

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 0.6850. There are 28 townhome style units, and their percentage of ownership varies between 0.8936 and 0.9071. There are 14 patiohome style units, and their percentage of ownership varies between 0.63 and 0.6429.

Monthly assessments are also based, in part, 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. Woodwinds most recently completed a reserve study in 2012, for the period beginning January 1, 2013. During this five year period, the recommended contribution to reserves increases approximately 2.4% each year through 2017, when a new reserve study will need to be completed.

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, 2014 (Audited)

Woodwinds ended 2014 with assets of \$791,695. 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 \$26,521 in unpaid assessments. \$20,812 of that has been allowed as doubtful debt – delinquent assessments that we are unlikely to be able to collect. If any of these doubtful debts are eventually paid, they will be treated as income in the year in which they are received. \$27,278 of our assets represented prepaid assessments (2015 monthly fees that had been received prior to December 31, 2014). Woodwinds ended 2014 with \$623,385 in reserves, as compared to a year end target, per our reserve study, of \$407,860. However, it should be noted that about \$240,000 worth of work planned for in 2014 has been deferred until 2016 or later. Woodwinds ended 2014 with \$122,756 in Unappropriated Members Equity, which can basically be thought of as the excess operating funds accumulated over Woodwinds' entire existence.

This amount is about 19% of Woodwinds annual assessments, and falls within the generally accepted target for Unappropriated Members Equity of 10 – 20% of annual assessments. This “cushion” is to ensure that potential operating deficits do not consume funds designated for reserves.

Woodwinds Finances as of October 31, 2015 (Unaudited)

It is difficult to assess our financial situation before the end of the year, because our expenses tend to be back loaded in the final quarter of the year. In particular, our largest line item is sewer and water, which is billed quarterly. In addition, Woodwinds again had multiple property manager transitions in 2015, and numerous issues with proper coding of invoices. At this point, any financial data for 2015 should be considered preliminary only. That being noted, at this point it is projected that Woodwinds will end the year about \$15,000 under budget. However, in 2015 several thousand dollars was budgeted across various line items for update of governing documents, and that effort, though begun, will largely take place in 2016.

Current Status of Woodwinds Operating Accounts

As of the end of October, Woodwinds had \$103,726 in our checking account. All income is deposited in this account, and all operating expenses are paid out of this account. 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 through October is \$108.

As of the end of October, Woodwinds had \$32,217 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 through October is \$40.

Current Status of Woodwinds Reserve Accounts

As of the end of October, Woodwinds had \$250,422 in a money market account for reserve funds. The current APY for this account is 0.2%, and the interest earned through October is \$398. 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 Capital One savings account which has a higher APY.

As of the end of October, Woodwinds had \$248,607 in our Capital One account. The current APY is 0.4%, and the interest earned through September is \$743.

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 very low, 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 near term. As of October, the value of this account is \$227,519, and the year to date income is \$5,119.

Woodwinds projected 2015 year end Reserve balance, across all accounts, is \$675,000, compared to a reserve study year end target of \$271,270. However, it should be noted that approximately \$552,000 of reserve work originally scheduled for 2014 or 2015 has been deferred to 2016 or beyond. In addition, Woodwinds had significant unplanned reserve expenditures in 2015. Cost of implementing the master landscape plan in 2015 was about \$65,000 more than the reserve study allowed. Water pipes in the vicinity of 11602 and 11608 Windbluff Court were replaced at a cost of about \$30,000. Three light poles and fixtures at the rear of 2100-2110 Green Watch Way were replaced at a cost of about \$10,000. The reserve study has annual allowances for plumbing and lighting, but 2015 expenditures greatly exceeded these allowances. In addition, the board is exploring improvements to attic insulation, which could cost \$100,000 to \$150,000 over several years, though this work is not included in the 2013 reserve study.

WOODWINDS 2016 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 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 a fraction of a percent of Total Income, are what they are – not much can be done to increase or decrease them. Based on recent court cases, our legal counsel has advised us that, based on our governing documents, we cannot assess late fees greater than \$10, we cannot recover legal fees that the association incurs in the collection of unpaid assessments, except when ordered by the court, and we cannot levy assessments for violations of our rules.

Changes in Coding of Expenses in 2015

In an effort to clarify the coding of expenses going forward, and to more accurately distribute expenses among unit types, some changes were made to budget line items in 2015. In the past, the coding of the cost of repairing, and restoring damages caused by, plumbing leaks, roof leaks, balcony leaks, and groundwater infiltration had been very inconsistent, with some costs being charged to plumbing line items, some to General Repairs & Maintenance, and some to Water Leaks. The General Repairs & Maintenance and Water Leaks line items had become large undifferentiated catch-all categories

The Plumbing line item in the All Unit category was eliminated, and all plumbing costs, along with the cost to repair damages caused by plumbing related leaks, are now allocated to Garden Style, Townhome, or PatioHome, based on address.

New line items were added to capture the cost of repairing (and restoring damages caused by) roof/gutter issues, balcony issues, and groundwater infiltration. New line items were added for dryer vent cleaning and for gutter/downspout repair and cleaning.

The amount budgeted for General Repairs & Maintenance was greatly reduced, as many items formerly charged to this line item are now charged to one of the plumbing line items, or to one of the new line items.

It will take several years to be able to establish typical annual costs for each of the impacted line items, and to be able to more accurately predict the appropriate amount to budget for each impacted line item for the upcoming year.

All Unit Type Expenses

All Unit Type Expenses are distributed among all 144 units at Woodwinds, according to percentage of ownership. Generally, 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, property management services and related administrative costs, required insurance coverage, and legal fees account for the majority of All Unit Type expenses.

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

In 2016 we are budgeting to have the stairwell carpets cleaned twice, and the entryway windows washed three times.

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.

Patio Home Expenses

Patio Home Expenses are distributed only among the 14 patio home units according to their proportional percentage of ownership.

Reserve Contributions

The reserve study calls for Woodwinds to contribute \$250,370 to reserves in 2016, 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 2016 Monthly Fees

For 2016, monthly assessments will increase by 1.62% overall, although the percentage increase varies from 1.3% to 4.25%, depending on the specific unit. The monthly fee increases by \$5 for garden style units, and \$6 for townhome units. Patiohome fees increase \$13 per month. (Because the patiohome plumbing costs are allocated between only the 14 patiohomes, this unit type is most affected by the change in how plumbing related costs are now being allocated.)