

Goldklang Group[®]

CPAs, P.C.

Principals

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Independent Auditor's Report

To the Board of Directors of
Woodwinds Council of Co-Owners

Report on the Financial Statements

We have audited the accompanying financial statements of Woodwinds Council of Co-Owners, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income and comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Woodwinds Council of Co-Owners as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Goldklang Group CPAs, P.C.

Reston, Virginia
May 28, 2014

WOODWINDS COUNCIL OF CO-OWNERS
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 391,804	\$ 541,552
Investments	211,545	216,242
Assessments Receivable - Net	4,775	6,607
Accounts Receivable - Other	16,074	398
Income Taxes Receivable	1,503	1,458
Prepaid Expenses	<u>2,731</u>	<u>4,980</u>
Total Assets	<u>\$ 628,432</u>	<u>\$ 771,237</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 27,463	\$ 148,271
Prepaid Assessments	24,563	23,100
Total Liabilities	<u>\$ 52,026</u>	<u>\$ 171,371</u>
Replacement Reserves	\$ 442,087	\$ 514,742
Accumulated Other Comprehensive Income (Loss)	(12,368)	(846)
Unappropriated Members' Equity	<u>146,687</u>	<u>85,970</u>
Total Members' Equity	<u>\$ 576,406</u>	<u>\$ 599,866</u>
Total Liabilities and Members' Equity	<u>\$ 628,432</u>	<u>\$ 771,237</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<u>INCOME:</u>		
Assessments	\$ 628,296	\$ 621,444
Interest	8,074	8,341
Late Fees	1,279	2,550
Bad Debt Recovery	9,227	-
Other	2,167	1,672
Total Income	\$ 649,043	\$ 634,007
 <u>EXPENSES:</u>		
Management	\$ 39,290	\$ 38,940
Legal, Audit and Tax Preparation	15,530	12,371
Insurance	27,505	26,667
Reserve Study	-	4,900
Management Reimbursement	1,679	1,873
Administrative	2,152	1,841
Electricity	14,050	14,058
Water and Sewer	51,576	50,901
Gas	15,205	14,757
Grounds Maintenance	34,530	52,849
Janitorial	14,076	13,950
Termite Treatment	2,730	2,875
Trash Removal	18,456	18,046
Snow Removal	17,187	3,329
Common Area Maintenance	78,987	77,842
Plumbing	9,008	9,301
Bad Debt	4,632	4,008
Income Taxes	797	842
Total Expenses	\$ 347,390	\$ 349,350
Net Income before Contribution to Reserves	\$ 301,653	\$ 284,657
Contribution to Reserves	(240,936)	(233,789)
Net Income	\$ 60,717	\$ 50,868

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)

	<u>2013</u>	<u>2012</u>
Unrealized Holding Gain (Loss)		
Arising During Period	\$ (11,522)	\$ 1,471
Total Other Comprehensive Income	<u>\$ (11,522)</u>	<u>\$ 1,471</u>
Comprehensive Income	<u>\$ 49,195</u>	<u>\$ 52,339</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<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, 2011	\$ 434,732	\$ (2,317)	\$ 35,102	\$ 467,517
Additions:				
Contribution to Reserves	233,789			233,789
Change in Value of Investments		1,471		1,471
Net Income			50,868	50,868
Deductions:				
Balconies	(124,366)			(124,366)
Plumbing	(29,413)			(29,413)
Balance as of December 31, 2012	\$ 514,742	\$ (846)	\$ 85,970	\$ 599,866
Additions:				
Contribution to Reserves	240,936			240,936
Net Income			60,717	60,717
Deductions:				
Balconies	(67,936)			(67,936)
Landscape Enhancements	(200,962)			(200,962)
Deck	(3,500)			(3,500)
Steps	(11,750)			(11,750)
Pavement	(15,424)			(15,424)
Lights	(4,459)			(4,459)
Stairway Painting	(9,560)			(9,560)
Change in Value of Investments		(11,522)		(11,522)
Balance as of December 31, 2013	<u>\$ 442,087</u>	<u>\$ (12,368)</u>	<u>\$ 146,687</u>	<u>\$ 576,406</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 60,717	\$ 50,868
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(4,595)	4,008
Decrease (Increase) in:		
Assessments Receivable	6,427	525
Accounts Receivable - Other	(15,676)	(136)
Income Taxes Receivable	(45)	(1,170)
Prepaid Expenses	2,249	(157)
Increase (Decrease) in:		
Accounts Payable	(120,808)	1,025
Prepaid Assessments	1,463	5,371
Net Cash Flows from Operating Activities	<u>\$ (70,268)</u>	<u>\$ 60,334</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 233,030	\$ 225,600
Received from Interest (Reserves)	7,906	8,189
Disbursed for Reserve Expenditures	(313,591)	(29,413)
Disbursed for Investments	(6,825)	(6,829)
Net Cash Flows from Investing Activities	<u>\$ (79,480)</u>	<u>\$ 197,547</u>
Net Change in Cash and Cash Equivalents	\$ (149,748)	\$ 257,881
Cash and Cash Equivalents at Beginning of Year	<u>541,552</u>	<u>283,671</u>
Cash and Cash Equivalents at End of Year	<u>\$ 391,804</u>	<u>\$ 541,552</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 2,300</u>	<u>\$ 2,300</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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. The Board of Directors administers the operations of the Association.

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 2012 financial statements to conform to the 2013 presentation.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

The Association had a replacement reserve study conducted by PM+ during 2012. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this updated study.

The study recommends a contribution to reserves of \$233,030 for 2013. For 2013, the Association contributed \$233,030 to reserves. In addition, the Association contributed interest income of \$7,906 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, 2013 and 2012, the Association had designated \$442,087 and \$514,742, 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 2013 and 2012, the income taxes were calculated using the corporate method.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the years ended December 31, 2013 and 2012, the Association did not incur any penalties and interest related to income taxes. The

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

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.

NOTE 5 - CASH AND INVESTMENTS:

As of December 31, 2013, the Association maintained its funds in the following manner:

<u>And Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Mutual of Omaha	Checking	\$ 153,646	\$ -	\$ 153,646
Mutual of Omaha	Money Market	1,898		1,898
Mutual of Omaha	Money Market	32,129		32,129
ING Direct	Savings	200,782		200,782
Edward Jones	Money Market	3,349		3,349
Franklin	Mutual Funds (6)		<u>211,545</u>	<u>211,545</u>
	Totals	<u>\$ 391,804</u>	<u>\$ 211,545</u>	<u>\$ 603,349</u>

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$0 and \$90,144 as of December 31, 2013 and 2012, respectively.

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 \$12,368 and \$846 has been recorded as a separate component of members' equity as of December 31, 2013 and 2012, 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;

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 5 - CASH AND INVESTMENTS: (CONTINUED)

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.

<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 211,545	\$ -	\$ -	\$ 211,545
<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds	\$ 216,242	\$ -	\$ -	\$ 216,242

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>2013</u>	<u>2012</u>
Assessments Receivable	\$ 23,264	\$ 31,513
Less: Allowance for Doubtful Assessments	<u>(18,489)</u>	<u>(24,906)</u>
Assessments Receivable - Net	<u>\$ 4,775</u>	<u>\$ 6,607</u>

NOTE 7 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 28, 2014, the date the financial statements were available to be issued.

Subsequent to year-end, the Association entered into two contracts for landscape enhancements totaling approximately \$17,700. Additionally, the Association approved the transfer of \$50,000 from unappropriated members' equity to replacement reserves.

WOODWINDS COUNCIL OF CO-OWNERS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2013
(UNAUDITED)

The Association had a replacement reserve study conducted by PM+ during 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement; however, the Association's replacement reserve study does take inflation into consideration when evaluating future expenditures and recommended contributions to reserves.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Component</u>	<u>2012 Estimated Remaining Useful Life (Years)</u>	<u>2012 Estimated Replacement Cost</u>
Building Envelope	2-17	\$ 490,400
Pavements	1-4	181,650
Decorating	1-7	75,500
Mechanical/Plumbing/Electrical	1-13	436,800
Retaining Walls/Fencing	1-10	30,000
Rear Balconies	2-15	894,000
Front Balconies	4-7	240,000
Carport Roofing - Shingles	2	68,280
Pavilion	1-16	28,050
Mailboxes - Wall	7	13,260
Mailboxes - Street	7	8,400
Street Lights	2	21,000
Landscape Enhancements	1-3	215,000
Façade/Caulk/Waterproofing	1	8,000
Common Area Doors/Windows	1	3,900
Curbs/Gutters/Sidewalks/Steps/Patios	1	4,000
Mechanical/Plumbing/Electrical	1	8,000
Masonry Retaining Walls	1	2,000
Hand Railing/Wood Fencing	1	1,100
Site Items	1	4,000