FINANCIAL ACTIONS

Several inappropriate account adjustments made during the audit of the 2007 MVF books resulted in substantial changes to the overall picture. While it is not suggested that the 2007 results be changed by making prior period adjustments, it is possible to make adjustments in 2008 to compensate for the outcomes of these changes.

ACCRUAL FOR BAD DEBT

Approximately $60K was accrued for bad debt from anticipated foreclosures. This resulted in the Net Income from Operations being $60k lower than it might otherwise have been. And, given the actions taken with the Net Income from Operations, $60K more could have been contributed to reserves. This $60K accrual duplicates $50k that was placed in the 2008 operating budget for the same purpose. It has been stated that this accrual is for a different year than the $50K in the 2008 budget, but that is not the case. Bad debt resulted from foreclosures has a rolling calendar than can extend beyond one year. The analysis that resulted in the $50k budget was the same as that which led to the $60K accrual, with the exception that the latter, having been done six months later than the former resulted in $10K more.

It is urged that $50K of the accrual be transferred to reserves and that the remaining $10K is left on the balance sheet until the $50K budget has been expensed. If the MVF wishes to change the accounting practice for bad debt from a "pay as you go" to an accrual approach, the way to accomplish this is to begin with the 2009 budget. Given the rolling calendar nature of the foreclosure process, it is questionable whether there is much value in such a change.

EQUIPMENT PURCHASES FROM OPERATIONS

Approximately $10K of equipment was originally purchased from reserves, as was correct. Adjustments were made to cause these purchases to be made from operations. That was incorrect as the items were part of a class of assets for which reserves had been set aside. This resulted in Income from Operations being $10K lower than it might otherwise have been. Therefore, $10K more could have been contributed to reserves.

Since reserves were not depleted by this amount, there is no need for a change there. However, it is possible that some or all of these items were added to the fixed asset schedule. If so, they should be removed so that they are not depreciated as that that would result in paying for them twice.

DEPRECIATION AND RESERVES

It would appear from the auditor's report that there is a problem with the manner in which the accounting is done for depreciation and reserves. From the look of it, MVF are being charged for both, in that both appear to have been deducted from all fund balances. That should not be so. The prevailing view is that MVF should be charged for the greater of depreciation or reserves, not the sum of the two. This is a serious matter in that setting assessments and prices to cover both depreciation and reserves as expenses, places an undue burden on the community (assessments) as well as puts MVF's competitive position for community and maintenance services (pricing) at a distinct disadvantage. Further investigation is recommended.