

SUMMARY OF AUDIT OF CALENDAR YEAR 2023

- Maynard H. Dixon, Jr., Fairlington Glen Treasurer

The final report on the audit of 2023 has been published to our website at <https://www.fairlingtonlen.com/>. This is my summary and comments on that report. If you want to discuss this, please e-mail me at MaynardDixonJr@gmail.com.

The results are shown in the Audit/Budget Accounts Table at the end of this document. (Note that Cardinal Management changed its account numbers in 2023.) As shown in this Table, we ended 2023 with a \$53,196.02 surplus of income greater than all uses of income (including reserve contributions).

This and prior year results (after rounding) result are included within Column (5) of the historical table below Table (2015-2023 data from audits):

(1) Year	(2) Income	(3) Operating Expenses	(4) Income Minus Operating Expenses	(5) Reserve Contributions	(6) Income Minus <u>All</u> Uses of Income
2015	1,502,305	916,575	585,730	608,075	(22,345)
2016	1,536,719	926,014	610,706	629,283	(18,577)
2017	1,590,262	1,009,859	580,403	633,320	(52,917)
2018	1,651,022	1,088,273	562,749	672,524	(29,575)
2019	1,706,091	1,055,941	650,150	682,377	(32,227)
2020	1,749,855	967,909	781,946	674,126	107,820
2021	1,786,587	1,089,996	696,591	683,855	12,736
2022	1,832,471	1,172,426	660,045	701,925	(41,880)
2023	1,947,459	1,164,369	783,090	729,894	53,196

Our operating surplus allows us to contribute to reserves. In 2023, as shown in Column (4) of the table above, we ended that year with an operating surplus of \$783,090 = total income of \$1,947,459 minus total operating expense of \$1,164,369. When the annual reserve contributions in Column (5) are added to the annual entries in Column (4) and compared with the annual income totals in Column (2), the result is Column (6), which shows our annual balances of income and uses of income.

Whether we end-up increasing our audited reserves by as much as we budget each year depends on how accurately we estimate future income and expenses. If we are accurate, errors will tend to offset each other over time. Cumulatively, from 2015-2023, Column (5) has averaged only **(\$2,641)/year**.

More important is whether we have been budgeting as much for reserves as we should. As explained in greater detail below, we have been steadily moving toward full funding of reserves (reserves = accrued depreciation); but progress stalled in 2023, and we need to prepare for future problems.

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 40270 Interest. In 2023, the Glen earned \$81,790 in 2023, in comparison to the \$45,692 earned in 2022, the \$31,917 earned in 2021, the \$42,749 earned in 2020, and the 53,192 earned in 2019. The increase in 2023 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 2023, 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 40430 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 2023, the Glen recovered \$0 In 2023, sums posted to Account 40290 Bad Debt Recovery were small in comparison to prior years, and they will continue to be small in future years. As explained below, the accounting source of the recoveries – sums posted to Account 51400 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 2023, our total operating expenses of \$1,164,369 were less than our budgeted total operating expenses of \$1,212,805. Most responsible was a late decision to spend less than budgeted on Exterior Painting, Carpentry, and Roof Repairs. We also came in under budget for Utilities and Contracted services.

- Administrative. In 2023, our total administrative accounts expense of \$119,351 exceeded our budgeted \$115,191, due in large part to increased Account 51030 Office Expense and Account 51550 Misc. Administrative expense. Our Account 51120 basic management fee paid to Cardinal Management declined from 2022 because Cardinal reduced our fee to compensate us for the fact that our monthly meetings would be staffed mainly by our onsite manager Amy Steliga rather than by both Amy and her supervisor Candace Lewis.

- Personnel. In 2023, our total Personnel accounts expense of \$244,543 came in close to our budgeted \$245,751.

Some increased expenses were offset by 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.

- Landscape. Our 2023 total landscaping spending of \$125,848 was close to our budgeted \$124,103, an improvement over 2022 when our discretionary landscape spending went \$3,884 over budget. In mid-2022, we re-constituted our Landscape Committee, which had been in turmoil for most of 2021; and our 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 2023, the Glen spent \$2,659 on Account 51106 Professional Fees -- \$11,357 less than our budgeted \$14,016. After the 2023 budget was approved, the Board postponed the extensive batch roofing work requiring these fees.

- Water/Sewer. In 2023, the Glen's Account 62120 water/sewer expenditure of \$192,745 was significantly under our budgeted \$204,738 but close to the 193,523 spent in 2022 and less than the \$198,745 spent in 2021.

The most likely reason is that I have recently been underestimating usage declines. In recent years, the Glen has benefited from usage-related declines in this expense, even as County rates rose slowly. 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 2023, we spent \$47,634 on Account 65310 Exterior painting, in comparison to our budgeted \$102,011. Most of the decline was due to the Board's late decision to postpone until 2024 work on two of the courts (Courts 11 and 12) that were originally budgeted for 2023. We may also have benefited from our increased ability to attract better bids due to our pre-painting mold removal program and the steady replacement of wood with PVC.

- Carpentry. In 2023, we spent \$21,167 on Account 65284 Carpentry, in comparison to our budgeted \$29,147. Almost all of this work takes place in the Courts that are scheduled for painting, after the painters mark wood that can no longer be painted. Thus, we attribute the under-budgeting for 2023 to the Board's postponement of painting work on two of the courts (Courts 11 and 12) that were originally budgeted for 2023.

We probably would have come in even more under budget but for the fact that contractor unit costs for carpentry seem to have been rising briskly and will probably continue to do so. I expect, however, that this expense will level off within the next 4 years despite rising unit costs, due to our completion of difficult catch-up work and the steady replacement of wood with PVC.

- Roof Repairs. In 2023, we spent \$33,307 on Account 65460 Roof Repairs, in comparison to our budgeted \$44,081. As 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. The \$33,307 consisted of \$11,634 spent on soft washing the roofs in Courts 9-12 and the remaining \$21,673 was spent on unplanned spot work.

The cost of our spot roof work is not likely to level off soon. Our remaining older roofs are continuing to age, and unit repair and replacement costs are rising throughout our economy. The best we can do is to try to be proactive in our repairs to keep small repairs from turning into bigger ones.

- 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.

In 2023, the Account 65370 Damage Claims balance was \$5,225, in comparison to our budgeted \$11,512.

This account is volatile and difficult to budget. When large claims by the Glen are reimbursed, sometimes for prior-year events, the balance can turn negative. For example, the account had a negative balance of a negative \$4,574 in 2022 and a 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. The best we can hope for is that, over the long haul, the over-budgets and under-budgets will roughly cancel each other.

- Bad Debts Expense. In 2023, Account 51400 Bad Debts Expense balanced at \$0. In prior years, this account routinely 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 formally 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.

Reserve Contributions

- Contingency Reserve (Part of EOF). 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.

Applying this upper-range standard, our budgeted 2024 assessment income of \$1,911,360 would require an EOF of $\$382,649 = .20(\$1,913,247)$. At the end of 2023, we were only \$28,416.84 short of this 2024-based goal, with an EOF = $\$354,232.56 = \$189,128.94$ (contingency) + $\$111,838.30$ (unappropriated members equity) = $\$53,196.02$ (profit). See the table below, based on the unrounded account balances:

	2023	2022	2021	2020
Account 24620 Reserve/Contingency	189,128.94	231,009.05	218,273.44	102,053.00
Account 30410 [20410 Before 2023]Unappropriated Members Equity	111,838.30	111,838.30	111,838.30	111,838.30
Profit (Loss)	53,196.02	(41,880.11)	12,735.61	107,820.44
EOF	354,232.56	300,967.24	342,847.35	321,711.74

Caution, however, is needed. I expect a large drop in EOF during 2024 due to a surprise, unbudgeted increase in insurance costs for 2024. See our articles in the January and June 2024 newsletters.

- Replacement Reserve. In 2023, the Glen contributed \$729,984 to replacement reserves, in comparison to the \$701,925 contributed in 2022, the \$675,455 contributed in 2021, and the \$665,726 contributed in 2020, as shown in the following table:

Source of Reserve Contributions	2023	2022	2021	2020
Assessments	660,000	660,548	648,480	631,955
Interest	64,614	36,097	25,215	33,771

Yearly Amortization of Comcast Renewal Payment	5,280	5,280	1,760	
Total Contributions	729,894	701,925	675,455	665,726

Our 2018 reserve study concluded that, based on the reserve expenditure needs determined therein and our expected revenues and operating costs, we can attain full funding by the year 2047 if we continue to add to reserves at the pace prescribed therein.¹ The table below shows that, until 2023, we have been moving gradually toward fully funded reserves. In 2023, progress stalled, in large part because our actual reserve expenditures (\$334,578) exceeded the disbursements predicted by the study (\$284,080).

(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%
2023	4,389,799			10,392,988	42.23%

The 2023 stall is a matter of concern. If it continues, it will have to be addressed by making our assets last longer, decreasing operating expenses, increasing reserve contributions from dues revenue, finding higher return reserve fund investments, or some combination of these steps.

Adding to our concern is the fact that, 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.

¹ 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.

Moreover, estimating remaining asset lives and future asset prices is an art, not a science. A few other 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 likely underestimated the cost of replacing sewer pipes under buildings, which will include repairing basement slabs and owner assets that will be damaged by the replacement.

(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.

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 2023 (\$592,149).

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 2023, as shown in the payables account (\$11,043). In the third line, the auditor gives the Glen a credit for setting aside \$268,614 for reserve expenditures that were contracted during 2023 (most likely at the end of the year) but will be charged to a later year.

From the table, we can see that, in 2023, payment for reserve projects that were contracted in a prior year but delayed to the current year continued to bottom out. The improvement was most likely due to the end of COVID-related delays in 2020 and 2021.

Disbursement	2023	2022	2021	2020	2019
Current year Cash Paid for Reserve Expenditures	(592,149)	(171,058)	(360,485)	(148,574)	(502,526)
Less: Prior Year Reserve Expenditures Payable	(11,043)	(15,182)	(286,580)	(267,127)	(75,581)

Add: Current Year Reserve Expenditures Payable	268,614	11,043	15,182	286,580	267,127
Total Disbursed	(334,578)	(175,197)	(631,883)	(129,121)	(310,980)
Total Replacement Reserved Contributions	729,894	701,924	675,455	665,726	673,977

We can also see that replacement reserve contributions exceed disbursements for each of the above years. In fact, from 2014 to 2023, this has been true for each year except 2015. This shows that the Glen has been able to replace its assets without borrowing.

Balance Sheet Equity

The Glen ended 2023 with an increase in its Total Members Equity [Replacement Reserve + Contingency Reserve + Unappropriated Members' Equity (other cash funds)] = \$190,944 = \$4,743,962 (2023) - \$4,553,018 (2022). Here is a summary table for 2014-2023, which reflects adjustments to equity made by the auditor in 2020 for years 2018 and 2017:

Year	Equity Growth	Income Minus Uses of Income
2023	\$190,944	(53,196)
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 2015-2023. During those years, the revenue set aside for reserves was sufficient to increase our equity in each of those years.

Audit/Budget Accounts Table

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2022 After Audit	2023 Budget	2023 After Audit
	INCOME			
40100 [30100]	Assessment Income	1,779,864.00	1,860,321	1,858,044.00
40270 [30270]	Interest	45,692.14	43,252	81,789.88
40290 [30290]	Bad Debt Recovery	0.00	1,833	0.00
40172 [30171]	Late Fees	1,450.00	1,200	1,900.00
40190 [30190]	Pool Income	185.00	368	200.00
40430 [30260]	Misc. Income	5,280.00	1,760	5,280.00
40010	Additional Charges			245.00
	Total Income	1,832,471.14	1,908,734	1,947,458.88
	ADMINISTRATIVE and MISCELLANEOUS			
51020	Postage	201.21	100	0.00
51030	Office Expense	4,662.50	3,284	3,015.03
51031	Copying/Printing	1,064.32	1,160	876.52
51050	Training & Education	315.00	300	0.00
51250	Entertainment & Social	0.00	300	384.13
51500	Misc. Expense	678.45	1,996	527.95
51550	Misc. Administrative	5,155.81	5,038	5,421.34
51110	Auditing, Taxes, and Accounting	7,814.00	8,500	8,620.00
51090	Legal Fees	9,408.18	17,500	12,603.21
51092	Legal Fee Reimbursement	(1,112.00)	(2,800)	(839.37)
51120	Management Fee	69,708.00	67,584	67,584.00
51125	Management Schedule B	10,973.56	7,838	11,046.99

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2022 After Audit	2023 Budget	2023 After Audit
51000 [51160]	Telephone & Related	3,615.58	4,391	3,305.48
	Total	112,484.61	115,191	112,545.28
51750 [71050]	INSURANCE	113,896.67	118,587	142,443.37
	PERSONNEL			
51137	Management Onsite	91,016.85	98,280	99,548.05
52420 [61420]	Maintenance Payroll	102,663.89	100,490	106,426.81
52301 [61301]	Fed. FICA Tax	6,209.10	6,230	6,739.34
52308 [61308]	Fed. Medicare Tax	1,448.77	1,457	1,575.98
52302 [61302]	VA Unemployment Tax	52.80	41	43.88
52303 [61303]	Fed. Unemployment Tax	83.99	105	95.21
51770 [71070]	Group Insurance [Health]	23,387.88	24,278	27,673.44
52044 [61300]	Payroll Administration	8,300.43	9,050	10,121.59
65360 [61360]	Uniforms	553.05	620	512.74
52431 [61431]	Temporary Help	0.00	5,200	0.00
	Total Payroll	233,716.76	245,751	252,737.04
	UTILITIES			
62000 [71030]	Electricity	10,749.40	11,699	11,753.36
62120 [71010]	Water/Sewer	193,522.94	204,738	192,745.38
	Total Utilities	204,272.34	216,437	204,498.74
	POOL COMPLEX			

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2022 After Audit	2023 Budget	2023 After Audit
6000 [61150]	Pool Contract	47,850.00	50,700	50,700.00
60115 [61145]	Pool Repair and Maintenance	9,237.82	9,232	16,826.18
60176 [61156]	Pool Furniture	2,775.56	2,000	893.39
51268 [51258]	Pool Committee	227.86	2,500	2533.30
	Total Pool Complex	60,091.24	64,432	70,952.87
	LANDSCAPING			
58000 [61180]	Landscaping Maintenance Contract	93,108.00	93,828	101,808.00
58172 [61188]	Tree Service [after 2018 -- work related to maintenance and reserve projects]	0.00	3,000	1,144.00
61572	Special Projects/Improvements		4,000	1,945.00
58050 [61557]	Landscaping Non-Contract	15,674.68	22,000	18,972.53
58070 [61570]	Landscape Replacement [Damage from Contractor Negligence or Weather]	5,061.20	3,752	1,978.00
	Total Landscaping	113,843.88	126,580	125,847.53
	REPAIRS & MAINTENANCE			
65310 [61310]	Exterior Painting	77,275.00	102,011	47,634.00
65284 [61284]	Carpentry	25,585.43	29,147	21,167.00
65200 [61200]	Property Repairs	25,909.40	16,563	34,227.34

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2022 After Audit	2023 Budget	2023 After Audit
65090 [61090]	Maintenance Supplies		5,868	6,207.07
65469 [61460]	Roof Repairs	73,231.00	44,081	33,307.00
65010 [61010]	Vehicle Expenses	545.57	689	205.35
65247 [61247]	Playground Equipment	5,400.00	1,850	3,039.08
51106	Professional Fees	21,788.00	14,016	2,659.00
	Total Repairs & Maintenance	229,734.40	214,225	148,445.84
61370 [61370]	DAMAGE CLAIMS	(4,573.81)	11,512	5,224.92
	SERVICES PROVIDED MAINLY BY CONTRACT			
65240 [61240]	Exterminator	3,904.00	3,616	4,645.00
58582 [61581]	Snow Removal	23,059.27	10,955	0.00
65250 [61250]	Trash Removal	71,677.10	74,371	77,043.26
	Total Contracts	98,640.37	88,942	81,688.26
51400 [50400]	BAD DEBTS EXPENSE	0.00	2,065	0.00
	INCOME TAX ACCOUNTS			
51140 [71140]	Income Taxes	10,320.00	9,083	19,985.00
95000	Provision for Income Taxes			

ACCOUNT NUMBER [Different Number Before 2023]	ACCOUNT NAME	2022 After Audit	2023 Budget	2023 After Audit
	TOTAL EXPENSES	1,172,426.46	1,212,805	1,164,368.85
	RESERVE CONTRIBUTIONS			
	Replacement			
90000	Replacement Reserve	660,548.00	660,000	660,000.00
90005	Replacement Reserve Interest	36,096.79	34,169	64,614.01
90062	Cable Marketing Reserves [Funds amortization payments that are to be coded yearly to replacement reserves]	5,280.00	1,760	5,280.00
	Contingency			
90032	--Transfer to Reserves Phase II			
90061	--Contingency Reserve	0.00	0	0.00
	Total Reserve Contributions	701,924.79	695,929	729,894.01
	GRAND TOTAL EXPENSES	1,874,351.25	1,908,734	1,894,262.86
	BALANCE OF INCOME AND USES OF INCOME (- DEFICIT)	(41,880.11)	0	53,196.02