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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, 2020 and 2019, and the related statements of 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, 2020 and 2019, 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, 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 21, 2021

WOODWINDS COUNCIL OF CO-OWNERS  
BALANCE SHEETS  
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,215,001	\$ 839,853
Interest-Bearing Deposits	-	250,000
Investments - Equity Securities	251,850	242,635
Assessments Receivable - Net	6,814	15,490
Accounts Receivable - Other	33,481	2,927
Income Taxes Receivable	632	238
Prepaid Expenses	<u>31,124</u>	<u>30,245</u>
 Total Assets	 <u>\$ 1,538,902</u>	 <u>\$ 1,381,388</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 27,312	\$ 34,765
Income Taxes Payable	-	51
Prepaid Assessments	<u>17,427</u>	<u>29,252</u>
Total Liabilities	<u>\$ 44,739</u>	<u>\$ 64,068</u>
 Replacement Reserves	 \$ 1,213,462	 \$ 1,042,932
Unappropriated Members' Equity	<u>280,701</u>	<u>274,388</u>
Total Members' Equity	<u>\$ 1,494,163</u>	<u>\$ 1,317,320</u>
 Total Liabilities and Members' Equity	 <u>\$ 1,538,902</u>	 <u>\$ 1,381,388</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>INCOME:</u>		
Assessments	\$ 698,568	\$ 698,568
Interest	9,596	11,750
Late Fees	1,430	1,180
Gain on Equity Securities	3,082	4,892
Other	<u>5,215</u>	<u>4,516</u>
Total Income	<u>\$ 717,891</u>	<u>\$ 720,906</u>
 <u>EXPENSES:</u>		
Management	\$ 41,844	\$ 41,424
Legal, Audit and Tax Preparation	18,231	25,665
Insurance	36,297	35,512
Administrative	9,384	8,648
Electricity	13,403	13,053
Water and Sewer	68,021	69,339
Gas	14,683	15,811
Grounds Maintenance	60,524	73,879
Janitorial	13,578	12,667
Termite Treatment	2,970	1,920
Trash Removal	21,349	20,426
Snow Removal	5,810	19,169
Common Area Maintenance	117,055	61,132
Plumbing	9,809	6,642
Bad Debt	6,150	3,417
Income Taxes	<u>1,968</u>	<u>1,613</u>
Total Expenses	<u>\$ 441,076</u>	<u>\$ 410,317</u>
Net Income before Contribution to Reserves	\$ 276,815	\$ 310,589
Contribution to Reserves	<u>(270,502)</u>	<u>(267,874)</u>
Net Income	<u>\$ 6,313</u>	<u>\$ 42,715</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<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, 2018	\$ 804,355	\$ (25,644)	\$ 257,317	\$ 1,036,028
Additions:				
Contribution to Reserves	267,874			267,874
Reclassification Adjustment		25,644	(25,644)	
Net Income			42,715	42,715
Deduction:				
Asphalt	<u>(29,297)</u>			<u>(29,297)</u>
Balance as of December 31, 2019	\$ 1,042,932	\$ -	\$ 274,388	\$ 1,317,320
Additions:				
Contribution to Reserves	270,502			270,502
Net Income			6,313	6,313
Deductions:				
Painting	(8,325)			(8,325)
Foundation	(8,026)			(8,026)
Pressure Washing	(46,579)			(46,579)
Excavation	(5,000)			(5,000)
HVAC	(25,600)			(25,600)
Street Light	<u>(6,442)</u>			<u>(6,442)</u>
Balance as of December 31, 2020	<u>\$ 1,213,462</u>	<u>\$ -</u>	<u>\$ 280,701</u>	<u>\$ 1,494,163</u>

WOODWINDS COUNCIL OF CO-OWNERS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 6,313	\$ 42,715
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization of Investments	-	16
Bad Debt Expense	6,150	3,417
(Gain) Loss on Equity Securities	(3,082)	(4,892)
Decrease (Increase) in:		
Assessments Receivable	2,526	5,083
Accounts Receivable - Other	(30,554)	6,140
Income Taxes Receivable	(394)	804
Prepaid Expenses	(879)	2,517
Increase (Decrease) in:		
Accounts Payable	(7,453)	8,302
Income Taxes Payable	(51)	51
Prepaid Assessments	(11,825)	8,831
Net Cash Flows from Operating Activities	<u>\$ (39,249)</u>	<u>\$ 72,984</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 260,910	\$ 256,130
Received from Interest (Reserves)	9,592	11,744
Disbursed for Reserve Expenditures	(99,972)	(29,297)
Received from Interest-Bearing Deposits	250,000	125,000
Disbursed for Interest-Bearing Deposits/Investments	(6,133)	(382,058)
Net Cash Flows from Investing Activities	<u>\$ 414,397</u>	<u>\$ (18,481)</u>
Net Change in Cash and Cash Equivalents	\$ 375,148	\$ 54,503
Cash and Cash Equivalents at Beginning of Year	<u>839,853</u>	<u>785,350</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,215,001</u>	<u>\$ 839,853</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 3,000</u>	<u>\$ 1,800</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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 accordance with accounting principles generally accepted in the United States of America.

B) Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its assessments are satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control.

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.

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F) Equity Securities - Equity securities are carried at fair value, with changes in fair value reported in net income. Prior to adoption of ASU 2016-01, equity securities with readily determinable fair values were classified as available for sale. Available for sale equity securities were carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

On January 1, 2019, the Association adopted FASB Accounting Standards Update No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which affects current U.S. GAAP primarily as it relates to the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU No. 2016-01 also supersedes the guidance that requires classification of equity securities with readily determinable fair values into different categories and the recognition of changes in fair value of available-for-sale securities in other comprehensive income.

The main effect resulting from the adoption of the new standard is that previously reported trading and available-for-sale securities are now shown as a single line item in the balance sheet and the recognition in net income of the changes in fair value of available-for-sale securities. The cumulative-effect adjustment resulting from the adoption of the new standard was to decrease unappropriated members' equity increase accumulated other comprehensive income as of January 1, 2019 by \$25,644.

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 \$260,640 plus interest of \$6,320 for 2020. For 2020, the Association contributed \$260,910 to reserves. In addition, the Association contributed interest income of \$9,592 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;

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

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, 2020 and 2019, the Association had designated \$1,213,462 and \$1,042,932, respectively, for replacement reserves. These designated reserves were funded by cash and investments as of December 31, 2020.

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 2020 and 2019, 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, 2020, the Association maintained its funds in the following manner:

Institution	Cash and Cash Equivalents
Pacific Premier	\$ 403,389
Capital One	267
Edward Jones	811,345
Total	\$ 1,215,001

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(CONTINUED)

NOTE 5 - CASH AND CASH EQUIVALENTS: (CONTINUED)

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were \$161,156 and \$33,418 as of December 31, 2020 and 2019, 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.

The Association has funds maintained in two money funds. Although the value per share of these accounts has not changed since they were opened and their goal is to maintain a share value of \$1, these accounts are subject to market fluctuation risk. Therefore, the market fluctuation risk as of December 31, 2020 and 2019 was \$811,345 and \$430,290, respectively.

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 non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

	2020	2019
Assessments Receivable	\$ 20,479	\$ 27,119
Less: Allowance for Doubtful Assessments	(13,665)	(11,629)
Assessments Receivable - Net	\$ 6,814	\$ 15,490

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(CONTINUED)

NOTE 7 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:  
 (CONTINUED)

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning unappropriated members' equity balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment income and contract liabilities (special assessments received in advance), as previously described.

The adoption of the new revenue recognition guidance resulted in no changes to balances as of January 1, 2019.

NOTE 8 - INVESTMENTS - EQUITY SECURITIES:

As of December 31, 2020, the portion of unrealized gains and losses related to equity securities still held at the reporting date is as follows:

Net gains and (losses) recognized during the period on equity securities	\$ 3,082
Less: Net (gains) and losses recognized during the period on equity securities sold during the period	<u>-</u>
Unrealized gains and (losses) recognized during the period on equity securities still held at the reporting date	<u>\$ 3,082</u>

The Association has funds invested in equity securities. The value of the equity securities is subject to market fluctuation risk and can increase or decrease with the market. These changes in market value are recorded in net income as of December 31, 2020 and 2019. Therefore, the credit risk as of December 31, 2020 and 2019 was \$251,850 and \$242,635, respectively.

NOTE 9 - 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.

WOODWINDS COUNCIL OF CO-OWNERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019  
(CONTINUED)

NOTE 10 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 21, 2021, the date the financial statements were available to be issued.

Subsequent to year-end, the Association incurred \$60,871 in replacement reserve expenditures for various projects.

WOODWINDS COUNCIL OF CO-OWNERS  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2020  
(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