

SUMMARY OF AUDIT OF CALENDAR YEAR 2022

- Maynard H. Dixon, Jr., Glen Treasurer

The final report on the audit of 2022 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 MaynardDixonJr@gmail.com.

As shown on the bottom line of the Audit/Budget Accounts Table below, we ended 2022 with a **\$41,880** deficit of income less than all uses of income (including reserve contributions). The results are shown in this Table (2015-2022 data from 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	967,908
2021	12,736	1,786,587	1,089,996
2022	(41,880)	1,832,471	1,172,426

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 **\$76,965** spread over 8 years shows that we have been underestimating expenses in relation to income by an average of about \$9,621/year.

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 contribute as much to our reserves as we budget in any given year depends on how accurately we estimate revenues and expenses.

We ended 2022, as we always have, with an operating surplus. Our revenue of \$1,832,471 exceeded our total operating expense of \$1,172,426 by \$660,045. This enabled us to

increase our net worth by \$488,986 despite our \$41,880 deficit of income minus all uses (including reserve funding) of income .

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 2022, the Glen earned \$45,692, in comparison to the \$31,917 earned in 2021, the \$42,749 earned in 2020, and the 53,192 earned in 2019. The increase in 2022 was due to (a) an increase in interest rates caused by the Federal Reserve Board's efforts to fight inflation and (b) an increase in our investable reserves.

- In 2022, we accrued \$5,280 as a yearly amortization over 10 years of a Comcast payment of \$52,800 received in 2021, which we posted to Account 30260 Misc. Income. This accrual did not make it into the 2022 budget because I was not aware that we would be receiving it when I was drafting this budget in 2021. Because I was not aware that we would be receiving it, I also did not ask Cardinal to adjust the corresponding budgeted contribution to replacement reserves in 2022 to reflect estimated taxes due on this amount.

- Bad Debt Recovery. In 2022, the Glen recovered \$0, in contrast to the \$0 recovered in 2021, the \$9,504 recovered in 2020, and the \$0 recovered in 2019. Our 2020 result was due to a successful dues enforcement effort against a long delinquent owner.

In future years, sums posted to Bad Debt Recovery will be small because, as explained below, the accounting source of the recoveries -- sums posted to Bad Debts Expense -- will be small due to a re-purposing of the latter account. Beginning in 2024, dues recovered by legal collection will be posted to a new Account 40398 Recovery Income.

Operating Expenses

In 2022, our total operating expenses of \$1,172,426 exceeded our budgeted operating expenses of \$1,121,710. A major cause was increased personnel expenses due to our hiring of a fulltime onsite manager (replacing a part time one) at a salary that would keep her working for us.

- Administrative. In 2022, our total administrative accounts expense of \$112,485 was less than our budgeted \$116,864. We benefitted from a decrease in legal fees and an increase in legal fee reimbursement.

- Personnel. In 2022, our total Personnel accounts expense of \$233,717 exceeded our budgeted \$221,556. A major reason was our hiring of a fulltime onsite manager at an increased competitive salary to replace our prior part time ones who had no benefits,

Another reason for being under budget in Personnel was our not spending the \$6,500 budgeted to Account 61431 Temporary Help. We have been funding this account each year 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 a succession of volunteers and inexperienced part time managers. 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. This will take time, and we will learn by trial and error. Note: the cost of temps hired for snow removal is no longer posted to, or budgeted under, this account.

- Landscape. Our 2022 total landscaping spending of \$113,844 was close to our budgeted \$114,960, an improvement over 2021 when our discretionary landscape spending was about \$15,000 under budget. In mid-2022, we re-constituted our Landscape Committee, which had been in turmoil for most of 2021; and the new committee quickly managed to get things done close to budget.

- 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. We also use REI to investigate what is causing damage and to provide second opinions on contractor recommendations.

In 2022, the Glen spent \$21,788, exceeding its downward-revised budget of \$8,000. This is not surprising. A steady upward trend in this expense has been overcoming downward pressure from (a) delayed batch-contracted spot roof & gutter work and (b) our recent policy of classifying professional fees for large reserve projects as reserve expenditures. The most likely causes are (1) an increase in the fees for this service and (2) an increasing number of the smaller projects that characterize an aging community. These sources of increased cost are likely to continue in the near future.

- Water/Sewer. The Glen's 2022 Account 71010 water/sewer expenditure of \$193,523 was reasonably close to our budgeted \$200,245 and below the \$198,745 spent in 2021.

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. In 2022, we spent \$77,275 on Account 61370 Exterior painting, in comparison to the budgeted \$87,965 and the \$119,892 spent in 2021. The most likely reasons for the decrease are (1) the lower number of units in the 2022 cycle and (2) our increased ability to attract better bids due to our pre-painting mold removal program and the steady removal of harder-to-paint wood surfaces.

- Carpentry. In 2022, we spent \$25,585 on Account 61284 Carpentry, in comparison to the budgeted \$30,788 and the \$14,660 spent in 2021. We are optimistic that this expense will

trend downward due to the completion of difficult catch-up work and the steady replacement of wood with PVC.

- Roof Repairs. In 2022, we did not undertake our usual proactive, 4-court roof batch repair cycle, after having completed cycled work in 2021 with work in Courts 13-16. Despite this reduction in contracted work, Account 61460 Roof Repairs balanced at \$73,231, in comparison to the budgeted \$26,966. The \$46,265 deficit, however, is less significant than it seems because \$36,320 of the \$73,231 was a late payment for the 2021 work in Courts 13-16 and \$10,975 was for chemical soft washing to prevent future damage and to make the roofs look better. The remaining \$25,936 consisted of spot work done throughout the Glen during 2022.

- 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, sometimes for prior-year events, the balance can turn negative.

In 2022, the Account 61370 Damage Claims balance was a negative \$4,574, in comparison to the positive balance of \$12,766 in 2021. The negative balance was due to a credit of \$7,237.00 recording a contractor's reimbursement for damage to a drain pipe in 2020. Fortunately, we pursued this claim relentlessly because the contractor was not eager to pay and it could have been forgotten as managers and Board members rotated.

- Bad Debts Expense. Account 50400 Bad Debts Expense balanced at \$0 in 2022. In prior years, this account often included large debts of unpaid dues that were sent to counsel for collection. In mid-2022, however, the Board resolved to reserve this account for sums that have been written-off by Board resolution without being sent to legal counsel for collection. Because these sums are typically small, expect small future balances in this account. Beginning in 2024, unpaid dues debt that is sent referred to legal counsel for collection will be posted to a new Account 51401 Unpaid Assessments.

- Taxes. Our filed tax returns show a total tax paid in 2022 of \$22,676 (\$17,390 federal + \$5,286 state). This tax was assessed on our actual investment income of \$45,692 plus an additional \$51,040 of the \$52,800 received from Comcast in 2021 for renewal of our access agreement with that company.¹ We were taxed on the \$51,040 despite the fact that, for accounting purposes, we are amortizing the \$52,800 lump sum payment received from Comcast as income over 10 years.

Apparently attempting to reconcile the different approaches of IRS (taxation of \$51,040 of the entire payment in 2022) and the Glen (amortization of the \$52,800 payment as income over 10 years), the audit report found that we are entitled to a "deferred tax asset" \$12,356. In an earlier draft, the auditor sought to classify the \$12,356 as income and to create a special income account to record it. I disputed this, arguing that it is not actual spendable income and that, if it is in fact related to taxes, it should be accounted-for under Account 71140

¹ The remaining \$1,760 of the \$52,800 was taxed in 2021.

Income Taxes. Apparently accepting this approach, the final audit document shows our Account 71140 Income taxes as $\$10,320 = \$22,676 - \$12,356$.

The audit does not explain how the \$12,356 was derived. Nor am I sure that I understand the theory behind it. Perhaps it is based on the fact that we will not have to pay tax on the yearly amortizations as income of the Comcast payment because we paid what we owe to IRS up front in 2022. In any event, I did not pursue the matter because our actual tax is recorded accurately in our ledger along with the \$12,356 “deferred tax asset”. If any Glen accounting expert wants to investigate this further, I will do what I can to help.

Reserve Contributions

• **Replacement.** In 2022, the Glen contributed \$701,925 to replacement reserves in comparison to the \$675,455 contributed in 2021 and the \$665,726 contributed in 2020, as shown in the following table:

Source of Reserve Contributions	2022	2021	2020
Assessments	660,548	648,480	631,955
Interest	36,097	25,215	33,771
Yearly Amortization of Comcast Renewal Payment	5,280	1,760	
Total Contributions	701,925	675,455	665,726

In the above table, note the row 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. According to the auditor, the Glen may invest the entire payment in reserve-type instruments even though the payment cannot be immediately classified as an addition to reserves.

Despite a recent slower pace of reserve contributions, we are confident that the Glen’s progress toward full funding of reserves is continuing.² 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:

² Full funding of replacement reserves (reserves = accrued depreciation) is desirable for the Glen. For an explanation why, see the budget article in the special August 14, 2023, edition of the newsletter.

(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%
2022	4,252,054			10,031,477	42.39%

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).

While our reserves studies show that we have been moving in the right direction, we still have a long way to go – likely longer than indicated in our studies. While our 2018 Reserve Study is likely the best in the area, it excluded certain items that will be included in the next reserve study, in particular: (a) the buried power lines in Courts 1-4; (b) the engineering costs of expensive replacement projects; and (c) to deal with flooding after 2018, drains that were added after the 2018 reserve study.

Moreover, estimating remaining asset lives and future asset prices is an art, not a science. A few areas of concern:

(1) We take good care of our roofs, with regular inspections and softwashing, and we have replaced all our low-quality Bangor slate roofs under exacting standards; but we cannot be sure that our remaining pre-conversion, 1940's Vermont slate roofs will last a full 100 years, rather than the 75 years estimated by the Arbor and the 60-80 years estimated by the Mews.

(2) The 2018 study could have overestimated the remaining useful lives of sewer pipes under buildings, the replacement of which will cost digging up, replacing, and leveling basement slabs and repairing their covering to the extent required by our governing documents. Our early experience with such replacements shows that they are costly.

(3) Future asset price inflation will probably trend upward, as our economy dedicates increasingly scarce resources to repairing capital assets that have accumulated during its growth years.

- 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.

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 2024 assessment income = \$1,911,360, this larger buffer would require an EOF of \$382,272 = .20(\$1,911,360). At the end of 2022, we were \$81,305 short of this goal, with an EOF = \$300,967.24 = \$231,009.05 (contingency) + \$111,838.30 (unappropriated members equity) - 41,880.11 (loss). See the table below, based on the unrounded account balances:

	2022	2021	2020	2019
Account 25620 Reserve/Contingency	231,009.05	218,273.44	102,053.00	125,880.00
Account 20410 Unappropriated Members Equity	111,838.30	111,838.30	111,838.30	111,830.30
Profit (Loss)	(41,880.11)	12,735.61	107,820.44	(32,227.00)
EOF	300,967.24	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 2022 (\$171,058).

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 2022, as shown in the payables account (\$15,182). In the third line, the auditor gives the Glen a credit for setting aside \$11,043 for reserve expenditures that were contracted during 2022 (most likely at the end of the year) but will be charged to a later year.

From the table, we can see that, in 2022, there was a significant decline in payment for reserve projects that were contracted in a prior year but delayed to the current year. The improvement was most likely due to the end of COVID-related delays in 2020 and 2021.

Disbursement	2022	2021	2020	2019
Current year Cash Paid for Reserve Expenditures	(171,058)	(360,485)	(148,574)	(502,526)
Less: Prior Year Reserve Expenditures Payable	(15,182)	(286,580)	(267,127)	(75,581)
Add: Current Year Reserve Expenditures Payable	11,043	15,182	286,580	267,127
Total Disbursed	(175,197)	(631,883)	(129,121)	(310,980)
Total Replacement Reserved Contributions	701,924	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 2022, 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 2022 with an increase in its Total Members Equity [Replacement Reserve + Contingency Reserve + Unappropriated Members' Equity (other cash funds)] = \$488,986 = \$4,553,018 (2022) - \$4,064,032 (2021). Here is a summary table for 2014-2022, which reflects adjustments to equity made by the auditor in 2020 for years 2018 and 2017:

Year	Equity Growth	Income Minus Uses of Income
2022	\$488,986	(41,880)
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 has happened in the last 8 audited years 2015-2022. During those years, the revenue set aside for reserves was sufficient to increase our equity in each of those years.

Audit/Budget Accounts Table

MANAGEMENT	ACCOUNT	2021	2022	2022
ACCOUNT	NAME	Balance After Audit	Budget	Balance After Audit
	INCOME			
30100	Assessment Income	1,752,084.00	1,780,290	1,779,864.00
30270	Interest	31,917.50	32,808	45,692.14
30290	Bad Debt Recovery	0.00	2,095	0.00
30171	Late Fees	825.00	1,566	1,450.00
30190	Pool Income	0.00	368	185.00
30260	Misc. Income	1,760.00	50	5,280.00
	Total Income	1,786,586.50	1,817,177	1,832,471.14
	ADMINISTRATIVE and MISCELLANEOUS			
51020	Postage	55.00	115	201.21
51030	Office Expense	3,298.98	4,502	4,662.50
51031	Copying/Printing	1,611.44	1,069	1,064.32
51050	Training & Education	0.00	100	315.00
51250	Entertainment & Social	100.00	100	0.00
51500	Misc. Expense	3,020.16	1,156	678.45
51550	Misc. Administrative	4,497.58	5,087	5,155.81
51110	Auditing, Taxes, and Accounting	7,250.00	7,750	7,814.00
51090	Legal Fees	17,476.94	17,000	9,408.18
51092	Legal Fee Reimbursement	(8,929.70)	(547)	(1,112.00)
51120	Management Fee	66,388.56	67,716	69,708.00
51125	Management Schedule B	6,443.69	8,796	10,973.56
51000	Telephone & Related	4,390.97	4,020	3,615.58
	Total	105,603.62	116,864	112,484.61
71050	INSURANCE	103,418.50	112,301	113,896.67
	PERSONNEL			

MANAGEMENT	ACCOUNT	2021	2022	2022
ACCOUNT	NAME	Balance After Audit	Budget	Balance After Audit
51137	Management Onsite	26,754.55	34,323	91,016.85
61420	Maintenance Payroll	94,062.17	103,100	102,663.89
61301	Fed. FICA Tax	6,887.62	8,324	6,209.10
61308	Fed. Medicare Tax	1,398.61	1,946	1,448.77
61302	VA Unemployment Tax	80.63	22	52.80
61303	Fed. Unemployment Tax	105.42	102	83.99
71070	Group Insurance [Health]	30,685.50	21,104	23,387.88
61300	Payroll Administration	11,650.92	8,926	8,300.43
61360	Uniforms	0.00	550	553.05
61431	Temporary Help	500.00	6,000	0.00
	Total Payroll	172,125.42	184,397	233,716.76
	UTILITIES			
71030	Electricity	11,027.47	11,282	10,749.40
71010	Water/Sewer	198,745.12	200,245	193,522.94
	Total Utilities	209,772.59	211,527	204,272.34
	POOL COMPLEX			
61150	Pool Contract	43,500.00	47,850	47,850.00
61145	Pool Repair and Maintenance	9,285.16	8,564	9,237.82
61156	Pool Furniture	3,479.54	400	2,775.56
51258	Pool Committee	0.00	2,141	227.86
	Total Pool Complex	56,240.70	58,955	60,091.24
	LANDSCAPING			
61180	Landscaping Maintenance Contract	86,478.84	88,208	93,108.00
61188	Tree Service [after 2018 -- work related to maintenance and reserve projects]	0.00	3,000	0.00

MANAGEMENT	ACCOUNT	2021	2022	2022
ACCOUNT	NAME	Balance After Audit	Budget	Balance After Audit
61557	Landscaping Non-Contract	14,574.67	20,000	15,674.68
61570	Landscape Replacement [Damage from Contractor Negligence or Weather]	3,284.00	3,752	5,061.20
	Total Landscaping	104,337.51	114,960	115,411.17
	REPAIRS & MAINTENANCE			
61310	Exterior Painting	119,892.00	87,965	77,275.00
61284	Carpentry	14,660.30	30,788	25,585.43
61200	Property Repairs	19,310.85	35,127	25,909.40
61460	Roof Repairs	60,642.71	43,740	73,231.00
61010	Vehicle Expenses	556.16	876	545.57
61247	Playground Equipment	239.76	5,455	5,400.00
51106	Professional Fees	23,150.00	14,385	21,788.00
	Total Repairs & Maintenance	238,451.78	218,336	229,734.40
61370	DAMAGE CLAIMS	12,766.43	12,359	(4,573.81)
	SERVICES PROVIDED MAINLY BY CONTRACT			
61240	Exterminator	3,280.00	3,607	3,904.00
61581	Snow Removal	8,068.26	9,047	23,059.27
61250	Trash Removal	69,418.25	69,643	71,677.10
	Total Contracts	80,766.51	82,297	98,640.37
50400	BAD DEBTS EXPENSE	52.00	2,825	0.00

MANAGEMENT	ACCOUNT	2021	2022	2022
ACCOUNT	NAME	Balance After Audit	Budget	Balance After Audit
	INCOME TAX ACCOUNTS			
71140	Income Taxes	6,437.00	6,889	10,320.00
95000	Provision for Income Taxes			
	TOTAL EXPENSES	1,089,996.06	1,121,710	1,172,426.46
	RESERVE CONTRIBUTIONS			
90000	Replacement Reserve	648,480.00	669,548	660,548.00
90005	Replacement Reserve Interest	25,214.83	25,919	36,096.79
90062	Cable Marketing Reserves [Funds amortization payments that are to be coded yearly to replacement reserves]	1,760.00		5,280.00
	Contingency Reserve Accounts Used			
90032	--Transfer to Reserves Phase II			
90061	--Contingency Reserve	8,400.00	0	0.00
	Total Reserve Contributions	683,854.83	695,467	701,924.79
	GRAND TOTAL EXPENSES	1,773,850.89	1,817,177	1,874,351.25
	BALANCE OF INCOME AND USES OF INCOME (- DEFICIT)	12,735.61	0	(41,880.11)

