

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 in order to meet anticipated future expenses. This year Woodwinds contracted for a new reserve study to begin January 1, 2013. We received the final report earlier this month.

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, 2011 (Audited)

Woodwinds ended 2011 with assets of \$508,126. 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 \$11,140 in delinquent assessments. An additional \$21,189 has been written off as doubtful debt – delinquent assessments that we are unlikely to be able to collect. (If any of these doubtful assessments are eventually paid, they will be treated as income in the year in which they are received.) \$17,7290 of our assets represented prepaid assessments (January 2012 monthly fees that had been received prior to December 31). Woodwinds ended 2011 with \$434,732 in reserves, as compared to a year end target, per our 2007 reserve study, of \$379,600. We

ended 2011 with \$35,102 in Unappropriated Members Equity, which can basically be thought of as the excess operating funds accumulated over Woodwinds' 36 year existence. This sounds pretty good, but it is about 5.6% 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 September 30, 2012 (Unaudited)

It is difficult to assess our financial situation partway through the year, because our expenses tend to be back loaded in the final quarter of the year. In particular, one of our largest expenses is sewer and water, which is billed quarterly, with the bill for the final 3 months of the year not being received until the following January. However, at this point, I project that we should end the year several thousand dollars under budget. I anticipate significant overages in water and sewer, general repairs/maintenance, and tree care, but this will likely be offset by coming in significantly under budget for landscape enhancements and water leaks.

Current Status of Woodwinds Operating Accounts

As of the end of September, Woodwinds had \$74,772 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 0.1%, and the interest earned year-to-date is \$58.

As of the end of September, Woodwinds had \$32,068 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 0.15%, and the interest earned year-to-date is \$59.

Current Status of Woodwinds Reserve Accounts

As of the end of September, Woodwinds had \$159,902 in a money market account for reserve funds. The current APY for this account is 0.25%, and the interest earned year to date is \$268. 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, we transfer money to our ING Direct Savings account which has a higher APY.

As of the end of September, Woodwinds had \$199,777 in our ING Direct Savings Account. The current APY is 0.5%, and the interest earned year to date is \$636.

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 \$219,999 in our Edward Jones Account, and the year to date income on this account is \$5173.

Analysis of Woodwinds Reserves

The completion of a new reserve study for use beginning in Fiscal Year 2013 serves as a "reset" for our reserve fund balance as compared to our reserve fund needs. Our new reserve study assumes a reserve balance of \$448,000 as of January 1, 2013. For purposes of determining this balance, I subtracted the full projected cost of renovating the 12 balconies on which work has just begun, since the work has been contracted for, even though it has not yet been paid.

The new reserve study recommends that \$233,030 be contributed to reserves in 2013. The recommended contribution then increases approximately 2.4% each year for the next five years.

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 a minor percentage of Total Income. Interest on Reserves, which accounts for over most 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.

Very little of All Unit Type spending is discretionary. Contracted services (grounds maintenance, janitorial services, snow removal, trash removal), utilities (water & sewer, and electricity for exterior lighting), necessary services and repairs (water leaks, tree care, lighting supplies and labor for exterior lighting, and pest control), property management services and related administrative costs, required insurance coverages, and legal fees account for more than 95% of All Unit Type expenses. A small part of the General Repairs/Maintenance category

is discretionary, along with Landscape Enhancements, and the small amount budgeted for the Bird Sanctuary (primarily for seed).

Garden Style Expenses

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

Very little of Garden Style spending is nondiscretionary. Utilities (natural gas for hot water heaters, and electricity for stairwells), plumbing repairs and maintenance, maintenance of stairwell lighting, and janitorial services, and inspection and maintenance of fire extinguishers and smoke alarms account for about 90% of spending.

In 2013 we are budgeting to have the carpets cleaned twice, and the entryway windows washed three times. We are also budgeting several thousand dollars to begin replacement of fogged windows and damaged screens.

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 Reserve Study calls for Woodwinds to contribute an additional \$233,030 to reserves in 2013, 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 2013 Monthly Fees

For 2012, monthly assessments will increase between \$3 and \$7, depending on unit type and percentage of ownership.