

MCA Contingency Fund Policy & Procedure

What is the MCA Contingency Fund?

The MCA contingency fund is a fund set aside to handle unexpected debts that are outside the range of the usual operating budget. This fund is used as protection against possible loss in the event of an emergency. Here are some examples:

- Natural Disaster Recovery – The fund provides money to MCA and member POA's when losses are not covered by insurance for MCA and/or POA common-owned property that have been damaged or destroyed by a natural event. This fund is designed to help POAs with critical recovery expenses that cannot be covered in other ways.
- Unanticipated MCA lawsuit costs
- Unanticipated early repair or replacement of any MCA reserve asset where the required reserve funds are not available in a liquid form and cannot be converted to such without significant penalty to do so.

Procedure for Managing the MCA Contingency Fund

1. **Annually Establish the New Budget Year Fund Goal:** In the month of September of each year when the next year's budget is being drafted for Board review, total operating expenses for the current year are averaged for the months from January through August to create a monthly average. The annual funding goal is equal to this monthly average times two.
2. **Determine How the New Budget Year Funding Goal Is to Be Realized:**
 - a. Take the contingency fund balance as of August of the current year and subtract the new budget year funding goal. If the answer is zero or is a positive number, then the funding goal is already reached so no additional money needs to be added to the fund. If the answer is a negative number, then there is a fund deficit that needs to be filled.
 - b. Planning to fill fund deficits means first looking for money that is already there. Determine if some of the retained earnings may be transferred to the fund. Talk to the accountant about this before making any plans to move retained earnings into the fund.
 - c. The annual fund expense amount = fund deficit – retained earnings contribution. This fund expense becomes a line item operating expense in the new year budget

Hypothetical Example:

New Budget Yr CF Goal =	\$100,000
Current CF Balance (Aug) =	<u>\$ 80,000</u>
CF Deficit =	- \$ 20,000
Contribution - Ret Earnings	<u>\$ 7,000</u>
Budget Fund Expense	\$ 13,000

What financial affect does this have on residential POs for the new budget year?

$$\$13,000 \times .6412 = \$8,335.60$$

Note: 64.12% is the percentage paid by residential POAs.

$$\begin{aligned} \$8,335.6 / 665 &= \$12.53/\text{yr per residential PO} \\ &= \$1.04/\text{mo per residential PO} \end{aligned}$$

Note: There are 665 residential POs. This is only one of many budget line items. The total monthly assessment will be different than this number. This example explains the affect of just one budget line item.

\$1.04/mo must be contributed by residential Hos during the new CY to fund the Contingency Fund.

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3. Use of Contingency Funds

- a. **Use of funds for MCA-owned assets**, The MCA Board shall determine if the fund is to be used to pay for any unanticipated major expense. If the MCA Board votes to use contingency funds, the meeting minutes shall describe the circumstances causing the need for contingency fund use, the amount of funds to be used, and how the funds will be paid out and to whom.

If the funds are being used in lieu of reserves due to an unanticipated early repair or replacement of any reserved asset where reserve funds are not available in a liquid form and cannot be converted to such without significant penalty to do so, the Board shall define how and when the contingency fund will be replenished from reserves when reserve funds become fluid.

- b. **For natural disaster recovery assistance to the POAs**, both commercial and residential, the fund may not cover all a POA's losses from damage to their common property that resulted from the disaster. The POA follows this procedure to request funding:
 - i. A POA Board member provides written notice to the MCA property manager within 3 business days of the disaster when a natural disaster has caused damage to POA common property.
 - ii. The MCA manager or their representative will visually inspect damages before any remediation efforts are made. If the damage must be immediately repaired to insure vehicular, pedestrian or building safety, in lieu of a visual inspection by the MCA manager, the POA must submit photographs of damages and detailed information about locations. All photographs must be taken before the start of recovery and/or repairs are made.
 - iii. The Board of the affected POA must vote a resolution for the application to request money from the fund. The application must include detailed and competitive bids for the repairs and or reconstruction project, accompanied by the minutes of the Board meeting where the application for the disaster funding was approved and a statement as to why the project is not covered by insurance or POA funds.
 - iv. The MCA Board will provide no more than the maximum for disaster recovery assistance to POAs, which is \$25,000 in total in any given budget year. Actual disbursement of funds to POAs, if any, will be subject to approval by the MCA Board, at its sole discretion. The fund will not be used to provide money for losses that are covered by POA insurance.