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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, 2018 and 2017, 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.

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## **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, 2018 and 2017, 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 14 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, which 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 7, 2019

WOODWINDS COUNCIL OF CO-OWNERS  
BALANCE SHEETS  
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 785,350	\$ 919,125
Investments	230,701	229,778
Assessments Receivable - Net	23,990	26,597
Accounts Receivable - Other	9,067	5,989
Income Taxes Receivable	1,042	1,853
Prepaid Expenses	<u>32,762</u>	<u>29,294</u>
Total Assets	<u>\$ 1,082,912</u>	<u>\$ 1,212,636</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 26,463	\$ 273,068
Prepaid Assessments	<u>20,421</u>	<u>25,099</u>
Total Liabilities	<u>\$ 46,884</u>	<u>\$ 298,167</u>
Replacement Reserves	\$ 804,355	\$ 715,964
Accumulated Other Comprehensive Income (Loss)	(25,644)	(19,748)
Unappropriated Members' Equity	<u>257,317</u>	<u>218,253</u>
Total Members' Equity	<u>\$ 1,036,028</u>	<u>\$ 914,469</u>
Total Liabilities and Members' Equity	<u>\$ 1,082,912</u>	<u>\$ 1,212,636</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<u>INCOME:</u>		
Assessments	\$ 688,908	\$ 686,712
Interest	7,852	7,419
Late Fees	1,793	1,601
Bad Debt Recovery	3,465	-
Other	2,276	3,721
Total Income	\$ 704,294	\$ 699,453
 <u>EXPENSES:</u>		
Management	\$ 41,016	\$ 40,608
Legal, Audit and Tax Preparation	29,843	17,129
Insurance	34,970	31,978
Reserve Study	-	4,000
Administrative	11,938	14,521
Electricity	13,181	14,441
Water and Sewer	67,115	65,782
Gas	14,708	14,241
Grounds Maintenance	48,649	47,103
Janitorial	12,309	13,686
Termite Treatment	2,100	2,590
Trash Removal	18,507	18,179
Snow Removal	11,545	11,030
Common Area Maintenance	80,592	65,856
Plumbing	18,051	21,509
Bad Debt	-	7,925
Income Taxes	1,158	1,459
Total Expenses	\$ 405,682	\$ 392,037
Net Income before Contribution to Reserves	\$ 298,612	\$ 307,416
Contribution to Reserves	(259,548)	(263,849)
Net Income	\$ 39,064	\$ 43,567

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017  
(CONTINUED)

	<u>2018</u>	<u>2017</u>
Unrealized Holding Gain (Loss)		
Arising During Period	\$ (5,896)	\$ (2,937)
Total Other Comprehensive Income (Loss)	<u>\$ (5,896)</u>	<u>\$ (2,937)</u>
Comprehensive Income	<u>\$ 33,168</u>	<u>\$ 40,630</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<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, 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	\$ 715,964	\$ (19,748)	\$ 218,253	\$ 914,469
Additions:				
Contribution to Reserves	259,548			259,548
Net Income			39,064	39,064
Deductions:				
Access Doors	(1,950)			(1,950)
Carport	(139,500)			(139,500)
Asphalt	(29,707)			(29,707)
Change in Value of Investments		(5,896)		(5,896)
Balance as of December 31, 2018	<u>\$ 804,355</u>	<u>\$ (25,644)</u>	<u>\$ 257,317</u>	<u>\$ 1,036,028</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 39,064	\$ 43,567
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(3,465)	7,925
Decrease (Increase) in:		
Assessments Receivable	6,072	(19,420)
Accounts Receivable - Other	(3,078)	(3,304)
Income Taxes Receivable	811	(270)
Prepaid Expenses	(3,468)	1,509
Increase (Decrease) in:		
Accounts Payable	(8,530)	10,769
Prepaid Assessments	(4,678)	10,413
Net Cash Flows from Operating Activities	<u>\$ 22,728</u>	<u>\$ 51,189</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 251,700	\$ 256,430
Received from Interest (Reserves)	7,848	7,419
Disbursed for Reserve Expenditures	(409,232)	(99,095)
Disbursed for Investments	(6,819)	(6,372)
Net Cash Flows from Investing Activities	<u>\$ (156,503)</u>	<u>\$ 158,382</u>
Net Change in Cash and Cash Equivalents	\$ (133,775)	\$ 209,571
Cash and Cash Equivalents at Beginning of Year	<u>919,125</u>	<u>709,554</u>
Cash and Cash Equivalents at End of Year	<u>\$ 785,350</u>	<u>\$ 919,125</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 2,200</u>	<u>\$ 3,097</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

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, 2018 AND 2017  
(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.

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 2017. 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 \$251,700 plus interest of \$19,850 for 2018. For 2018, the Association contributed \$251,700 to reserves. In addition, the Association contributed interest income of \$7,848 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, 2018 and 2017, the Association had designated \$804,355 and \$715,964, respectively, for replacement reserves. These designated reserves were funded by cash and investments.

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017  
(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 2018 and 2017, 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. 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, 2018, the Association maintained its funds in the following manner:

Institution	Cash and Cash Equivalents
Pacific Premier	\$ 529,363
Capital One	252,610
Edward Jones	3,377
Total	\$ 785,350

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were \$281,935 and \$416,433 as of December 31, 2018 and 2017, 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, 2018 AND 2017  
(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.

	2018	2017
Assessments Receivable	\$ 32,202	\$ 42,810
Less: Allowance for Doubtful Assessments	(8,212)	(16,213)
Assessments Receivable - Net	\$ 23,990	\$ 26,597

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, 2018</u>				
Equity Securities - Mutual Funds	\$ 256,345	\$ -	\$ (25,644)	\$ 230,701
Total Available-for-Sale Securities	\$ 256,345	\$ -	\$ (25,644)	\$ 230,701
	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

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017  
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

The Association has investments in six different mutual funds with an average credit risk of BBB or higher per Morningstar. The Association's Edward Jones mutual funds consist of investments in cash and U.S. stocks. The severity and duration of the impairment correlate with the slowdown of the U.S. economy. The Association evaluated the near-term prospects of the issuers and based on that evaluation and the Association's ability and intent to hold the mutual funds for a reasonable period of time sufficient for a forecasted recovery of fair value, the Association does not consider the investments to be other-than-temporarily impaired as of December 31, 2018.

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, 2018 and 2017 was \$230,701 and \$229,778, respectively.

The following table shows the Association's gross unrealized losses and fair value aggregated by investment category and the length of time that the securities have been in a continuous unrealized loss position as of December 31, 2018 and 2017.

December 31, 2018	Less than 12 months		12 Months or Longer		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>Description of Securities</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Equity Securities - Mutual Funds	\$ 19,732	\$ 252	\$ 210,969	\$ 25,392	\$ 230,701	\$ 25,644

  

December 31, 2017	Less than 12 months		12 Months or Longer		Total	
	Gross		Gross		Gross	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>Description of Securities</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Equity Securities - Mutual Funds	\$ -	\$ -	\$ 210,176	\$ 19,885	\$ 210,176	\$ 19,885

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017  
(CONTINUED)

NOTE 8 - RELATED PARTY TRANSACTIONS:

The Association is managed by Select Community Services (SCS). SCS is owned by Associa. Officers of Associa are stockholders in Pacific Premier Bank. In addition, the President/Chief Executive Officer of Associa serves on the bank's board of directors. The Association maintains funds at Pacific Premier Bank.

NOTE 9 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 7, 2019, the date the financial statements were available to be issued.

WOODWINDS COUNCIL OF CO-OWNERS  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2018  
(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>	2017 Estimated Remaining Useful Life (Years)	2017 Estimated Replacement Cost
Building(s)	1-15	\$2,314,110
Pavements/Concrete	2-15	196,270
Other Property Features	1-20	341,400