



Principals

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Managers

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Independent Auditor's Report

Board of Directors
Woodwinds Council of Co-Owners
Reston, Virginia

We have audited the accompanying Balance Sheets of Woodwinds Council of Co-Owners as of December 31, 2011 and 2010, 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 such opinion. 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 Woodwinds Council of Co-Owners as of December 31, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the 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.

June 15, 2012

WOODWINDS COUNCIL OF CO-OWNERS
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 283,671	\$ 203,787
Investments	207,942	196,593
Assessments Receivable - Net	11,140	20,170
Accounts Receivable - Other	262	561
Income Taxes Receivable	288	1,021
Prepaid Expenses	<u>4,823</u>	<u>4,536</u>
Total Assets	<u>\$ 508,126</u>	<u>\$ 426,668</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 22,880	\$ 21,092
Prepaid Assessments	17,729	16,480
Total Liabilities	<u>\$ 40,609</u>	<u>\$ 37,572</u>
Replacement Reserves	\$ 434,732	\$ 368,256
Accumulated Other Comprehensive Income (Loss)	(2,317)	(3,320)
Unappropriated Members' Equity	<u>35,102</u>	<u>24,160</u>
Total Members' Equity	<u>\$ 467,517</u>	<u>\$ 389,096</u>
Total Liabilities and Members' Equity	<u>\$ 508,126</u>	<u>\$ 426,668</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>INCOME:</u>		
Assessments	\$ 597,108	\$ 573,288
Special Assessment	-	23,040
Interest	9,173	11,110
Realized Gain on Sale of Investments	5,477	-
Late Fees	2,531	3,008
Bad Debt Recovery	897	409
Other	1,111	11,354
Total Income	\$ 616,297	\$ 622,209
 <u>EXPENSES:</u>		
Management	\$ 38,384	\$ 37,014
Legal, Audit and Tax Preparation	15,001	22,990
Insurance	22,010	24,846
Management Reimbursement	1,764	2,172
Administrative	2,160	2,576
Electricity	14,667	17,790
Water and Sewer	45,955	43,344
Gas	18,690	16,540
Grounds Maintenance	49,237	49,082
Janitorial	15,070	16,364
Termite Treatment	2,390	2,115
Trash Removal	17,280	22,193
Snow Removal	11,707	22,244
Common Area Maintenance	107,658	86,287
Plumbing	13,429	8,433
Income Taxes	2,012	1,279
Total Expenses	\$ 377,414	\$ 375,269
Net Income before Contribution to Reserves	\$ 238,883	\$ 246,940
Contribution to Reserves	(227,941)	(223,449)
Net Income	\$ 10,942	\$ 23,491

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(CONTINUED)

	<u>2011</u>	<u>2010</u>
Unrealized Holding Gain (Loss)		
Arising During Period	\$ 6,480	\$ 2,654
Less: Reclassification Adjustment for (Gain) Loss Included in Net Income (Loss)	<u>(5,477)</u>	<u>-</u>
Total Other Comprehensive Income	<u>\$ 1,003</u>	<u>\$ 2,654</u>
 Comprehensive Income	 <u>\$ 11,945</u>	 <u>\$ 26,145</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<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, 2009	\$ 455,559	\$ (5,974)	\$ 669	\$ 450,254
Additions:				
Contribution to Reserves	223,449			223,449
Change in Value of Investments		2,654		2,654
Net Income			23,491	23,491
Deductions:				
Mechanical/Plumbing/Electrical	(953)			(953)
Hand Railing	(27,275)			(27,275)
Balconies	(272,524)			(272,524)
Hot Water Heater	(10,000)			(10,000)
Balance as of December 31, 2010	\$ 368,256	\$ (3,320)	\$ 24,160	\$ 389,096
Additions:				
Contribution to Reserves	227,941			227,941
Change in Value of Investments		1,003		1,003
Net Income			10,942	10,942
Deductions:				
Balconies	(97,065)			(97,065)
Hot Water Heater	(64,400)			(64,400)
Balance as of December 31, 2011	<u>\$ 434,732</u>	<u>\$ (2,317)</u>	<u>\$ 35,102</u>	<u>\$ 467,517</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 10,942	\$ 23,491
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Allowance for Doubtful Assessments	(13,499)	(910)
Realized (Gain) Loss on Sale of Investments	(5,477)	-
Decrease (Increase) in:		
Assessments Receivable	22,529	(2,367)
Accounts Receivable - Other	299	221
Income Taxes Receivable	733	(653)
Prepaid Expenses	(287)	(40)
Increase (Decrease) in:		
Accounts Payable	1,788	(19,840)
Income Taxes Payable	-	(276)
Prepaid Assessments	1,249	(257)
Net Cash Flows from Operating Activities	<u>\$ 18,277</u>	<u>\$ (631)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 219,000	\$ 212,604
Received from Interest (Reserves)	8,941	10,845
Disbursed for Reserve Expenditures	(161,465)	(310,752)
Received from Interest-Bearing Deposits/Investments	71,662	115,000
Disbursed for Interest-Bearing Deposits/Investments	(76,531)	(73,758)
Net Cash Flows from Investing Activities	<u>\$ 61,607</u>	<u>\$ (46,061)</u>
Net Change in Cash and Cash Equivalents	\$ 79,884	\$ (46,692)
Cash and Cash Equivalents at Beginning of Year	<u>203,787</u>	<u>250,479</u>
Cash and Cash Equivalents at End of Year	<u>\$ 283,671</u>	<u>\$ 203,787</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Income Taxes	\$ 2,300	\$ 3,176
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See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the Association. The Association is located in Reston, Virginia and consists of 144 units.

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 unit owners. 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 - Real property and common areas acquired from the declarant and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Common property includes, but is not limited to the exterior structures, mechanical equipment and other 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 a maturity date of three months or less to be cash equivalents.

F) Reclassification - Certain amounts have been reclassified in the accompanying 2010 financial statements to conform to the 2011 presentation.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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 PM+ 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 \$219,000 for 2011. For 2011, the Association contributed \$219,000 to reserves. In addition, the Association contributed interest income of \$8,941 to 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, 2011 and 2010, the Association had designated \$434,732 and \$368,256, respectively, for replacement reserves. These designated reserves were funded by cash and investments.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt condominium or as an association taxable as a corporation. As an exempt condominium, 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 2011 and 2010, 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, 2011 and 2010, the Association paid \$0 and \$11, respectively, in 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.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS:

As of December 31, 2011, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Mutual of Omaha	Checking	\$ 29,324	\$ -	\$ 29,324
Mutual of Omaha	Money Market	119,847		119,847
Mutual of Omaha	Money Market	32,010		32,010
ING Direct	Savings	99,141		99,141
Edward Jones	Money Market	3,349		3,349
Franklin	Mutual Funds (6)		<u>207,942</u>	<u>207,942</u>
	Totals	<u>\$ 283,671</u>	<u>\$ 207,942</u>	<u>\$ 491,613</u>

The Association's investments are classified as available-for-sale securities and are recorded at market value. The Association has engaged Edward Jones to manage its investments. The Association's investments consist of various government sponsored entity mutual funds. The value of these investments has fluctuated with the market and the change in market value is recorded as an unrealized gain or loss on investments. An unrealized loss of \$2,317 and \$3,320 has been recorded as a separate component of members' equity as of December 31, 2011 and 2010, respectively.

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.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS: (CONTINUED)

<u>2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 207,942	\$ -	\$ -	\$ 207,942
<u>2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 131,411	\$ -	\$ -	\$ 131,411
Bonds and Notes	\$ -	\$ 65,182	\$ -	\$ 65,182

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 uncollectible. Under the allowance method, collection efforts may continue and recovery of amounts previously written off are recognized as income in the year of collection.

	<u>2011</u>	<u>2010</u>
Assessments Receivable	\$ 32,329	\$ 54,858
Less: Allowance for Doubtful Assessments	(21,189)	(34,688)
Assessments Receivable - Net	<u>\$ 11,140</u>	<u>\$ 20,170</u>

NOTE 7 - SPECIAL ASSESSMENT:

During 2010, the Association approved a special assessment in the amount of \$23,040 (\$160 per unit) to fund snow removal and tree care costs related to the December 2009 and January 2010 snow storms. The special assessment was payable by July 31, 2010.

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 15, 2012, the date the financial statements were available to be issued.

Subsequent to year-end the Association entered into contracts for two water heaters and a sewer repair in the amounts of \$18,085 and \$11,494, respectively. These projects will be funded from replacement reserves.

WOODWINDS COUNCIL OF CO-OWNERS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2011
(UNAUDITED)

The Association had a replacement reserve study conducted by PM+ 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 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>2007 Estimated Remaining Useful Life (Years)</u>	<u>2007 Estimated Replacement Cost</u>
Garden Units - Building Envelope	10-19	\$ 218,200
Townhome Units - Building Envelope	3-23	91,600
Pavements	1-8	172,200
Decorating	3	50,100
Mechanical/Electrical	5	72,000
Retaining Walls	1-15	26,000
Rear Balconies	1-13	1,234,500
Front Balconies	6-9	246,500
Townhomes	6	58,800
Carport Roofing - Shingles	4	46,900
Pavilion	16-21	16,700
Mailboxes - Wall	12	12,200
Mailboxes - Street	12	7,600
Façade/Caulk/Waterproofing	1	7,200
Common Area Doors	1	3,500
Curbs/Gutters/Sidewalks/Steps/Patios	1	2,700
Mechanical/Plumbing/Electrical	1	10,800
Site Lighting	1	2,300
Masonry Retaining Walls	1	1,500
Hand Railing/Wood Fencing	1	1,000
Site Items	1	3,300

Representation Letter

This letter needs to be signed by the Board President or Treasurer and management representative, if applicable, and returned to our office within 60 days.

Woodwinds Council of Co-Owners

Date 6/15/12

GOLDKLANG GROUP CPAs, P.C.
1801 Robert Fulton Drive, Suite 200
Reston, Virginia 20197

Dear Auditors:

We are providing this letter in connection with your audits of the financial statements of Woodwinds Council of Co-Owners as of December 31, 2011 and 2010, and for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, and results of operations and cash flows, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you all -
 - A) Financial records and related data.
 - B) Minutes of meetings of Board of Directors except for March 2011. For the minutes not provided, no actions were taken at the meetings that would require disclosure in, or adjustments to, the financial statements.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have recommended, and they have been posted to the Association's accounts, if appropriate.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Association involving:

- A) management,
 - B) employees who have significant roles in internal control, or
 - C) others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, owners, regulators, or others.
9. The Association has no undisclosed plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements -
- A) Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - B) Guarantees, whether written or oral, under which the Association is contingently liable.
 - C) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB Accounting Standards Codification 275, *Risks and Uncertainties*.
11. Except as made known to you, there are no:
- A) violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording as a loss contingency.
 - B) Inter-equity transfers that were not properly authorized and approved, or that have not been properly reflected in the financial statements or disclosed to you.
 - C) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Accounting Standards Codification 450, *Contingencies*.
 - D) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with FASB Accounting Standards Codification 450, *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
12. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, except as made known to you and disclosed in the notes to the financial statements.
13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. We acknowledge our responsibilities for presenting the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI. The Association had a study conducted in 2007. 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. We have reviewed the transactions affecting replacement reserves (including inter-equity transfers). We are in agreement with them and they are properly authorized and approved.
15. We understand that the Association is responsible for the choice of income tax filing method and the consequences thereof. The Association's allocation of expenses against membership and non-membership income conforms to IRS rules, which require that the allocation be made "on a reasonable and consistently applied basis." We have adequately documented such allocation. If the Association has excess membership

income in the current year the Association, for tax purposes, has elected to either (a) offset it against next year's assessments or (b) refund it to members. We have adequately documented such election in the current year.

16. Assessments receivable recorded in the financial statements represent valid claims against debtors for assessments or other charges arising on or before the balance sheet date and have been reduced to their estimated realizable value.
17. We have reviewed our investments in debt securities, if any, and their maturity dates. It is our intent to hold these investments to maturity and there are no known factors, at this time, which would alter that ability.
18. We have disclosed to you all material events, if any, that would require adjustments to, or disclosure in, the financial statements. In addition, we represent that no other material events have occurred since you completed your audit fieldwork on April 9, 2012 and through the date of this letter. Examples of material events include, but are not limited to, contracts for replacement reserve expenditures, losses due to a fire, changes in ongoing litigation or new litigation and approval of special assessments. Material events that have occurred are:

**Woodwinds Council of Co-Owners
December 31, 2011 and 2010**

Management Representative:



Signature

Laura Poole

Printed Name

President/Treasurer



Signature

TERI JAEGER

Printed Name