ (4,484,582)	\$ 7,371,345	\$ 17,195,394	\$ (9,824,049)	\$ 9,869,454	\$ 45,405