

GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**VIRGINIA AND
ADMINISTRATIVE OFFICE**
1801 ROBERT FULTON DRIVE
SUITE 200
RESTON, VA 20191
PHONE: (703) 391-9003
FAX: (703) 391-9004

MEMBERS OF
AMERICAN INSTITUTE OF CPAS

MARYLAND OFFICE
1700 ROCKVILLE PIKE
SUITE 400
ROCKVILLE, MD 20852
PHONE: (301) 998-6581

Independent Auditor's Report

Board of Directors
Woodwinds Council of Co-Owners
Reston, Virginia

We have audited the accompanying Balance Sheets of Woodwinds Council of Co-Owners as of December 31, 2005 and 2004, and the related Statements of Income, Members' Equity, and Cash Flows for the years then ended. These financial statements are the responsibility of the Association. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Association, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2005 and 2004, 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.

The supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements of Woodwinds Council of Co-Owners but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goldklang, Cavanaugh & Associates P.C.

February 8, 2006

WOODWINDS COUNCIL OF CO-OWNERS
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 247,730	\$ 232,440
Interest-Bearing Deposits	128,312	125,917
Assessments Receivable	1,413	1,831
Accounts Receivable - Other	2,943	1,660
Income Taxes Receivable	-	1,414
Prepaid Expenses	<u>32,537</u>	<u>9,312</u>
 Total Assets	 <u>\$ 412,935</u>	 <u>\$ 372,574</u>
 <u>LIABILITIES AND MEMBERS' EQUITY</u>		
Accounts Payable	\$ 15,107	\$ 17,166
Income Taxes Payable	131	-
Prepaid Assessments	<u>10,543</u>	<u>6,247</u>
Total Liabilities	<u>\$ 25,781</u>	<u>\$ 23,413</u>
 Replacement Reserves	 \$ 394,550	 \$ 362,796
Unappropriated Members' Equity (Deficit)	<u>(7,396)</u>	<u>(13,635)</u>
Total Members' Equity	<u>\$ 387,154</u>	<u>\$ 349,161</u>
 Total Liabilities and Members' Equity	 <u>\$ 412,935</u>	 <u>\$ 372,574</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>INCOME:</u>		
Assessments	\$ 388,956	\$ 362,460
Interest	5,483	3,645
Late Fees	3,000	3,525
Move In Fees	2,200	3,300
Other	<u>1,249</u>	<u>2,783</u>
Total Income	<u>\$ 400,888</u>	<u>\$ 375,713</u>
 <u>EXPENSES:</u>		
Management	\$ 26,000	\$ 24,607
Legal, Audit and Tax Preparation	1,864	3,298
Insurance	23,039	27,260
Other Administrative	3,561	8,264
Electricity	16,243	15,202
Water and Sewer	33,169	35,412
Gas	27,129	20,879
Grounds Maintenance	34,532	70,837
Janitorial	17,226	16,727
Termite Treatment	4,992	3,918
Trash Removal	20,312	19,283
Snow Removal	10,939	5,155
Common Area Maintenance	89,986	87,411
Plumbing	7,876	8,459
Income Taxes	<u>731</u>	<u>386</u>
Total Expenses	<u>\$ 317,599</u>	<u>\$ 347,098</u>
Net Income before Contribution to Reserves	\$ 83,289	\$ 28,615
Contribution to Reserves	<u>(77,050)</u>	<u>(77,050)</u>
Net Income (Loss)	<u>\$ 6,239</u>	<u>\$ (48,435)</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity (Deficit)</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2003	\$ 329,168	\$ 34,800	\$ 363,968
Addition:			
Contribution to Reserves	77,050		77,050
Deductions:			
Paving	(7,522)		(7,522)
Balconies	(31,641)		(31,641)
Roof	(4,259)		(4,259)
Net Loss		<u>(48,435)</u>	<u>(48,435)</u>
Balance as of December 31, 2004	\$ 362,796	\$ (13,635)	\$ 349,161
Additions:			
Contribution to Reserves	77,050		77,050
Net Income		6,239	6,239
Deductions:			
Sidewalk	(1,300)		(1,300)
Balconies	(39,779)		(39,779)
Roof	(4,217)		(4,217)
Balance as of December 31, 2005	<u>\$ 394,550</u>	<u>\$ (7,396)</u>	<u>\$ 387,154</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 6,239	\$ (48,435)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable	418	135
Accounts Receivable - Other	(1,283)	(1,288)
Income Taxes Receivable	1,414	-
Prepaid Expenses	(23,225)	18,931
Increase (Decrease) in:		
Accounts Payable	(2,059)	(39,443)
Income Taxes Payable	131	(3,642)
Prepaid Assessments	4,296	(4,633)
Net Cash Flows Operating Activities	<u>\$ (14,069)</u>	<u>\$ (78,375)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 77,050	\$ 77,050
Disbursed for Reserve Expenditures	(45,296)	(43,423)
Disbursed for Interest-Bearing Deposits	(2,395)	(1,370)
Net Cash Flows Investing Activities	<u>\$ 29,359</u>	<u>\$ 32,257</u>
Net Change in Cash and Cash Equivalents	\$ 15,290	\$ (46,118)
Cash and Cash Equivalents at Beginning of Year	<u>232,440</u>	<u>278,558</u>
Cash and Cash Equivalents at End of Year	<u>\$ 247,730</u>	<u>\$ 232,440</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ 1,800</u>

See Accompanying Notes to Financial Statements

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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.

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 annual 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 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.

C) Common Property - Real property and common areas acquired from the developer 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) Reclassification - Certain amounts have been reclassified in the accompanying 2004 financial statements to conform to the 2005 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.

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted in 2003 and utilizes the cash flow method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of \$77,050 (approximately \$45 per unit per month) has been included in the 2005 financial statements.

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, 2005 and 2004, the Association had designated \$394,550 and \$362,796, respectively, for replacement reserves. These designated reserves were not fully funded as of December 31, 2005 and 2004 due to the deficit in unappropriated members' equity.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners or as an association taxable as a corporation. As an exempt homeowners association, 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 2005 and 2004, the income tax expense was calculated using the corporate method.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2005, the Association maintained its funds in the following manner:

WOODWINDS COUNCIL OF CO-OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(CONTINUED)

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS: (CONTINUED)

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
SunTrust	Checking	\$ 4,223	\$ -	\$ 4,223
Flag Bank	Checking	7,837		7,837
SunTrust	Money Market	10,557		10,557
Wachovia	Money Market	698		698
Millennium	Money Market	99,424		98,424
Bank of America	Money Market	88,424		88,424
Flag Bank	Money Market	36,567		36,567
BB&T	Certificate of Deposit		<u>128,312</u>	<u>128,312</u>
	Totals	<u>\$ 247,730</u>	<u>\$ 128,312</u>	<u>\$ 375,042</u>

Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000 per financial institution. Amounts in excess of insured limits were approximately \$28,312 and \$25,917, respectively, as of December 31, 2005 and 2004.

NOTE 6 - SUBSEQUENT EVENTS:

During 2005, the Association approved a contract for balcony repairs for \$135,000. These repairs will be conducted subsequent to year-end and will be funded by the replacement reserves.

WOODWINDS COUNCIL OF CO-OWNERS
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2005
(UNAUDITED)

The Association had a replacement reserve study conducted during 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the cash flow method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs 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.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Components</u>	<u>2003 Estimated Remaining Useful Lives (Years)</u>	<u>2003 Estimated Replacement Costs</u>
Pavement	2	\$ 153,600
Curb & Gutter	30	110,000
Sidewalk	30	176,000
Roof Coverings	1-3	240,000
Exterior Facing Systems	2-45	350,000
Balconies	2	170,000
Plumbing Systems	5-48	90,000

GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**VIRGINIA AND
ADMINISTRATIVE OFFICE**
1801 ROBERT FULTON DRIVE
SUITE 200
RESTON, VA 20191
PHONE: (703) 391-9003
FAX: (703) 391-9004

MEMBERS OF
AMERICAN INSTITUTE OF CPAS

MARYLAND OFFICE
1700 ROCKVILLE PIKE
SUITE 400
ROCKVILLE, MD 20852
PHONE: (301) 998-6581

February 8, 2006

Board of Directors
Woodwinds Council of Co-Owners
Reston, Virginia

Dear Board Members:

In connection with our examination of the financial statements of Woodwinds Council of Co-Owners for the year ended December 31, 2005, we make the following comments and recommendations.

Unappropriated Members' Equity (Deficit)

As of December 31, 2005, the Association had a deficit of \$7,396 in unappropriated members' equity (operating funds). This is a decrease over the prior year. We commend the Association for this decrease and recommend the Association continue to develop a budget that will cover all operating costs and fully fund reserves. We also recommend the Association accumulate excess operating funds to a minimum level of 10% of annual assessments. This procedure will ensure that potential operating deficits will not consume funds designated for replacement reserves.

Uninsured Cash

At year-end, the Association's account with BB&T was over the federally insured limit of \$100,000 per financial institution. The Association should limit its funds in any one financial institution to \$100,000. Funds in excess of \$100,000 should be immediately transferred to other institutions or Treasury instruments so that all Association funds will be insured.

Low Assessments Receivable

We commend the Association for maintaining a low assessments receivable balance of less than 1% of annual assessments.

Detailed Minutes of Board Meetings

Minutes of board meetings are important records of the decisions concerning areas of the Association's business and financial affairs. A review of the Association's minutes for 2005

showed good form. We recommend the Association continue to maintain financially detailed minutes and send a copy of each meeting's minutes to the management company.

Income Taxes

We recommend the Association file as a corporation for 2005.

We shall be pleased to discuss our comments and recommendations in greater detail. We are always available to give advice on any financial matter. Please do not hesitate to contact us if there are any questions regarding proper accounting procedures or the implementation of our suggested changes.

Very truly yours,


GOLDKLANG, CAVANAUGH & ASSOCIATES, P.C.

(This letter is intended solely for the use of management and the Board of Directors.)