FAIRLINGTON VILLAGES, A CONDOMINIUM ASSOCIATION
GENERAL RESOLUTION NO. GR 03/03/21

FY2020 DRAFT AUDIT ACCEPTANCE

WHEREAS, Virginia Code Title 55.1 Section 1956 (B) allows the Board of Directors to exercise power assigned to the "unit owners' association" by the Act, to the extent permitted by the By-Laws of the Unit Owners Association;

WHEREAS, Article III, Section 2, of the By-Laws assigns the Board of Directors with "all of the powers and duties necessary for the administration of the affairs of the Condominium," and further states that the Board may do all such acts and things as are not by the Act or by the By-Laws directed to be exercised and done by the Unit Owners Association; and

WHEREAS, the Association has contracted with Johnson, Bremer & Ignacio, CPAs, P.C., to prepare the audit of the financial statements for the fiscal year ending September 30, 2020, and the company has prepared the attached draft audit.

THEREFORE BE IT RESOLVED, the Board of Directors accepts the attached draft audit for the fiscal year ending September 30, 2020.

ATTEST:

______________________________	______________________________
Secretary	Treasurer - Presiding
______________________________	______________________________
Date	Date
Moved by ______________________	Second by ____________________
VOTE _______________________	Approved ( ) Disapproved ( )

Submitted by: Management

Roll Call:

Roll Call:

Alvord, Melanie__________	Brown, Philip __________	Dies, Andrea ________
Placek, Terry____________	Reem, Harold __________	Auston, Jessica _______
Stollof, Edward__________	Straub, Lawrence_______	Wasowski, Anne _______

JOHNSON, BREMER & IGNACIO, CPAs, P.C.
Formerly Ahlberg & Company, P.C.

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703/934-6650 ● FAX 703/934-6654

Mary E. Johnson, CPA
David G. Bremer, CPA
Jose S. Ignacio, CPA

email: cpa@jbicpa.com
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February 17, 2021

Board of Directors
Unit Owners Association of Fairlington Villages
c/o Mr. Greg Roby, General Manager
3001 South Abingdon Street
Arlington, VA 22206

Dear Board Members:

Attached is a draft copy of the proposed audited financial statements for the Association for the year ended September 30, 2020, together with the adjusted trial balance and recommended adjustments for your review and acceptance. Also attached is a representation letter that we ask be signed by the appropriate officer of the Association and the property management company. Upon return of this letter, receipt of outstanding bank confirmations and resolution of the matters set forth below, we will be able to finalize the financial statements and our report and forward them to you.

Please refer to Note 12. There was an accounting standard update regarding financial instruments. This change requires unrealized gains and losses on investments to be reported on the income statement instead of on the balance sheet.

Please review Note 13 regarding COVID-19. Let us know if changes are needed.

Please note, the Atlantic Union Bank money market account became dormant in July 2020. As a result, the Association began incurring dormant account fees. We recommend the Association evaluate the various bank accounts and determine if funds need to be reallocated or if certain accounts should be eliminated.

The Association regularly reimburses management for purchases made on a management credit card. This process was implemented in replacement of the Union Bank debit card. The amount of credit card reimbursements can be quite high. For example, the credit card reimbursements for October 2020 were $14,637.39 as a Direct Pass Through to management. There were no supporting invoices for the charges. We recommend the Board review and document the approval of all credit card reimbursements each month. We also recommend that the supporting invoices be included with the reimbursements in Strongroom.

Included in the credit card charges were items that would not normally be charged by credit card. These include insurance premium payments (once on credit card and once on the debit card before the account was closed) and a down payment for a vehicle. The credit card should only be used for incidental purchases not easily paid by check.

We recommend the security deposits held be regularly reconciled between the cash account and the liability on the books. All three items should be equal at year-end: the cash in the bank ($2,388.29), the liability on the books ($3,050.00) and the schedule of deposits maintained by management ($2,100.00). No adjustments were made to these accounts for the audit.

We recommend the accrued pension payable and the retirement contribution expense be reconciled at year-end to ensure all activity has been accounted. The payable balance at year-end includes unreconciled items from the prior two years. Management was able to reconcile the current audit period difference. There were three employees whose withholdings were not the same as the payments to MetLife from February through September 2020.

Please note, there has been no activity related to unclaimed property by former owners of $2,866.81 since November 2017. We recommend the Association discuss with the attorney the appropriate procedures to clear the activity.

The transfer fee payable has increased each year since 2017. We recommend that the activity in the account be reconciled and cleared. It is our understanding these funds are either due to the management company or need to be reclassified.

Please note, the Association was double invoiced for the annual license with MadWolf during the year. The total amount of the overpayment is included in prepaid expenses. However, based on a statement provided by MadWolf, they began applying the overpayment to other invoices. We recommend that the Board and Management review the invoices and the activity to determine that the overpayment is being appropriately accounted and the invoices being applied against the credits are approved. We also recommend that management better track the monthly and annual invoices from this vendor as the overpayment resulted from being invoiced with two different invoice numbers for the same annual renewal.

We were not able to locate the Board approval of the write-off of bad debt in April 2020. We recommend that all bad debt be supported by Board approval.

The Association's budget assessments have had a calculation error for fiscal years 2019, 2020 and 2021. This error was discussed with the manager during the last two years' audits. It was our understanding the calculation error would be corrected for FY 2021. While the difference is small ($3,543.00), it is ten times larger than the difference in FY 2018 ($367.00). We recommend that the Board and management review the budgeted assessments calculations and correct the schedule for the FY 2022 budget.

We were not able to determine who approves and reviews the general journal entries or the overall financial statements at Legum and Norman for the Association. Some of the issues discussed could have been avoided with a proper accounting review of the individual journal entries when made or a review of the financial statements and the supporting balance sheet schedules at year-end. Please let us know who is responsible for this accounting oversight.

The American Institute of Certified Public Accountants requires that we communicate certain deficiencies in internal controls to you as part of our audit of your financial statements. We have included a letter (Communication of Deficiencies in Internal Control) as part of our audit package. The letter is to be issued each year if previously noted items are not resolved or if new matters come to our attention.

The Federal and Virginia corporate income tax returns will be sent in a separate email. If you do not receive the tax return within one business day, please contact our office immediately. **The Virginia income tax return will be filed electronically.** Please sign the e-file Signature Authorization release form VA-8879C and return it to our office as soon as possible. Please return the form no later than 15 days prior to the deadline date to guarantee a timely electronic filing.

If you should have any questions, please call.

Very truly yours,

JOHNSON, BREMER & IGNACIO, CPAs, P.C.

Kim Marinus
Certified Public Accountant

KM/sr/1156
Attachments: As above
cc: Client Shared Services Tax Team, Associa, Inc.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Unit Owners Association of Fairlington Villages

Report on the Financial Statements

We have audited the accompanying financial statements of Unit Owners Association of Fairlington Villages, which comprise the balance sheet as of September 30, 2020, and the related statement of revenue and expenses, members' equity and cash flows for the year 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 audit. We conducted our audit 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 Unit Owners Association of Fairlington Villages as of September 30, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note 11 to the financial statements, Unit Owners Association of Fairlington Villages changed its method of accounting for revenue recognition in FY 2020 as required by the provisions of FASB Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to that matter.

As discussed in Note 12 to the financial statements, Unit Owners Association of Fairlington Villages changed its method of accounting for financial instruments in FY 2020 as required by the provisions of FASB Accounting Standards Update (ASU) 2016-01, *Financial Instruments*. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future repairs and replacements on page 16 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.

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
BALANCE SHEET
SEPTEMBER 30, 2020

ASSETS

Cash - operations	$ 1,452,473
Cash - money market	959,081
Cash - savings	203,248
Total cash	2,614,802
Certificates of deposit (note 1)	3,365,000
Investments (notes 2 and 3)	839,465
Assessments receivable, net (note 4)	34,811
Other receivables	39,538
Prepaid expenses	217,988
Prepaid income taxes	22,116
Maintenance building	135,522
Motor vehicle	41,260
Furniture and equipment	44,560
Less accumulated depreciation	(216,933)
TOTAL ASSETS	$ 7,138,129

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:	
Accounts payable	$ 372,309
Accrued payroll expense (note 5)	66,755
Prepaid assessments	202,253
Unclaimed property	2,867
Security deposits	3,051
Deferred cable income (note 6)	886
Total liabilities	648,121
MEMBERS' EQUITY:	
Repair and replacement fund (note 7)	5,735,722
Unappropriated members' equity	754,286
Total members' equity	6,490,008
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 7,138,129

See accompanying notes and independent auditor's report

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED
SEPTEMBER 30, 2020

REVENUE:	
Gross assessments	$ 7,848,492
Less repair and replacement fund assessments	(3,207,194)
Operating assessments	4,641,298
Fairlington Court Homeowners Association	11,220
Disclosure packages	21,805
Parking decals and ID cards	350
Rental revenue	11,035
Late fees	17,350
Miscellaneous	591
Cable income	3,548
Interest	106,867
Less interest transferred to repair and replacement fund, net of taxes	(56,681)
Unrealized gain on investments	13,038
Total operating revenue	4,770,421
EXPENSES:	
Administrative	707,251
Payroll	956,580
Utilities	997,457
Contracted services	1,001,768
Repair and maintenance	537,394
Professional services	339,266
Income taxes	21,552
Depreciation	5,582
Total expenses	4,566,850
EXCESS OF REVENUE OVER EXPENSES	$ 203,571

See accompanying notes and independent auditor's report

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED
SEPTEMBER 30, 2020

	Repair and Replacement Fund	Unrealized Gain on Investments	Unappropriated Members' Equity
Balance at September 30, 2019	$ 3,844,701	$ 6,518	$ 544,197
Change in accounting principal (note 12)		(6,518)	6,518
Adjusted balance at September 30, 2019	3,844,701	-	550,715
Additions:			
Repair and replacement fund assessments	3,207,194		
Interest transferred to repair and replacement fund, net of taxes	56,681		
Excess of revenue over expenses			203,571
Deduction:			
Repair and replacement fund expenditures	(1,372,854)		
Balance at September 30, 2020	$ 5,735,722	$ -	$ 754,286

See accompanying notes and independent auditor's report

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
SEPTEMBER 30, 2020

Cash flows from operating activities:	
Excess of revenue over expenses	$ 203,571
Adjustments needed to reconcile excess of revenue over expenses to net cash provided by operating activities:	
Repair and replacement fund assessments	3,207,194
Repair and replacement fund expenditures	(1,372,854)
Interest transferred to repair and replacement fund, net of taxes	56,681
Depreciation	5,582
(Decrease) in investment discount, net	(1,624)
Decrease in accounts receivable	2,837
(Increase) in prepaid expenses	(94,543)
(Decrease) in accounts payable	(338,029)
Increase in prepaid assessments	23,066
(Decrease) in security deposits	(3,157)
(Decrease) in deferred cable income	(3,548)
Net cash provided by operating activities	1,685,176
Cash flows from investing activities:	
Purchase certificates of deposit	(1,747,780)
Redemption of certificates of deposit	1,847,780
Purchase of investments	(513,201)
Net cash (used for) investing activities	(413,201)
Net increase in cash	1,271,975
Cash at beginning of year	1,342,827
Cash at end of year	$ 2,614,802
Interest expense paid in cash during year	$ -
Income taxes paid in cash during year	$ 48,636

See accompanying notes and independent auditor's report

ORGANIZATION:

Unit Owners Association of Fairlington Villages is organized under the laws of the Commonwealth of Virginia. It is located in Arlington County and consists of 1,703 units. The Association administers the Association operations.

DATE OF MANAGEMENT REVIEW:

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through [DATE TO BE INSERTED UPON FINALIZATION], the date the financial statements were available to be issued.

SIGNIFICANT ACCOUNTING POLICIES:

Method of Presentation - The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Investments – Investments consist of a mutual fund in which fair value approximates cost and accumulated interest. Investments in marketable securities with readily determinable fair values are reported at their fair values on the balance sheet. Realized gains and losses are reflected on the statement of revenue and expenses. Unrealized gains and losses are reflected on the statement of revenue and expenses.

Property and Equipment - Fixed assets are carried at cost. Depreciation is computed on a straight-line basis over the estimated useful lives ranging from three to twenty years.

Repair and Replacement Fund - The Association's governing documents provide that the Board of Directors establish a repair and replacement fund to be expended only for the purpose of repair and replacement of common elements and equipment of the Association. The amount to be contributed is to be determined annually by the Board of Directors but shall not be less than 5% of the assessments. Accumulated funds are held in certificates of deposit, treasury securities and money market accounts.

The Board of Directors commissioned a study in 2019 of the repair and replacement fund. The study was done by an engineering firm. The table included in the unaudited supplementary information on future major repairs and replacements is based on this data. Actual future expenditures may vary from these estimates and the variations may be material. Therefore, amounts accumulated in the repair and replacement fund 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 may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

Income Taxes - In the year ended September 30, 2020, the Association filed its corporate income tax returns recognizing the applicability of Code Section 277 which provides for the segregation of its operations according to membership and non-membership activities without the right of offset. Revenue Ruling 70-604 allows an excess of membership revenue over related expenses, if any, to be considered excess assessments and, by the resolution of the Board of Directors, may be refunded to the owners, or applied against the following year assessments.

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended September 30, 2020, no interest or penalties were paid or accrued.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of September 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when funds are assessed in accordance with the governing documents. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association’s policy is to retain legal counsel to pursue collections from owners that are delinquent in paying their assessments. Any excess assessments at year-end are retained by the Association for use in the succeeding year. At September 30, 2020, the Association had delinquent assessments of $34,811, net of allowance. It is the opinion of the Board of Directors that the Association will ultimately prevail against homeowners with delinquent assessments net of allowance for doubtful accounts.

(Continued)

SIGNIFICANT ACCOUNTING POLICIES:

Assessments: (Continued)
The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable net of allowance for doubtful accounts as of the beginning and end of the year are $38,407 and $34,811, respectively.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Flows - For purposes of the statement of cash flows, all checking and money market accounts for operating purposes are considered to be cash. Highly liquid debt securities held as true investments or for repair and replacement fund purposes are considered investments.

Vendor Payments - The Association uses AvidPay-Strongroom to process most vendor payments. AvidPay-Strongroom is the provider of bill payment services for Associa, the parent company of Legum and Norman. As part of the bill paying process, funds for most individual vendor invoices are electronically transferred from the Association bank account and deposited to an AvidPay bank account held in the name of Old North State Trust, LLC with KeyBank. The vendor invoices are then subsequently paid from the Old North Trust, LLC bank account held at KeyBank on behalf of the Association. Although disbursements recorded by the Association are shown as payments directly to vendors on the general ledger, the payments are actually electronic transfers to an AvidPay bank account held in the name of Old North State Trust, LLC with KeyBank as described above. As a result of this process, the check numbers shown on the general ledger are not the same as the check numbers on the checks received by the vendors.

NOTE 1 – CERTIFICATES OF DEPOSIT:

The account is comprised of certificates of deposit with balances as follows, as of year-end:

Account Type	Year of Maturity	Amount
CDs	2020	$ 250,000
CDs	2021	500,000
CDs	2022	715,000
CDs	2023	800,000
CDs	2024	200,000
CD	2025	600,000
CD	2028	200,000
CD	2029	100,000
Total certificates of deposit		$3,365,000

NOTE 2 - INVESTMENTS:

The accounts are comprised of investments with balances as follows, as of year-end:

Account Type	Year of Maturity	Amount
U.S. Treasury	2021	$ 200,000
U.S. Treasury	2024	410,000
U.S. Treasury	2025	240,000
Investment discount		(30,091)
Unrealized gain on investments		19,556
Total investments		$ 839,465

NOTE 3 – FAIR VALUE MEASUREMENTS:

Current accounting standards establish a 3-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities traded in active markets;

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs;

(Continued)

NOTE 3 – FAIR VALUE MEASUREMENTS: (Continued)

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Association determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, The Association uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The Association has evaluated the various types of investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based on trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange.

The following table presents the balances of assets measured at fair value on a recurring basis as of September 30, 2020 by level within the fair value hierarchy:

Account Type	Level 1	Level 2	Level 3	Total
U.S. Treasury	$ 839,465	$ -	$ -	$ 839,465
Total investments	$ 839,465	$ -	$ -	$ 839,465

NOTE 4 - ASSESSMENTS RECEIVABLE, NET:

The Association established an allowance for doubtful accounts to more reasonably estimate the value of assessments receivable, at year-end.

Assessments receivable	$ 98,568
Less allowance for doubtful accounts	(63,757)
Assessments receivable, net	$ 34,811

NOTE 5 - ACCRUED PAYROLL EXPENSE:

The composition of accrued payroll expense is shown in the following computation, at year-end:

Accrued vacation and sick leave payable	$ 42,891
Accrued pension payable	23,864
Total accrued payroll expense	$ 66,755

(Continued)

NOTE 6 – DEFERRED CABLE INCOME:

In 2009, the Association entered into a 12-year agreement with Comcast Cablevision of DC, LLC (Comcast). This agreement allows Comcast to install, maintain and operate broadband communication within the Association. The Association received $42,575 in 2009 for the entire 12-year period.

NOTE 7 – REPAIR AND REPLACEMENT FUND STATUS:

The cash, certificates of deposit and investments available for the fund, after providing for liabilities, at year-end, are:

Cash	$2,614,802
Certificates of deposit	3,365,000
Investments	839,465
Total cash, certificates of deposit and investments	6,819,267
Less liabilities	(648,121)
Cash, certificates of deposit and investments available for repair and replacement fund	6,171,146
Less repair and replacement fund	(5,735,722)
Excess	$ 435,424

This analysis is a measurement of liquidity and not an indication of the adequacy of the fund for its intended purposes. The repair and replacement fund is fully supported by cash, certificates of deposit and investments as of September 30, 2020.

NOTE 8 – RETIREMENT PLAN:

In FY 2009, all employees became corporate employees of the management company, Legum & Norman, Inc.; and they became eligible for their 401(k) plan after three months employment. Effective January 2012, all employees reverted back to become direct employees of the Association and eligible to contribute to a Simplified Employee Plan (SEP) in accordance with the employee manual. Each year, the Board of Directors determines the amount of the employer’s voluntary contribution to the employees’ pension plan. The retirement plan contribution expense for the year ended September 30, 2020 is $19,741.

(Continued)

NOTE 9 – GRANT REVENUE:

In 2019, the Association applied for and received a grant from Arlington County, Virginia as part of the Stormwater Wise Landscapes Program. The Association agreed to accept the monetary donation from the County of $3,000 to build a rain garden. The Association was eligible for reimbursement of 50% of the total expenses, up to $3,000, for the installation of the rain garden in September 2018. The Association is required to maintain the rain garden according to the maintenance schedule for five years. The Association’s total grant expenses were $6,710.

In 2016, the Association applied for and received a grant from Arlington County, Virginia as part of the Stormwater Wise Landscapes Program. The Association agreed to accept the monetary donation from the County of $3,000 to build a rain garden. The Association was eligible for reimbursement of 50% of the total expenses, up to $3,000, for the installation of the rain garden before October 31, 2016. The Association is required to maintain the rain garden according to the maintenance schedule for five years through 2021. The Association’s total grant expenses were $6,710.

NOTE 10 – RELATED PARTY TRANSACTIONS:

The Association used Associa OnCall – AMT for miscellaneous repairs and maintenance work. In 2020, the Association paid $4,471, to Associa OnCall – AMT.

NOTE 11 – FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate—Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to owners in an amount that reflects the consideration to which the Association expects to be entitled in exchange for those goods or services.

The adoption of the new revenue recognition guidance resulted in no change to members’ equity.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2020 financial statements. There was no effect to any item included in the 2020 financial statements.

NOTE 12 – FASB ACCOUNTING STANDARDS UPDATE (ASU) 2016-01:

The FASB issued ASC 2016-01 Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU requires unrealized gains and losses to be recognized on the statement of revenue and expenses, instead of on the balance sheet.

The adoption of the standards update resulted in the following change to members' equity as of September 30, 2019:

	Repair and Replacement Fund	Unrealized Gain on Investments	Members' Equity
Balance as previously reported at September 30, 2019	$ 3,844,701	$ 6,518	$ 544,197
Adjustment	-	(6,518)	6,518
Adjusted balance at September 30, 2019	$ 3,844,701	$ -	$ 550,715

NOTE 13 – COVID-19 PANDEMIC:

The COVID-19 pandemic developed rapidly in 2020, with a significant amount of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19.

We established safety and health measures for onsite staff by social distancing, implementing enhanced cleaning procedures, wearing masks, and teleworking by our administrative staff. The management office was open for prescheduled appointments one person at a time.

Except for the tennis courts and the tot-lot, the recreational facilities were closed. The pools were readied but not opened to the public during the year.

Provisions were made to allow owners to request deferral of assessments under certain circumstances. No owners requested that the Assessment Hardship payment plan be implemented during the year.

We incurred additional COVID-19 related expenses, including the costs of: additional cleaning for our multi-unit apartment buildings, management office, and the community center; personal protective equipment; and staff bonuses. Because the pools were not opened, we received a rebate from our pool contractor.

Due to COVID-19, we did not execute a number of originally scheduled FY20 reserve projects, resulting in an increase in our reserve accounts' balance.

Due to COVID-19, we did not receive any income from rental of the community center for seven months.

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED
SEPTEMBER 30, 2020

Administrative:	
Miscellaneous office expenses	$ 20,381
Bad debt	25,199
Minutes	3,500
Office equipment	30,143
Office supplies	7,521
Parking decal stickers	1,071
Activities	4,611
Printing and copying	11,323
Postage	19,624
Newsletter	30,355
Insurance	450,861
Miscellaneous administrative	135
Non-insurance loss	102,527
Total administrative	707,251
Payroll:	
Payroll administration	27,007
Administrative staff	150,527
Maintenance payroll	384,036
Management staff	227,072
Payroll accrued vacation	1,308
Group health insurance	75,486
Payroll taxes	56,520
Unemployment taxes	1,378
Retirement fund expense	19,741
Workers' compensation	13,505
Total payroll	956,580
Utilities:	
Telephone	15,013
Water and sewer	915,032
Electricity	67,412
Total utilities	997,457

(Continued)

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED
SEPTEMBER 30, 2020
(Continued)

Contracted services:	
Trash removal	$ 318,762
Landscape maintenance	411,384
Uniforms	6,263
Janitorial services	125,390
Pest control	8,939
Pool management	77,328
Patrol service	53,702
Total contracted services	1,001,768
Repair and maintenance:	
Grounds non-contract	57,417
Grounds improvement	70,490
Contractor planting	9,851
Trees	128,592
Building repairs	37,541
Community center	2,780
Fire safety equipment	3,372
Carpet cleaning	13,870
General supplies	18,092
Gutters and downspouts	3,199
Lighting	16,742
Maintenance supplies	3,775
Plumbing repairs	57,160
Pools	42,603
Roofs	49,767
Snow removal supplies	281
Tennis courts	805
Vehicle expenses	18,822
Painting - miscellaneous	2,235
Total repair and maintenance	537,394

(Continued)

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED
SEPTEMBER 30, 2020
(Continued)

Professional services:	
Audit/Tax return preparation	$ 14,850
Planning and engineering	3,450
Legal services	10,560
Management fees	310,406
Total professional services	339,266
Income taxes	21,552
Depreciation	5,582
TOTAL EXPENSES	$ 4,566,850

UNIT OWNERS ASSOCIATION OF FAIRLINGTON VILLAGES
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
SEPTEMBER 30, 2020
(Unaudited)

The Board of Directors commissioned a study of its repair and replacement fund in 2019 to evaluate its estimate of the useful lives and replacement costs of the components of the fund. The following table is based on the study and presents significant information about the components of the fund.

Components	Estimated Useful Lives (Yrs)	Estimated Future Replacement Costs
Pavements	0-20	$ 967,810
Concrete site elements	1-2	37,500
Tennis courts and swimming pools	0-30	2,276,020
Other site features	1-40	1,275,525
Building exteriors and interiors	0-75	20,762,500
Building systems	0-50	1,010,250
Total		$26,329,605
Repair and replacement fund balance at September 30, 2020		$ 5,735,722

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Communication with Those Charged with Governance

Board of Directors
Unit Owners Association of Fairlington Villages

We have audited the financial statements of Unit Owners Association of Fairlington Villages for the year ended September 30, 2020, and have issued our report thereon. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Unit Owners Association of Fairlington Villages are described in the financial statements. As described in Note 11, the Association changed accounting policies related to revenue recognition by adopting FASB Accounting Standards Update No. 606, Revenue from Contracts with Customers, in FY 2020. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

As described in Note 12, the Association changed accounting policies related to financial instruments by adopting FASB Accounting Standards Update No. 2016-01, Financial Instruments – Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, in FY 2020. Accordingly, the accounting change has retrospectively applied to prior periods presented as if the policy had always been used.

We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> The Association's estimate of the repair and replacement fund is based on a reserve study conducted in 2019 to estimate the remaining useful lives and the replacement cost of the components of the common property. We have applied certain limited procedures, which consisted principally of reading and summarizing the repair and replacement study. However, we did not audit the information and express no opinion on it.
>
> The Association's determination of assessments receivable is based on an analysis of the collectibility of individual delinquent accounts. We evaluated the key factors and assumptions used to determine the collectibility of the accounts, that it is reasonable in relation to the financial statements taken as a whole.

The Association's estimate of the allowance for doubtful accounts is based on an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Significant accounting policy – Vendor payments

Note 7 – Repair and replacement fund status

Note 10 – Related party transactions

Note 13 – COVID-19 pandemic

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Association’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Unit Owners Association of Fairlington Villages and is not intended to be and should not be used by anyone other than those specified parties.

JOHNSON, BREMER & IGNACIO, CPAs, P.C.

[DATE TO BE INSERTED UPON FINALIZATION]

1156-20

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Communication of Deficiencies in Internal Control

To Management and the Board of Directors of Unit Owners Association of Fairlington Villages

In planning and performing our audit of the financial statements of Unit Owners Association of Fairlington Villages as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Unit Owners Association of Fairlington Villages 's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Association's internal control to be material weakness:

> The Association was not following its procedures for reconciling the balance sheet accounts on a monthly basis during the year. We recommend that all activity, especially against cash and assets, be accurately recorded and reconciled monthly. Two examples of issues that arose due to this are:
>
> - A journal entry was recorded at year-end to record depreciation for the year. However, the entry reduced the asset instead of increasing accumulated depreciation.
> - A journal entry was recorded at year-end to eliminate insurance claim activity related to a prior year claim. However, the entry was unnecessary as the activity had been cleared in a prior year and it created an insurance claim payable when the Association did not have one.

This communication is intended solely for the information and use of management the Board of Directors and others within the Association and is not intended to be and should not be used by anyone other than those specified parties.

JOHNSON, BREMER & IGNACIO, CPAs, P.C.

[DATE TO BE INSERTED UPON FINALIZATION]

1156-20