

Principals

Howard A. Goldklang, CPA, MBA
Donald E. Harris, CPA
Anne M. Sheehan, CPA
S. Gail Moore, CPA
Jeremy W. Powell, CPA
Renee L. Watson, CPA

1801 Robert Fulton Drive, Suite 200
Reston, VA 20191

Managers

Allison A. Day, CPA
Matthew T. Stiefvater, CPA
Sheila M. Lewis, CPA

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, 2017 and 2016, 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, 2017 and 2016, 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 13 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
August 7, 2018

WOODWINDS COUNCIL OF CO-OWNERS
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 919,125	\$ 709,554
Investments	229,778	226,343
Assessments Receivable - Net	26,597	15,102
Accounts Receivable - Other	5,989	2,685
Income Taxes Receivable	1,853	1,583
Prepaid Expenses	29,294	30,803
Total Assets	\$ 1,212,636	\$ 986,070

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 273,068	\$ 24,224
Prepaid Assessments	25,099	14,686
Total Liabilities	\$ 298,167	\$ 38,910
Replacement Reserves	\$ 715,964	\$ 789,285
Accumulated Other Comprehensive Income (Loss)	(19,748)	(16,811)
Unappropriated Members' Equity	218,253	174,686
Total Members' Equity	\$ 914,469	\$ 947,160
Total Liabilities and Members' Equity	\$ 1,212,636	\$ 986,070

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<u>INCOME:</u>		
Assessments	\$ 686,712	\$ 653,760
Interest	7,419	8,050
Late Fees	1,601	1,271
Bad Debt Recovery	-	9,923
Other	3,721	873
Total Income	\$ 699,453	\$ 673,877
 <u>EXPENSES:</u>		
Management	\$ 40,608	\$ 39,795
Legal, Audit and Tax Preparation	17,129	17,301
Insurance	31,978	32,948
Reserve Study	4,000	-
Administrative	14,521	2,803
Electricity	14,441	13,755
Water and Sewer	65,782	57,379
Gas	14,241	12,973
Grounds Maintenance	47,103	33,554
Janitorial	13,686	15,347
Termite Treatment	2,590	1,446
Trash Removal	18,179	19,002
Snow Removal	11,030	25,003
Common Area Maintenance	65,856	90,672
Plumbing	21,509	11,562
Bad Debt	7,925	-
Income Taxes	1,459	785
Total Expenses	\$ 392,037	\$ 374,325
Net Income before Contribution to Reserves	\$ 307,416	\$ 299,552
Contribution to Reserves	(263,849)	(258,351)
Net Income	\$ 43,567	\$ 41,201

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(CONTINUED)

	<u>2017</u>	<u>2016</u>
Unrealized Holding Gain (Loss)		
Arising During Period	\$ (2,937)	\$ (4,220)
Total Other Comprehensive Income (Loss)	<u>\$ (2,937)</u>	<u>\$ (4,220)</u>
Comprehensive Income	<u>\$ 40,630</u>	<u>\$ 36,981</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<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, 2015	\$ 619,464	\$ (12,591)	\$ 133,485	\$ 740,358
Additions:				
Contribution to Reserves	258,351			258,351
Net Income			41,201	41,201
Deductions:				
Landscape Enhancements	(43,200)			(43,200)
Balcony	(9,794)			(9,794)
Painting and Carpentry	(3,600)			(3,600)
Attic Insulation	(31,936)			(31,936)
Change in Value of Investments		(4,220)		(4,220)
Balance as of December 31, 2016	\$ 789,285	\$ (16,811)	\$ 174,686	\$ 947,160
Additions:				
Contribution to Reserves	263,849			263,849
Net Income			43,567	43,567
Deductions:				
Carpet	(39,553)			(39,553)
Flooring	(40,887)			(40,887)
Asphalt	(238,075)			(238,075)
Painting and Carpentry	(11,655)			(11,655)
Consulting/Engineering	(7,000)			(7,000)
Change in Value of Investments		(2,937)		(2,937)
Balance as of December 31, 2017	<u>\$ 715,964</u>	<u>\$ (19,748)</u>	<u>\$ 218,253</u>	<u>\$ 914,469</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 43,567	\$ 41,201
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	7,925	(9,923)
Decrease (Increase) in:		
Assessments Receivable	(19,420)	150
Accounts Receivable - Other	(3,304)	(2,222)
Income Taxes Receivable	(270)	-
Prepaid Expenses	1,509	(30,352)
Increase (Decrease) in:		
Accounts Payable	10,769	(20,350)
Prepaid Assessments	10,413	(24,234)
Net Cash Flows from Operating Activities	<u>\$ 51,189</u>	<u>\$ (45,730)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 256,430	\$ 250,370
Received from Interest (Reserves)	7,419	7,981
Disbursed for Reserve Expenditures	(99,095)	(126,721)
Disbursed for Investments	(6,372)	(6,394)
Net Cash Flows from Investing Activities	<u>\$ 158,382</u>	<u>\$ 125,236</u>
Net Change in Cash and Cash Equivalents	\$ 209,571	\$ 79,506
Cash and Cash Equivalents at Beginning of Year	<u>709,554</u>	<u>630,048</u>
Cash and Cash Equivalents at End of Year	<u>\$ 919,125</u>	<u>\$ 709,554</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 3,097</u>	<u>\$ 1,400</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 assess late and interest charges and 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) Investments - The Association's marketable securities have been classified and accounted for either as available-for-sale or held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale. The cost of securities sold is based upon the specific identification

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

method. The Association reviews its marketable securities annually to determine if any security has experienced an other-than-temporary decline in fair value. If a determination is made that the decline is other-than-temporary, the Association writes down the investment to its market value and records the related write-down as an investment loss in its Statement of Income.

G) Reclassification - Certain amounts have been reclassified in the accompanying 2016 financial statements to conform to the 2017 presentation.

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. During 2017, the Association updated its reserve study. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on the updated study.

The 2012 study recommends a contribution to reserves of \$256,430 for 2017. For 2017, the Association contributed \$256,430 to reserves. In addition, the Association contributed interest income of \$7,419 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, 2017 and 2016, the Association had designated \$715,964 and \$789,285, respectively, for replacement reserves. These designated reserves were funded by cash and investments.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(CONTINUED)

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 2017 and 2016, the income taxes were calculated using the corporate and the exempt methods, respectively.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. 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.

NOTE 5 - CASH AND CASH EQUIVALENTS:

As of December 31, 2017, the Association maintained its funds in the following manner:

Institution	Cash and Cash Equivalents
Pacific Premier	\$ 664,167
Capital One	251,602
Edward Jones	3,356
Total	\$ 919,125

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were \$416,433 and \$213,731 as of December 31, 2017 and 2016, respectively.

Cash and securities held at a SIPC member brokerage firm are insured by the SIPC for up to \$500,000, which includes \$250,000 limit for cash. The Association maintains funds in a brokerage account which are subject to SIPC limits.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(CONTINUED)

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.

	2017	2016
Assessments Receivable	\$42,810	\$23,389
Less: Allowance for Doubtful Assessments	(16,213)	(8,287)
Assessments Receivable - Net	\$26,597	\$15,102

NOTE 7 - INVESTMENTS:

Available-for-sale equity securities are recorded at fair value, with the unrealized gains and losses, reported in other comprehensive income. In accordance with ASC 820-10, the fair value of the equity securities was obtained using Level 1 Inputs. The amortized cost, gross unrealized gains and losses, and fair value of the available-for-sale equity securities are summarized below:

<u>Available-for-Sale Equity Securities</u>				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2017</u>				
Equity Securities - Mutual Funds	\$ 249,526	\$ 137	\$ (19,885)	\$ 229,778
Total Available-for-Sale Securities	\$ 249,526	\$ 137	\$ (19,885)	\$ 229,778
<u>December 31, 2016</u>				
Equity Securities - Mutual Funds	\$ 243,154	\$ -	\$ (16,811)	\$ 226,343
Total Available-for-Sale Securities	\$ 243,154	\$ -	\$ (16,811)	\$ 226,343

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

The Association has funds invested in various mutual funds. The value of the mutual funds are subject to market fluctuation risk and can increase or decrease with the market. These changes in market value are recorded as an unrealized gain or loss on investments as a separate component of members' equity. Therefore, the credit risk as of December 31, 2017 and 2016 was \$229,778 and \$226,343, respectively.

NOTE 8 - MANAGEMENT CHANGE:

Effective January 1, 2017, Select Community Services became the new management agent.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 7, 2018, the date the financial statements were available to be issued.

Subsequent to year-end, the Association incurred \$31,657 in replacement reserve expenditures for various projects.

WOODWINDS COUNCIL OF CO-OWNERS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(UNAUDITED)

The Association had a replacement reserve study conducted by PM+ during 2017 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>2017</u> Estimated Remaining Useful Life (Years)	<u>2017</u> Estimated Replacement Cost
Building(s)	1-15	\$2,314,110
Pavements/Concrete	2-15	196,270
Other Property Features	1-20	341,400