

With all the fuss and furor about the MVF Finances, you would think that a plan would have appeared by now. There have been two elections, staff changes and promises galore, but not a hint of action.

Now, here we are in another late budget cycle, coupled with the need for a ceiling increase.

Sooner or later the MVF Board has to face the realization that they have a serious structural problem. They have been told this as long ago as March of 2006.

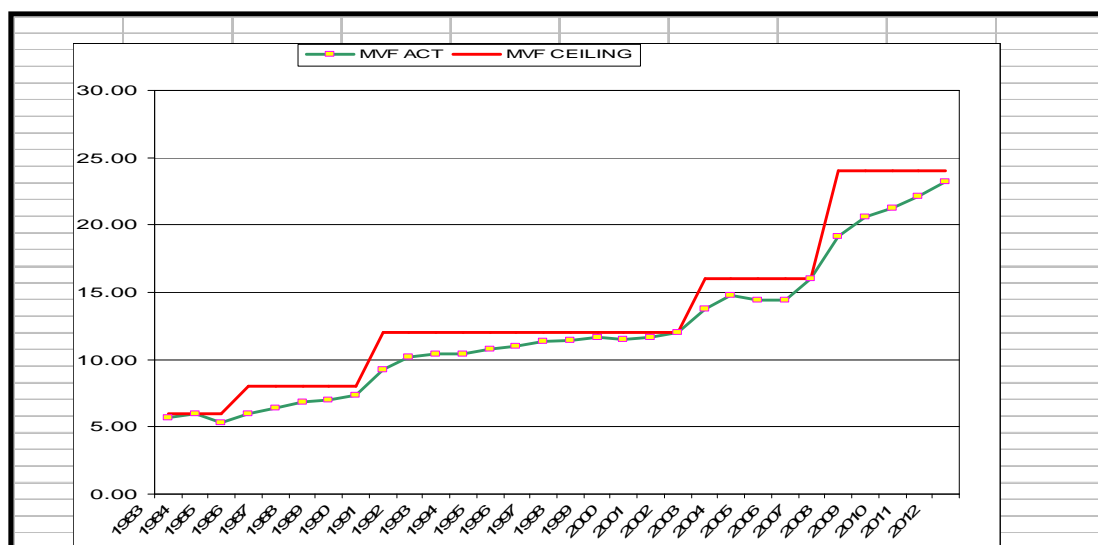
What is a structural problem in finance? It is a fancy way of saying that you have insufficient income to support your expenses. In other words, the structure of your financial model is inadequate to support the enterprise.

The problem stems from several causes, going back to the time when the last Village development was completed. This was the end of a steady stream of new members and new sources of assessment revenue. Since then, while expenses have continued to rise, assessment increases were kept modest and even lowered in an attempt to prevent community dissention and to be sensitive to the financial concerns of the membership. This situation was helped along by significant subsidization of both the MVF and DU funds by Community Management and Maintenance.

While the intent was laudable, it set the stage for the situation that exists today – negative operating reserves, \$700,000 owed to the reserve fund, grossly incorrect internal fund balances and three deficit years in a row. Is it any wonder that the community does not trust the Foundation with their money!

Other problems like the embezzlement and the accounting lapses played a role, but have largely been overemphasized because they are easier to understand. They are also easier to fix. In fact by the end of 2006, most of the accounting problems had been corrected and the improvements continued into 2007.

In the meantime, the major problems have been ignored.



The chart above shows the MVF fund assessment history going back to 1983. Note that the assessments approached the ceiling but did not cross it for several years in the late 1990s and early 2000s. This would appear to be the precursor to the structural problem that now exists – the income momentum brought about by the development activities had finally subsided, but Community Management and Maintenance were subsidizing the MVF Fund and masking the difficulties that lay ahead. In hindsight, it would appear that a ceiling increase should have been requested in 1999 instead of waiting until 2002. Hindsight notwithstanding, it is now in 2008 that steps must be taken to bring matters back under control.

### *The Ceiling Increase*

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Last year's debacle of increasing the ceiling for one year only has brought about the need for another increase for 2009 with nothing changed. It will take a multi-year plan to bring things into line. That will not happen if the ceiling is only increased one year at a time.

However, in order to justify a multiyear increase, a multiyear plan must be produced. This plan must not only address the assessment (income) side of the ledger, but must also examine closely the expenses associated with the MVF and DU funds in particular.

### *The Negative Operating Reserves*

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At the start of 2007 and 2008, the operating reserves were negative by about \$322K. This is an unhealthy financial situation and must be rectified. Operating reserves should be around 3-5% of the annual budget

### *Incorrect Fund Balances*

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Four of the six internal Foundation funds have grossly incorrect balances, the sum of which makes up the operating reserves. Both Community Management and Maintenance are negative and MVF and DU are positive. Unfortunately, analysis has shown that the reverse is the correct picture. For many years, the Community Management Fund has been overcharged with allocations. Correcting these mistakes would reverse the negative fund balance at the expense of the MVF and DU funds. Over many years, Maintenance has been under paid for the work done on MVF property. In one particular year almost \$200K was not even billed. This too would restore the negative balance to positive territory at the expense of the MVF and DU Funds. In short, Community Management and Maintenance have been subsidizing the MVF and DU Funds for a long time, thus keeping those balances positive and keeping assessments lower than they should have been.

### *Annual Deficits*

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Overall, the Foundation has shown a year end deficit in three consecutive years. This has seriously depleted the Reserves and must be corrected.