Kent's Korner
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A Penny Saved

"Too bad all the people who know how to run the country are busy driving cabs and cutting hair."
-- George Burns

Most of us living in Green Valley today are old enough to remember the comedian, George Burns. Given that we just experienced the 2018 mid-term elections, I believe it is apropos to share Burn's tongue-in-cheek joke about political pundits, which likely includes other pundits, as well.

My 27-year-old daughter is a busy lady.

She commutes to the suburbs for her job as an Aerospace Engineer from her residence in Alexandria, Virginia, which is George Washington's old stomping grounds just across the Potomac River from Washington, DC. On nights and weekends, she tackles her schoolwork in an Aerospace Engineering Master's Degree program at the University of Southern California. Graduation is expected next May. She travels a lot with her job. In whatever free time she can find, she trains for half-marathons and volunteers as a visitor's guide at the Smithsonian Air & Space Museum in Washington DC.

The point is that my daughter is really busy.

So last March, she put earnest money down on the small, one-bedroom condo in the Carlyle District of Alexandria, her first home. Built in 2006, the three-story development includes 116 units and is atop a gigantic Whole Foods Market at street level.

In a bind for time, my daughter asked me to read the obligatory condo documents. She wanted to know whether or not the condominium complex was well-managed and financially sound.

I reviewed the condo documents. That's what dads do.

In reviewing the documents, the first place I turned to was to discover whether or not the condominium had a recent Reserve Study performed by expert consultants. I wanted to know how much money was being set aside each year for maintenance, repair, and replacement; what the reserves percent-funded rate is; and what portion of my daughter's monthly condo fee was put into the reserve account.

Within the entire condominium document, verifying the existence of a professionally-advised Reserve Study with responsible and conscientious funding of reserves was by far most important to protect my daughter and her investment. Everything else included in the condo documents appeared rudimentary. Rules and policies were either okay or not, depending upon personal preference. If you like dogs, then this condominium could work for you. If you were inclined to play music at all hours of the day and night, then maybe you needed to live somewhere else.

According to audited financial statements, GVR owns and operates $36 million in 'book value' of capital facilities. The true replacement value of our facilities would be tens of thousands of dollars more. So instead of replacing facilities, we take care of them. How is that done? By squirreling away dollar-after-dollar to the point that worry about a catastrophic facility failure anywhere on GVR's campus would be wasted energy.

When I was recruited to apply for the GVR CEO position, I asked to see recent financial documents. What I found was quite surprising. In 2009, a reserve study was completed by an outside consulting company. But in 2014, the Independent Auditors Report reprimanded GVR in a 'finding': *"GVR has not followed these recommendations and has not been specifically funding the reserves."*
Click HERE for the 2014 Independent Auditor's Report.

Since then, under the leadership of recent Boards of Directors, GVR contracted with an expert consultant firm based in California for a new Reserve Study and implemented a three-component reserve system (Maintenance, Repair and Replacement; Emergency; Initiatives). Most significantly, GVR funds the Maintenance, Repair and Replacement (MRR) reserve account each month without missing a payment.

Who pays to fund the MRR reserve account? We all do, through our annual dues. Just as with my daughter's monthly condo fee, a portion of GVR member dues is swept into the MRR reserve account each month. This mandatory obligation is clearly defined in our Corporate Policy Manual (CPM):

> *The annual operating budget shall generate sufficient Excess Revenue-Over-Expenses to make the Reserve Contribution to the Maintenance, Repair and Replacement Reserve Fund called for in the **Annual Reserve Study** unless such Reserve Contribution generates a Percent Funded greater than 100% in which case the Reserve Contribution may be reduced to achieve a Percent Funded not less than 85%.*

Currently at $5,845,250 or 78.9% funded, the MRR reserve is not there yet. What's more, the 'percent funded' amount will vary each year, depending upon how much money needs to be withdrawn for scheduled maintenance, repair and replacement projects.

One last piece of interesting information…

If you read the indented paragraph from the CPM closely (see above), you will see that it is required that the annual operating budget generate a surplus ("*Excess Revenue-Over-Expenses")* in order to fund the MRR reserve account. This means that GVR does not rely on good luck or a good economy to properly plan its fiscal future. We must plan to generate a surplus in order to protect ourselves from the possibility of future financial pain.

Regarding the Emergency Reserve and the Initiatives Reserve accounts, it's a different story. Adding to the Emergency Reserve account (funded at $886,807 as of 10/31/18) is wholly dependent on having a net surplus remaining after mandatory funding of the MRR reserve account. Beginning in 2019 - at least as of today - the Initiatives Reserve account (funded at $2,022,813 as of 10/31/18) will receive 20% of all New Member Capital Fees and 25% of all Initial Fees paid. The Board may also choose to deposit any net operating-year surplus into the Initiatives Reserves after funding the MRR account.

But wait, there is more…

Board policy requires that Emergency Reserve and Initiatives Reserve accounts be reimbursed for earlier expenditures from these accounts (after MRR reserve funding). These pay-backs must be made before a surplus is ascertained.

After considering all GVR policies and rules codified within our CPM, what were the audited financial results at the end of recent fiscal years?

- 2016 $34,764 surplus (0.034% of 2016 $10.1 million budget)
- 2017 $283,287 surplus (2.6% of 2017 $11 million budget)
- 2018 A recent analysis is projecting a <$93,831> year-end deficit
  (-0.08% of 2018 $11.2 M projected revenue)

Enough for now.

I've called for an Uber to take me to a barbershop.

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