

SUMMARY OF AUDIT OF CALENDAR YEAR 2021

- Maynard H. Dixon, Glen Treasurer

The final report on the audit of 2021 has been published to our website at <https://www.fairlingtonglen.com/>. This is my summary and comments on that report. If you want to discuss this, please e-mail me at MaynardDixon@verizon.net.

As shown on the bottom line of the Audit/Budget Accounts Table below, we ended 2021 with a \$12,736 surplus of income over all uses of income (including reserve contributions). The results are shown in this Table (2015-2020 data from prior audits):

Year	Income Minus All Uses of Income	Income	Operating Expenses
2015	(22,345)	1,502,305	916,575
2016	(18,577)	1,536,719	926,014
2017	(52,917)	1,590,262	1,009,859
2018	(29,575)	1,651,022	1,088,273
2019	(32,227)	1,706,091	1,055,941
2020	107,820	1,749,855	969,908
2021	12,736	1,786,587	1,089,110
Change 2015-2021	(35,175)		

This table shows that since 2015, our cumulative operating surpluses have not been large enough to cover our cumulative *budgeted* additions to reserves. A cumulative difference of only (35,175) spread over 7 years shows that our budgeting has been fairly accurate long-term.

A key measure of the Glen's financial health is its operating results, comparing income with operating expenses. The Glen has always incurred operating surplus. An operating surplus allows us to contribute to reserves. Whether we end-up contributing as much to our reserves as we budget in any given year depends on how accurately we estimate revenues and expenses.

We ended 2021, as we always have, with an operating surplus. Our revenues (\$1,786,587) exceeded our operating expenses (\$1,089,996) by \$696,591. This enabled us to contribute \$683,855 to reserves and earn an additional surplus of \$12,736.

Here are the highlights of the audit, with the numbers in the discussion rounded to the nearest dollar:

Revenues

- **Interest.** An important part of our finances is the interest earned on Glen reserves, which appears in Account 30270 Interest. In 2021, the Glen earned \$31,918, in comparison to the \$42,749 earned in 2020, the \$53,192 earned in 2019 and the \$42,767 earned in 2018. The decrease was entirely due to declining interest rates because our investable reserves increased and our investment strategy stayed the same. The interest earned on the Glen's reserves has been lagging due to the Federal Reserve Board's policy of keeping interest rates low to stimulate the economy – good for borrowers but bad for savers.

- **Bad Debt Recovery.** In 2021, the Glen recovered \$0 in contrast to the \$9,504 earned in 2020 and the \$0 recovered in 2019. Our 2020 result was due to a successful dues enforcement effort against a long delinquent owner.

Operating Expenses

In 2021, our total operating expenses of \$1,089,996 were less than our budgeted operating expenses of \$1,116,191. Less than expected spending in the administrative, personnel, and landscape categories overcame more than expected spending on Account 71050 Insurance and Account 51106 Professional Fees.

- **Administrative.** In 2021, our summed total Administrative accounts expense of \$105,604 was less than our budgeted \$113,061. This was mainly due to a larger than expected recovery of legal fees paid to recover unpaid dues.

- **Personnel.** In 2021, our summed total Personnel accounts expense of \$172,125 was less than our budgeted \$188,163. One reason is that I overestimated Account 61420 Maintenance Payroll Expense by projecting it from a 2019 base that included autumn 2019 payments to an onsite manager that were thereafter posted to Account 51137 Management On-Site.

Another reason for being under budget in Personnel was our not spending \$5,500 budgeted to Account 61431 Temporary Help. We have been funding this account each year in an attempt to encourage the use of temporary help when it would be more cost effective than our regular outside contractors. Making optimal use of temporary help, however, requires an experienced onsite manager, rather than the succession of volunteers and part time managers upon whom the Glen has been relying for maintenance and landscape projects. Now that we are funding a full-time onsite manager at a competitive salary and benefits, we are confident that temporary help will get the use that it deserves. It will take time, and we will learn by trial and error.

- **Landscape.** Our Total Landscaping spending of \$104,338 was less than our budgeted \$119,276, due to our inability to spend our budgeted \$25,632 for Account 61557 Landscaping Non-Contract before the end of the year. This happened because

our Landscape Committee was in a state of turmoil for much of the year. We expect this situation to improve after we put reconstituted our Landscape Committee in mid-2022.

- Professional Fees. Account 51106 Professional Fees are paid to our engineering consultant, Restoration Engineering, Inc. (REI), for administration of projects that are not administered by our management company, such as roof replacement and maintenance, major sewer projects, brick repair, and parking pavement repair. In 2021, the Glen spent \$23,150 in comparison to its budgeted \$15,227. The difference was due to: (1) increased use of REI, especially during the late summer flooding; and (2) increased hourly charges by REI, especially for administration of our proactive, batch-contracted spot roof & gutter work cycle.

- Water/Sewer. The Glen's 2021 Account 71010 water/sewer expenditure of \$198,745 came in quite close to our budgeted \$196,083. This precision was due to the efforts of Glen volunteer Bill Worsley, who projects and tracks water expenditures.

In recent years, the Glen has benefited from usage-related declines in this expense, even as County rates continued their slow upward movement. The decline in usage was most likely due to conservation (water control devices, investigating leaks, less lawn watering, etc.). Our usage-related declines, however, have bottomed out and cannot be expected to continue.

- Painting and Carpentry. In 2021, we spent \$119,892 on Account 61370 Exterior painting, in comparison to the budgeted \$113,233; and we spent \$14,660 Account 61284 Carpentry, in comparison to the budgeted \$40,589. The differences from 2020 are mostly due to differences in the number of units involved in the 4-court cycle.

There are opposing forces at work in these accounts:

(1) Helping to check these expenses is the fact that the Glen has been working diligently to reduce needed work. The average amount of needed work per Glen residence should be leveling and then trending downward now that we have completed and the quality-oriented 4-year maintenance cycle that began in 2016. We have been paying more attention to the timing and quality of the work, by: (1) using higher quality painting contractors; (2) doing unanticipated catch-up carpentry work; and (3) trying to spot needed work before damage results. We are also gradually replacing rotted wood with PVC, which never rots or requires painting. We decided to gradually replace wood with PVC in 2016, after observing that our painted wood blends well with newly installed PVC. Finally, in 2021, we began a program of soft washing wood before seeking bids from painters, which makes wood easier to paint.

(2) Working to increase these expenses is the fact that, due to prosperity in the Washington, DC area, contractors are not prone to cut us a break on the cost per unit of work needed. Here, the Glen's options are limited. We can try to bid out our work; but bidding for contractors for specialized work is not like searching the web for the lowest price for the identical good.

In 2021, it seems that our effort to reduce the amount of work needed per Glen unit finally began to overcome the steadily increasing cost per unit of work needed. We will take this into account in our future budgets.

- Roof Repairs. In 2021, Account 61460 Roof Repairs balanced at \$60,643, in comparison to the budgeted \$35,071. The roof and gutter work needed to fix damage from the late summer storms added to this expense. Also increasing this expense was the resumption of our proactive, batch-contracted spot roof & gutter work cycle, with work occurring in Courts 13-16. Its \$39,620 cost exceeded my budget estimate by about \$13,000. I was too optimistic as to when this expense would begin to level-off due to our program of catch-up work.¹

It now seems that this expense is likely to press further on our budget during the next few years. Our older intermediate-quality Vermont slate roofs will continue to require catch-up work. Due to prosperity in the Washington, DC area, contractors are not prone to cut us a break on the cost per unit where work must be done. For slate roofs, the Glen's competitive options are even more limited than they are for painting and carpentry because slate roofs are less common than other types of roofs.

There is still good reason to expect this expense to level out after the next few years. In 2016, we began a 4 courts/year program of inspection and repair, with roof and gutter repair work that is identified and checked for quality by our engineering firm. We do not use budget roofing contractors, who work quickly (sometimes without scaffolding), employ less skilled labor, and are not supervised by engineering consultants using detailed specs. This program will minimize water damage from leaky roofs and gutters until degraded slate requires full roof replacement. My guess is that, after another 2-3 years, this program will begin to decrease the amount of yearly work needed faster than the contractors can increase their prices for a given amount of work, which will level-out our total expenditures.

- Damage Claims. Account 61370 Damage Claims is used to record: (1) Glen claims against insurance companies or other outside businesses; (2) Glen claims against residents; and (3) amounts paid to reimburse residents for damage for which the Glen is responsible under its Bylaws, most of which is damage resulting from defects in the common elements. This account can be volatile. When large claims by the Glen are reimbursed, the balance can turn negative.

In 2021, the Account 61370 Damage Claims balance was \$12,766, in comparison to the negative balance of **(\$35,787)** in 2020. The \$12,766 consisted largely of repairs by the Glen to owner property that was damaged at least arguably due to inadequate maintenance of the common areas. Most of the repairs resulted from leaks arising during the summer deluge of rain. Each claim for damage was considered on its own merits, and many were rejected. While the Glen could have contested its responsibility for repairs under its Bylaws, the Board decided that settlement of certain claims was in everyone's best interest.

¹ In the audit report, you will see that management's initial balance for Account 61460 Roof Repairs was \$119,892. The auditor reduced this to \$60,643 by reclassifying the difference as a reserve expenditure.

Reserve Contributions

● **Replacement.** In 2021, the Glen contributed \$675,455 to replacement reserves in comparison to the \$665,726 contributed in 2020 and the \$673,977 contributed in 2019, as shown in the following table:

Source of Reserve Contributions	2021	2020	2019 (from Audit of 2020)
Assessments	648,480	631,955	631,956
Interest	25,215	33,771	42,021
Yearly Amortization of Comcast Renewal Payment	1,760		
Total Contributions	675,455	665,726	673,977

In the above table, note a new 2021 source of reserve contributions -- \$1,760 for a yearly amortization of a \$52,800 Comcast payment received in 2021 in return for the Glen's renewal of its access agreement. The auditor has determined that the \$52,800 must be recorded in our accounts as a liability that will be amortized as a yearly addition to Account 30260 Miscellaneous Income over the life of the Glen's contract with Comcast, rather than classified immediately as an addition to reserves. I disagree with the auditor in this respect,² but I opted not to take this to the next level because the Glen may, according to the auditor, invest the entire payment in reserve-type instruments even though the payment cannot be immediately classified as an addition to reserves.

From this table, we can see that we flattened contributions in 2019-2021 due to lower interest rates on reserves and a desire to constrain dues increases.

² The auditor reasoned that we must amortize this payment because we would have to refund the amounts unpaid paid if our agreement with Comcast were cancelled before the next renewal date. I argued, to no avail, that this elevated form over substance because the agreement would be cancelled only in the highly unlikely event that the Glen was forced to terminate it, which would require that all Comcast service cease.

Despite this lag, we are confident that the Glen’s progress toward full funding of reserves is continuing.³ We will not have an up-to-date report on the percentage of our accrued depreciation that is fully funded until we update our 2018 reserve study, but the table below suggests that we have been moving gradually toward fully funded reserves:

(1) Year	(2) Audited Replacement Reserves End of Year.	(3) Accrued Depreciation 2013 Study	(4) Column (2)/Column (5)	(5) Accrued Depreciation 2018 Study	(6) Column (2)/Column (3)
2015	1,888,332	6,661,857	28.35%		
2017	2,286,644	6,890,342	33.19%		
2017	2,486,732	7,036,347	35.34%		
2018	2,717,615	7,241,900	37.53%	8,242,927	32.97%
2019	2,889,066			8,718,333	33.14%
2020	3,406,217			9,167,198	37.16%
2021	3,721,187			9,737,842	38.21%

Columns (4) and (6) show that audited replacement reserves, shown in Column (2), have been increasing relative to the accrued depreciation predicted in our 2013 and 2018 reserve studies, shown, respectively, in Columns (3) and (5). This a good sign, to be viewed with caution because the depreciation figures in Columns (3) and (5), except for 2018, are based on projections rather than updated actual expenditures and replacements during the off-study years in Column (1).⁴

- Contingency Reserve and Unappropriated Members Equity. Our contingency reserve is a major part of what our accountant calls our "excess operating funds" (EOF), defined as [contingency + unappropriated members equity after profit/loss]. EOF funds are available for budgeted operations. On the asset side of our balance sheet, we try to keep our contingency balance in a separate contingency bank account and our unappropriated members equity balance in our operating bank account. An adequate EOF protects us against temporary overdrafts, dues revenue drops, and unbudgeted expenses that cannot easily be avoided.

³ Full funding of replacement reserves (reserves = accrued depreciation) is desirable for the Glen. For an explanation why, see the budget article in the August 2020 newsletter.

⁴ The depreciation for 2019-2021 in Column (5) could be understated, as it turned out to be in Column (3) when the 2018 reserve study replaced the 2013 reserve study. This could happen if our next reserve study shows that: (a) we have been replacing assets before the end of their estimated useful lives [not likely]; (b) we have omitted important assets that should have been in the reserve study [likely because our reserve studies have never included the cost of replacing the lengthy buried power lines running from meters to buildings in Courts 1-4; or (c) replacement costs rise faster than projected in our 2018 study.

The auditor recommends that we maintain EOF of from 10-20% of our annual assessments. The upper range of 20% would provide a sound buffer against uninsurable disasters, adverse governmental employment developments, and hidden property defects.

For our budgeted 2022 assessment income = \$1,780,290, this larger buffer would require an EOF of \$356,058 = .20(\$1,780,290). The table below shows that, at the end of 2021, we were only about \$13,000 short of this goal, with an EOF = \$342,847.35 = \$218,273.44 (contingency) + \$111,838.30 (unappropriated members equity) + 12,735.61 (profit):

	2021	2020	2019 (from Audit of 2020)
Account 25620 Reserve/Contingency	218,273.44	102,053.00	125,880.00
Account 20410 Unappropriated Members Equity	111,838.30	111,838.30	111,830.30
Profit (Loss)	12,735.61	107,820.44	(32,227.00)
EOF	342,847.35	321,711.74	205,483.30

Reserve Disbursements

Yearly reserve “disbursements” consist of (1) the actual cash paid during the given year for reserve projects, even if they were contracted in the prior year, and (2) sums that were set aside during the given year to pay for work that was contracted during the prior year but not paid during the given year. The auditor has a handy summary of these disbursements, which I show in the table below, adding a comparison with reserve contributions from the table above. The first line presents the actual cash paid for reserve projects during 2021 (\$360,485).

For payables, the auditor proceeds in two steps, which can be confusing. In the second line, the auditor shows what was set aside (but not actually paid) for prior year reserve expenditures during 2021, as shown the payables account (\$286,580). In the third line, the auditor gives the Glen a credit for setting aside \$15,182 for reserve expenditures that were contracted during 2021 (most likely at the end of the year) but will be charged to a following year.

The best explanation of why we continued during 2021 to aside \$286,580 to pay for reserve expenditures incurred during 2020 is that COVID interfered with the completion and final billing of projects begun during 2020.

Disbursement	2021	2020	2019 (From Audit of 2020)
Current year Cash Paid for Reserve Expenditures	(360,485)	(148,574)	(502,526)
Less: Prior Year Reserve Expenditures Payable	(286,580)	(267,127)	(75,581)
Add: Current Year Reserve Expenditures Payable	15,182	286,580	267,127
Total Disbursed	(631,883)	(129,121)	(310,980)
Total Contributions	675,455	665,726	673,977

We can see that replacement reserve contributions exceed disbursements for each of the above years. In fact, from 2014 to 2021, this has been true for each year except 2015. This is evidence that the Glen can replace its assets without borrowing.

Balance Sheet Equity

The Glen ended 2021 with an increase in its Total Members Equity [Replacement Reserve + Contingency Reserve + Unappropriated Members' Equity (other cash funds)] = \$336,104 = \$4,064,032 (2021) - \$3,727,928 (2020). Here is a summary table for 2014-2021, which reflects adjustments to equity made by the auditor in 2020 for years 2018 and 2017:

Year	Equity Growth	Income Minus Uses of Income
2021	336,104	12,736
2020	\$633,371	107,820
2019	\$117,624	(32,227)
2018	\$212,109	(29,575)
2017	\$223,772	(52,917)

2016	\$383,467	(18,577)
2015	\$183,204	(22,345)

Even when the balance of income and uses of income (the bottom line of the Audit/Budget Table below) is in deficit, our total members equity can grow if the increase in our reserve funds exceeds the decrease in EOF (the funds available for operations). This happened in 2015-2019. During those 5 years, the revenue set aside for reserves was sufficient to increase our equity in each of those years.

Audit/Budget Accounts Table

MANAGEMENT	ACCOUNT	2020	2021	2021
ACCOUNT	NAME	Balance After Audit	Budget After Late 2020 Landscape Revision	Balance After Audit
	INCOME			
30100	Assessment Income	1,696,442.00	1,754,089	1,752,084.00
30270	Interest	42,748.51	52,655	31,917.50
30290	Bad Debt Recovery	9,504.00	1,652	0.00
30171	Late Fees	1,150.00	1,612	825.00
30190	Pool Income	0.00	368	0.00
30260	Misc. Income	10.75	80	1,760.00
	Total Income	1,749,855.26	1,810,456	1,786,586.50
	ADMINISTRATIVE and MISCELLANEOUS			
51020	Postage	0.00	244	55.00
51030	Office Expense	2,800.64	2,071	3,298.98
51031	Copying/Printing	1,369.25	1,453	1,611.44
51050	Training & Education	25.00	100	0.00
51250	Entertainment & Social	37.02	100	100.00
51500	Misc. Expense	356.05	2,185	3,020.16
51550	Misc. Administrative	5,373.30	5,232	4,497.58
51110	Auditing, Taxes, and Accounting	7,150.00	7,250	7,250.00
51090	Legal Fees	15,521.73	17,500	17,476.94
51092	Legal Fee Reimbursement	(266.00)	(2,450)	(8,929.70)
51120	Management Fee	66,575.82	66,781	66,388.56
51125	Management Schedule B	8,508.50	8,282	6,443.69
51000	Telephone & Related	3,488.11	4,313	4,390.97
	Total	110,939.42	113,061	105,603.62
71050	INSURANCE	88,206.89	86,193	103,418.50

MANAGEMENT	ACCOUNT	2020	2021	2021
ACCOUNT	NAME	Balance After Audit	Budget After Late 2020 Landscape Revision	Balance After Audit
	PERSONNEL			
51137	Management Onsite	11,206.75	30,576	26,754.55
61420	Maintenance Payroll	107,999.18	101,777	94,062.17
61301	Fed. FICA Tax	7,545.87	8,206	6,887.62
61308	Fed. Medicare Tax	1,704.64	1,919	1,398.61
61302	VA Unemployment Tax	24.33	175	80.63
61303	Fed. Unemployment Tax	126.00	168	105.42
71070	Group Insurance [Health]	29,878.62	29,300	30,685.50
61300	Payroll Administration	8,586.43	9,742	11,650.92
61360	Uniforms	551.06	800	0.00
61431	Temporary Help	6,993.77	5,500	500.00
	Total Payroll	173,372.38	188,163	172,125.42
	UTILITIES			
71030	Electricity	10,634.38	10,100	11,027.47
71010	Water/Sewer	191,583.78	196,083	198,745.12
	Total Utilities	202,218.16	206,183	209,772.59
	POOL COMPLEX			
61150	Pool Contract	42,941.34	41,350	43,500.00
61145	Pool Repair and Maintenance	4,185.76	8,974	9,285.16
61156	Pool Furniture	312.66	1,750	3,479.54
51258	Pool Committee	435.34	2,500	0.00
	Total Pool Complex	47,789.73	54,279	56,240.70
	LANDSCAPING			
61180	Landscaping Maintenance Contract	69,638.53	86,478	86,478.84

MANAGEMENT	ACCOUNT	2020	2021	2021
ACCOUNT	NAME	Balance After Audit	Budget After Late 2020 Landscape Revision	Balance After Audit
61188	Tree Service [after 2018 -- work related to maintenance and reserve projects]	0.00	3,000	0.00
61557	Landscaping Non-Contract	31,919.88	25,632	14,574.67
61570	Landscape Replacement [Damage from Contractor Negligence or Weather]	2,700.00	4,166	3,284.00
	Total Landscaping	104,258.41	119,276	104,337.51
	REPAIRS & MAINTENANCE			
61310	Exterior Painting	88,914.85	113,233	119,892.00
61284	Carpentry	23,750.00	40,589	14,660.30
61200	Property Repairs	43,031.66	32,000	19,310.85
61460	Roof Repairs	29,421.00	35,071	60,642.71
61010	Vehicle Expenses	410.77	952	556.16
61247	Playground Equipment	742.40	2,000	239.76
51106	Professional Fees	9,407.00	15,227	23,150.00
	Total Repairs & Maintenance	195,677.68	239,072	238,451.78
61370	DAMAGE CLAIMS	(35,787.32)	9,825	12,766.43
	SERVICES PROVIDED MAINLY BY CONTRACT			
61240	Exterminator	1,031.00	3,395	3,280.00
61581	Snow Removal	1,100.00	9,047	8,068.26
61250	Trash Removal	68,870.88	68,953	69,418.25
	Total Contracts	71,001.88	81,395	80,766.51

MANAGEMENT	ACCOUNT	2020	2021	2021
ACCOUNT	NAME	Balance After Audit	Budget After Late 2020 Landscape Revision	Balance After Audit
50400	BAD DEBTS EXPENSE	0.00	3,179	52.00
	INCOME TAX ACCOUNTS			
71140	Income Taxes	8,737.00	15,270	6,437.00
95000	Provision for Income Taxes			
	TOTAL EXPENSES	967,908.50	1,116,191	1,089,996.06
	RESERVE CONTRIBUTIONS			
90000	Replacement Reserve	631,955.00	648,480	648,480.00
90005	Replacement Reserve Interest	33,771.32	37,385	25,214.83
	Contingency Reserve Accounts Used			
90032	--Transfer to Reserves Phase II			
90061	--Contingency Reserve	8,400.00	8,400	8,400.00
90062	Fund Prior Year Deficit [account used to amortize a lump sum payment from Cardinal into yearly payments that are to be coded yearly to replacement reserves]			1760.00
	Total Reserve Contributions	674,126.32	694,265	683,854.83

MANAGEMENT	ACCOUNT	2020	2021	2021
ACCOUNT	NAME	Balance After Audit	Budget After Late 2020 Landscape Revision	Balance After Audit
	GRAND TOTAL EXPENSES	1,642,034.82	1,810,456	1,773,850.89
	BALANCE OF INCOME AND USES OF INCOME (- DEFICIT)	107,820.44	0	12,735.61