

Goldklang G Group[®]

CPAs, P.C.

Principals

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Associate 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, 2015 and 2014, 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, 2015 and 2014, 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 25, 2016

WOODWINDS COUNCIL OF CO-OWNERS

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 630,048	\$ 555,918
Investments	224,169	222,547
Assessments Receivable - Net	5,329	5,709
Accounts Receivable - Other	463	1,463
Income Taxes Receivable	1,583	1,568
Prepaid Expenses	<u>451</u>	<u>4,490</u>
 Total Assets	 <u>\$ 862,043</u>	 <u>\$ 791,695</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 82,765	\$ 26,093
Prepaid Assessments	<u>38,920</u>	<u>27,278</u>
Total Liabilities	<u>\$ 121,685</u>	<u>\$ 53,371</u>
 Replacement Reserves	 \$ 619,464	 \$ 623,385
Accumulated Other Comprehensive Income (Loss)	(12,591)	(7,817)
Unappropriated Members' Equity	<u>133,485</u>	<u>122,756</u>
Total Members' Equity	<u>\$ 740,358</u>	<u>\$ 738,324</u>
 Total Liabilities and Members' Equity	 <u>\$ 862,043</u>	 <u>\$ 791,695</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>INCOME:</u>		
Assessments	\$ 643,344	\$ 634,469
Interest	8,044	7,675
Late Fees	890	1,220
Bad Debt Recovery	9,896	-
Other	<u>2,881</u>	<u>342</u>
Total Income	<u>\$ 665,055</u>	<u>\$ 643,706</u>
<u>EXPENSES:</u>		
Management	\$ 39,865	\$ 39,688
Legal, Audit and Tax Preparation	20,454	19,266
Insurance	29,252	28,072
Management Reimbursement	1,512	1,484
Administrative	4,244	2,116
Electricity	12,766	14,630
Water and Sewer	65,262	58,641
Gas	14,528	17,481
Grounds Maintenance	36,722	33,930
Janitorial	14,960	14,954
Termite Treatment	1,820	2,135
Trash Removal	18,939	18,628
Snow Removal	29,722	23,097
Common Area Maintenance	79,599	76,035
Plumbing	21,855	13,970
Bad Debt	9,727	6,611
Income Taxes	<u>785</u>	<u>732</u>
Total Expenses	<u>\$ 402,012</u>	<u>\$ 371,470</u>
Net Income before Contribution to Reserves	\$ 263,043	\$ 272,236
Contribution to Reserves	<u>(252,314)</u>	<u>(246,167)</u>
Net Income	\$ 10,729	\$ 26,069

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(CONTINUED)

	<u>2015</u>	<u>2014</u>
Unrealized Holding Gain (Loss)		
Arising During Period	\$ (4,774)	\$ 4,551
Total Other Comprehensive Income (Loss)	<u>\$ (4,774)</u>	<u>\$ 4,551</u>
Comprehensive Income	<u>\$ 5,955</u>	<u>\$ 30,620</u>

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Accumulated Other Comprehensive Income (Loss)	Unappropriated Members' Equity	Total Members' Equity
	Replacement Reserves		
Balance as of December 31, 2013	\$ 442,087	\$ (12,368)	\$ 146,687
Additions:			
Contribution to Reserves	246,167		246,167
Change in Value of Investments		4,551	4,551
Net Income		26,069	26,069
Inter-Equity Transfer	50,000		(50,000)
Deductions:			
Concrete/Asphalt Repairs	(7,250)		(7,250)
Landscape Enhancements	<u>(107,619)</u>		<u>(107,619)</u>
Balance as of December 31, 2014	\$ 623,385	\$ (7,817)	\$ 122,756
Additions:			
Contribution to Reserves	252,314		252,314
Net Income		10,729	10,729
Deductions:			
Landscape Enhancements	(105,013)		(105,013)
Concrete/Asphalt Repairs	(12,615)		(12,615)
Plumbing	(44,370)		(44,370)
Painting and Carpentry	(26,345)		(26,345)
Attic Insulation	(63,900)		(63,900)
Lighting	(3,992)		(3,992)
Change in Value of Investments	<u>(4,774)</u>		<u>(4,774)</u>
Balance as of December 31, 2015	<u>\$ 619,464</u>	<u>\$ (12,591)</u>	<u>\$ 133,485</u>
	<u><u>\$ 619,464</u></u>	<u><u>\$ (12,591)</u></u>	<u><u>\$ 133,485</u></u>
	<u><u><u>\$ 619,464</u></u></u>	<u><u><u>\$ (12,591)</u></u></u>	<u><u><u>\$ 133,485</u></u></u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 10,729	\$ 26,069
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Bad Debt Expense (Recovery)	(169)	6,611
Decrease (Increase) in:		
Assessments Receivable	549	(7,545)
Accounts Receivable - Other	1,000	14,611
Income Taxes Receivable	(15)	(65)
Prepaid Expenses	4,039	(1,759)
Increase (Decrease) in:		
Accounts Payable	18,481	(1,370)
Prepaid Assessments	11,642	2,715
Net Cash Flows from Operating Activities	<u>\$ 46,256</u>	<u>\$ 39,267</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 244,450	\$ 238,670
Received from Interest (Reserves)	7,864	7,497
Disbursed for Reserve Expenditures	(218,044)	(114,869)
Disbursed for Investments	(6,396)	(6,451)
Net Cash Flows from Investing Activities	<u>\$ 27,874</u>	<u>\$ 124,847</u>
Net Change in Cash and Cash Equivalents	\$ 74,130	\$ 164,114
Cash and Cash Equivalents at Beginning of Year	<u>555,918</u>	<u>391,804</u>
Cash and Cash Equivalents at End of Year	<u>\$ 630,048</u>	<u>\$ 555,918</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ 1,400</u>	<u>\$ 2,300</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

specific identification 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 2012. 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 \$244,450 for 2015. For 2015, the Association contributed \$244,450 to reserves. In addition, the Association contributed interest income of \$7,864 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, 2015 and 2014, the Association had designated \$619,464 and \$623,385, 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

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

the limitation that operating expenses are deductible only to the extent of income from members. For 2015 and 2014, 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, 2015 and 2014, the Association did not incur any penalties and interest related to income taxes. 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, 2015, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>
Mutual of Omaha	Checking	\$ 125,181
Mutual of Omaha	Money Market	32,225
Mutual of Omaha	Money Market	219,692
Capital One	Savings	249,601
Edward Jones	Money Market	3,349
	Total	<u>\$ 630,048</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 \$128,841 and \$54,767 as of December 31, 2015 and 2014, 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.

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.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 6 - ASSESSMENTS RECEIVABLE - NET: (CONTINUED)

	<u>2015</u>	<u>2014</u>
Assessments Receivable	\$ 23,539	\$ 26,521
Less: Allowance for Doubtful Assessments	<u>(18,210)</u>	<u>(20,812)</u>
Assessments Receivable - Net	<u>\$ 5,329</u>	<u>\$ 5,709</u>

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>				
<u>December 31, 2015</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Equity Securities - Mutual Funds	<u>\$ 236,760</u>	<u>\$ 717</u>	<u>\$ (13,308)</u>	<u>\$ 224,169</u>
<u>December 31, 2014</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Equity Securities - Mutual Funds	<u>\$ 230,364</u>	<u>\$ 1,022</u>	<u>\$ (8,839)</u>	<u>\$ 222,547</u>

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, 2015 and 2014 was \$224,169 and \$222,547, 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, 2015 and 2014.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(CONTINUED)

NOTE 7 - INVESTMENTS: (CONTINUED)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>December 31, 2015</u>						
Total Available for Sale Equity Securities - Mutual Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,121</u>	<u>\$ 13,308</u>	<u>\$ 183,121</u>	<u>\$ 13,308</u>
<u>December 31, 2014</u>						
Total Available for Sale Equity Securities - Mutual Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,479</u>	<u>\$ 8,839</u>	<u>\$ 182,479</u>	<u>\$ 8,839</u>

The Association's investments in mutual funds consist primarily of investments in cash and bonds. 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, 2015.

NOTE 8 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 25, 2016, the date the financial statements were available to be issued.

In 2015, the Association contracted for attic insulation work for \$95,810. As of December 31, 2015, \$63,900 of the work had been completed. The remainder of \$31,910 of the work will be completed in 2016. This project is being funded by replacement reserves.

WOODWINDS COUNCIL OF CO-OWNERS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2015
(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.

Component	2012 Estimated Remaining Useful Life (Years)	2012 Estimated Replacement Cost
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