

General Information

Woodwinds is a percentage of ownership community. Percentage of ownership is directly proportional to the square footage of each unit. This means that instead of each unit having an equal vote in governance, those with larger units have a bigger share of the vote, and those with smaller units have a smaller share of the vote. There are 102 garden style units, and their percentage of ownership varies between 0.6235 and 0.6847. There are 28 townhome style units, and their percentage of ownership varies between 0.8934 and 0.9076. There are 14 patiohome style units, and their percentage of ownership varies between 0.63 and 0.6426. The percentage of ownership for all 144 units totals to 100.

Monthly assessments are also based on percentage of ownership, with those units with larger percentages of ownership paying proportionally more than those with units with smaller percentage of ownership.

There are two major components to the budget.

The operating budget covers all the normal and expected costs to keep the community running each year. This covers utilities, contracts for services, routine repairs and maintenance, insurance, taxes, administrative costs and fees, and the like. Some operating expenses apply to all unit types, but others apply only to a single type of unit. In calculating fees, budgeted expenses that apply to only one type of unit are only shared among units of that type.

Reserves can be thought of as a structured, long term savings plan for major repairs and replacements that are anticipated in the future. Associations need to save for future expenses not only to make sure they have the cash on hand to pay for needed work (loans are hard to come by, expensive, and make it almost impossible for owners to sell their units), but also to properly allocate costs among past, present, and future owners. In Virginia, associations are required to conduct a reserve study at least every five years. A reserve study looks at each component of the infrastructure, and estimates its remaining useful life and the cost to repair or replace it at the end of its useful life. A reserve study also calculates at what rate reserves need to be funded each year over the next five years in order to meet anticipated future expenses. Woodwinds' last reserve study was completed in December 2007. A new reserve study is required in 2012.

Woodwinds governing documents state that the board must ensure that monthly assessments are adequate to fund operating expenses and reserves.

Woodwinds Finances as of December 31, 2010 (Audited)

Woodwinds ended 2010 with assets of \$426,668. Note that associations generally use the accrual method of accounting so assessment income is treated as earned when it is due, even if all those assessments have not actually been paid. So those assets included \$20,170 in delinquent assessments. Woodwinds ended 2010 with liabilities of \$37,572. \$21,092 of this was accounts payable, and \$16,480 was prepaid assessments (January 2011 monthly fees that had been received prior to December 31). Woodwinds ended 2010 with \$368,256 in reserves, and \$3,320 in unrealized losses on our reserves investments. This left us with \$24,160 in Unappropriated Members Equity, which can basically be thought of as the excess operating funds accumulated over Woodwinds' 35 year existence. This sounds pretty good, but it is about

4% of Woodwinds annual assessments, and the generally accepted target for Unappropriated Members Equity is 10 – 20% of annual assessments. This is to ensure that potential operating deficits do not consume funds designated for reserves.

Woodwinds Finances as of October 31, 2011 (Unaudited)

Woodwinds ended October with actual year-to-date Assessment Income of \$497,590, as compared to year-to-date budget of \$497,590. Again, this income includes some monthly assessments which have not actually been paid. As of the end of September total delinquencies were about \$32,000, with perhaps two-thirds or more of that being the result of unpaid fees going back prior to the beginning of 2011.

Woodwinds ended October with actual year-to-date Other Revenue of \$10,905, as compared to year-to-date budget of \$14,700. This difference is primarily the result of lower than expected reimbursement of legal fees for collections. When the association takes legal action to collect unpaid assessments, the association pays the legal fees up front, but the delinquent owner is obligated to reimburse the association for those legal fees. However, all monies collected are applied to the delinquent assessments first, and it is only after the delinquency has been paid off that the legal fees due the association are reimbursed. Woodwinds began using a different law firm for collections partway through 2009, and in 2010 had a lot of legal fees for collection activities reimbursed. However, it appears that was the low hanging fruit, and reimbursement has slowed, since now the largest portion of legal fees are owed by owners with large delinquent balances that will not be paid off until 2013 or later.

Woodwinds ended October with actual year-to-date All Unit Type Expenses of \$242,009, as compared to year-to-date budget of \$251,696. However, it should be noted that these expenses tend to be loaded toward the end of the year, rather than evenly distributed throughout the year. Based on financial reports as of the end of September, I projected that Woodwinds would end 2011 about \$28,000 over budget for All Unit Type Expenses. The three largest areas of overspending are Bad Debt (we have written off \$3,554 year-to-date as compared to year-to-date budget of \$0), Tree Care (we have spent \$10,220 year-to-date, as compared to a whole year budget of \$5,000), and Water Leaks (we have spent \$40,633 year-to-date, as compared to a whole year budget of \$30,000).

Woodwinds ended October with actual year-to-date Garden Style Expenses of \$44,453, as compared to year-to-date budget of \$70,780. Based on financial reports as of the end of September, I projected that Woodwinds would end 2011 about \$29,000 under budget for Garden Style Expenses.

Woodwinds ended October with actual year-to-date Townhome Expenses of \$0, as compared to year-to-date budget of \$1,500. Chimney inspections will be done in December, and I project that Woodwinds will end 2011 about \$100 under budget for Townhome Expenses.

Woodwinds ended October with actual year-to-date Patiohome Expenses of \$0, as compared to year-to-date budget of \$1. I project that Woodwinds will end 2011 about \$1 under budget for Patiohome Expenses.

Woodwinds ended October with actual year-to-date contributions to reserves of \$182,500, as compared to year-to-date budget of \$182,500. Year-to-date reinvested interest for reserves has been \$7,616, as compared to year-to-date budget of \$6,670.

Current Status of Woodwinds Operating Accounts

As of the end of October, Woodwinds had \$25,425 in our checking account. All income is deposited in this account, and all operating expenses are paid out of this account. The idea is to maintain enough money in our checking account so all usual monthly expenses can be paid out of this account without having to transfer money into the account to cover checks written. Each month, the monthly contribution to reserves is transferred out of this account into one of our reserves accounts. The current annual percentage yield (APY) on the checking account is 0.15%, and the interest earned year-to-date is \$80.

As of the end of October, Woodwinds had \$31,991 in a money market account that can be thought of as our savings account for annual operating expenses. Since operating expenses can be very unevenly distributed throughout the year, this account provides a needed buffer in those months when expenses greatly exceed monthly income: As necessary, money can be transferred from this account to the checking account to cover checks that need to be written. The APY for this account is 0.40%, and the interest earned year-to-date is \$122.

Current Status of Woodwinds Reserve Accounts

As of the end of October, Woodwinds had \$93,483 in a money market account for reserve funds. The current APY for this account is 0.50%, and the interest earned year to date is \$181. The usual procedure is to transfer the monthly contribution to reserves into this account, and maintain an adequate balance in this account to cover any reserve expenses that we anticipate coming up in the next four to six months. When the balance in this account gets above that level (as it is now), we transfer money to our ING Direct Savings account which has a higher APY.

As of the end of October, Woodwinds had \$98,967 in our ING Direct Savings Account. The current APY is 0.85%, and the interest earned year to date is \$833.

The balance in each of these accounts needs to be kept below \$250,000, the current FDIC insurance limit.

Woodwinds needs to keep the money that will be needed for reserve expenses over the next few years in liquid form, and since the current return on short term CDs is lower or similar to the APY on our ING Direct Savings Account, Woodwinds does not currently hold any CDs.

In 2008 the Woodwinds Board established an Edward Jones account. This is where we put reserve funds that we have accumulated toward more distant future expenses -- it is money that we do not anticipate having to access in the next several years. We currently have \$206,764 in our Edward Jones Account, and the year to date interest/dividends on this account is \$6669, a return of about 3.4%. In addition, as of the end of October our year-to-date unrealized gain (increase in the value of our investments if they had been sold the last day of October) is \$6509, bringing our total return to about 6.9% year-to-date.

In our Edward Jones Account, Woodwinds currently holds:

\$ 2,985 in cash

\$22,779 in a Fed Farm Credit Bk Cons Bond, earning 4.92% interest

\$46,285 in a FHLMC Medium Tern Note, earning 4.85% interest

\$39,196 in Franklin Adj US Gov Secs Fd A Mutual Fund
\$ 6,806 in Franklin Fed Intr-Tm Txfr Incm A Mutual Fund
\$ 6,718 in Franklin Fed Tax-Free Income A
\$10,667 in Franklin Total Return Fund A
\$57,972 in Franklin US Government Secs A
\$16,544 in Franklin VA Tax-Free Income

Analysis of Woodwinds Current Reserve Funds Balance

As of the end of October, Woodwinds had a total of \$399,215 in reserve funds, excluding unrealized gains on our Edward Jones holdings.

So far this year we have spent \$151,244 from reserves. \$54,180 of this was to replace 6 of our 12 hot water heaters (which serve the garden style units), and \$97,064 was to renovate 6 balconies.

Woodwinds will contribute an additional \$36,500 to reserves between now and the end of the year, bringing our year end reserves balance to about \$435,000, as compared to a year-end target goal, per our 2007 Reserve Study, of \$197,500.

However, it would be a gross oversimplification to conclude that if our target balance is \$197,500, and our projected year end balance is \$435,000, we must currently have \$237,500 more in reserves than we actually need.

During 2008-2011, for individual reserve study line items that we have made expenditures on, we have outspent projected spending by \$158,411. In most cases this is because the actual costs to complete the work were higher than what was estimated when the reserve study was done in fall of 2007. In other cases it is because needed repairs were more extensive than anticipated. (For example, in 2008 we anticipated doing about \$11,400 worth of asphalt repair and marking. But the asphalt was in worse shape that we thought, and we spent \$42,600.) In other cases it is because we have had to replace/repair items sooner than what the reserve study assumed. (This is the case with the water heaters. The reserve study estimated that the 12 water heaters had a useful life until 2012. However, it became necessary to replace one in 2010, and 6 in 2011. This is further complicated by the fact that replacement cost has been higher than anticipated. The reserve study allowed \$81,000 to replace all 12, but it actually cost us \$64,180 to replace 7. I would anticipate that it will cost an additional \$50,000, or more, to replace the remaining 5 over the next several years, for a total cost closer to \$115,000 than \$81,000.)

During this same 2008-2011 timeframe, we have not made \$200,379 in expenditures that the reserve study identified. In some case this is because it was deemed that an item still had some remaining useful life, and replacement could be delayed for a year or more. Approximately \$104,000 falls into this category, and these expenditures will likely be made in the 2011-2013 period.

The remainder of the "underspending" is the result of 8 different line items for which the reserve study specifies an annual allowance. For these line items, it is not anticipated that all the work in that area will be done at one time, but rather than some portion of the work will be done on a periodic basis. So we contribute to reserves at a rate that allows us to completely replace/repair that item over the course of its useful life. But in any given year we may not spend any amount

of the allowance for that item. That allowance accrues, until such time as a portion of that work needs to be done. Think, for example, of curb and gutter, which has a useful life of maybe 30 to 45 years. We have no intention of, at some point, simultaneously ripping out and replacing all the curbs and all the gutters. But every several years, we need to replace some sections due to deterioration, settling, cracking, etc. Over the past 4 years, we have outspent our savings rate in two of the eight categories, to the tune of about \$32,000, but we have underspent our savings rate in the other six, to the tune of about \$94,000.

Given how unclear it is how our actual reserve fund balances match up against our future reserve spending needs, and given that we are obligated by Virginia law to conduct another reserve study next year, in 2012 Woodwinds will continue to contribute to reserves at the level specified in the 2007 reserve study. If Woodwinds fails to contribute to reserves at the level specified in the most recent reserve study, it can make it very difficult for potential purchasers to obtain mortgages, either through the Federal Housing Administration (FHA) or through private lenders.

The 2007 reserve study is available at <http://www.bluemarblewebs.com/ww/>. The following expenditures have been made from reserves in 2008 through 2011:

2008

\$42,609 Pavement
\$16,799 Balcony renovation (rear)
\$ 8,267 Allowance - Site Items (drains)
\$ 1,000 Allowance - Hand Railing

2009

\$97,282 Town House roofs
\$14,105 Allowance - Masonry wall
\$ 9,298 Allowance - Mechanical/Plumbing/Electrical
\$ 8,622 Allowance - Facade/Caulking/Waterproofing
\$ 1,181 Allowance - Site Lighting
\$ 866 Pavement (marking)
\$ 5,200 Allowance - Site Items (drains)
\$ 5,707 Balcony renovation (front)

2010

\$ 953 Allowance - Mechanical/Plumbing/Electrical
\$ 27,275 Allowance - Hand Railing
\$272,524 Balcony renovation (rear)
\$ 10,000 Hot water heater

2011 Year-to-Date

\$54,180 Hot Water heaters
\$97,064 Balcony renovation (rear)

WOODWINDS 2012 BUDGET

Assessment Income

The amount of Assessment Income is determined after all other line items in the budget have been established, and is set at whatever level is necessary to cover all line items in the budget.

Other Revenue

Other Revenue accounts for about 2% of Total Income. Interest on Reserves, which accounts for over 70% of Other Revenue, is reinvested in reserves, so has no impact on the annual operating budget. Other line items in the Other Revenue category, besides accounting for only about 0.5% of Total Income, are what they are – not much can be done to increase or decrease them.

All Unit Type Expenses

All Unit Type Expenses are distributed among all 144 units at Woodwinds, according to percentage of ownership.

About 19% of All Unit Type Expenses are for contracts for services provided (grounds maintenance, janitorial services, snow removal, trash removal). It is the opinion of the board that the current contracts are competitively priced.

About 18% of All Unit Type Expenses are for utilities (water & sewer, and electricity for exterior lighting).

About 13% of All Unit Type Expenses are for non-discretionary spending on necessary services and repairs (water leaks, tree care, lighting supplies and labor for exterior lighting, and pest control).

About 12% of All Unit Type Expenses are for property management services and related administrative costs. It is the opinion of the board that the current property management contract is competitively priced and provides good value for cost.

About 9% of All Unit Type Expenses are for required insurance coverage. It is the opinion of the board that current insurance coverage is competitively priced.

About 8% of All Unit Type Expenses are for legal fees (primarily for collections activities, which are eventually reimbursed by the delinquent owner), audit costs, taxes, required fees, and a new reserve study.

General Repairs/Maintenance accounts for about 8.5% of All Unit Type Expenses. The vast majority of this spending is non-discretionary, although some services (providing dog waste bags, at a cost of about \$500 per year, for example) and some minor repairs and enhancements are discretionary.

About 12.5% of All Unit Type Expenses is budgeted for the only entirely discretionary All Unit Type Expense in the 2012 budget – \$41,800 for Landscape Enhancements. This is to begin implementation of a long term master plan for Woodwinds landscaping. Over the winter months the board will engage a landscape architecture firm to develop this plan. Beginning in 2013, some of the costs of implementing this plan will be funded through reserves.

Garden Style Expenses

Garden Style Expenses are distributed only among the 102 garden style units, according to their proportional percentage of ownership.

About 30% of Garden Style Expenses are for utilities (natural gas for water heaters, and electricity for stairwells).

About 24% of Garden Style Expenses are for non-discretionary spending on plumbing repairs, hot water heater maintenance and repairs, and supplies and labor costs for maintaining stairwell lighting.

About 18% of Garden Style Expenses is for the janitorial services for cleaning the entries/stairwells. It is the opinion of the board that the current contract is competitively priced.

About 28% of Garden Style Expenses are for at least partially discretionary spending on stairway general maintenance (drywall repair and painting), entryway window cleaning, and carpet cleaning. The amount budgeted for stairwell general maintenance has been significantly increased to begin painting the stairwells, which were last painted about 15 years ago. Depending on the cost of proposals received, this painting may be undertaken over the course of a couple of years.

Townhome Expenses

Townhome Expenses are distributed only among the 28 townhome units, according to their proportional percentage of ownership. Annual chimney inspection is a requirement of our Master Hazard Insurance Policy. Plumbing is basically a placeholder to allow the board to track the distribution of total plumbing expenses across all unit types.

Patio Home Expenses

Patio Home Expenses are distributed only among the 14 patio home units according to their proportional percentage of ownership. Plumbing is basically a placeholder to allow the board to track the distribution of total plumbing expenses across all unit types.

Reserve Contributions

Woodwinds 2007 Reserve Study calls for Woodwinds to contribute an additional \$225,600 to reserves in 2012, in order to continue to build the reserve fund to meet future expenses. Reserve contributions are distributed among all 144 units, according to percentage of ownership.

Woodwinds 2012 Monthly Fees

For 2012, assessments for garden style units will increase by \$10 per month. Assessments for patio home units will increase by \$20 per month. Assessments for townhomes will increase by \$26 per month.

Over the past few years we have seen a trend that Woodwinds has been significantly over budget for All Unit Type Expenses, and significantly under budget for garden style expenses. The 2012 budget has been adjusted accordingly. Since the overall budget for garden style expenses for 2012 has been decreased by over \$14,000 as compared to 2011, the "extra" fees that garden style unit pays for costs that apply only to garden style units has decreased as compared to 2011. This decrease in assessments for garden style expenses has, for garden style units, partially offset the increase that all units are experiencing due to the nearly \$27,000 increase in all unit type expenses for 2012 as compared to 2011.