

ANALYSIS OF THE RADBURN ASSOCIATION'S
2005 PROJECTED EXPENDITURES AND PROPOSED 2006 BUDGET

PREPARED FOR THE ANNUAL BUDGET HEARING
OF THE RADBURN ASSOCIATION
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Prepared by:
Gary Konecky, CPA
350 Plaza Road North
Fair Lawn, NJ 07410

GARY KONECKY
Certified Public Accountant

www.completesiteinteractive.com/gkcpa

350 Plaza Road North
Fair Lawn, NJ 07410
201-791-5728
gkonecky@yahoo.com

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Among the responsibilities of the Board of Trustees of any organization is the responsibility to prudently manage and oversee the organization's finances.

I recently received the December 2, 2005, issue of the *Radburn Bulletin*. This issue of the *Radburn Bulletin* discussed the projected 2005 income and expenses and the proposed 2006 budget of the Radburn Association.

The *Radburn Bulletin* did not include a complete set of financial statements. The *Radburn Bulletin* included a single financial statement, the Statement of Assets, Liabilities and Net Assets As at December 31, 2004. The information provided about 2005 projected revenue and expenses was not a financial statement prepared in accordance with generally accepted accounting principles. No financial statement of cash flows was provided. No notes to the financial statement(s) was (were) provided. No information concerning any level of assurance from the outside accountant was provided, despite projected 2005 accounting fees of \$6,500.

As for the Statement of Assets, Liabilities and Net Assets As at December 31, 2004, an 11-month-old financial statement has the practical value of 11-month-old bread, stale and useless.

Providing Radburn residents with late and incomplete financial statements gives the appearance of impropriety; as a reasonable person would assume that if there is nothing to hide, then full, complete, and accurate financial statements would be provided to the dues paying property owners of Radburn in a timely manner.

The Radburn Association is projecting a 2005 deficit of over \$121,000. Projected professional services expenditures (excluding accounting services) for 2005 are \$127,000 over budget. In short, the entire budget deficit is the result of massive over budget spending on professional services.

Looked at another way, projected professional services expenditures are \$202,000 and are between two and three times the \$75,000 budgeted. This raises the question, were all these professional services required? The answer appears to be no.

The Radburn Trustees knew (or should have known) about the \$121,000 plus deficit, which is 14% of budgeted 2005 revenue. The Radburn Trustees oversaw approximately \$62,000 of

professional services expenditures to defend against the New Jersey Department of Community Affairs determination that the Radburn Association is in violation of New Jersey's PREDFA law. This specific expenditure is over half of the cause of the deficit. This specific expenditure is 7% of 2005's total budgeted revenue. This specific expenditure is 83% of the total amount budgeted for professional services in 2005.

Furthermore, according to published news reports, PREDFA concerns matters of governance, such as open or public meetings of the Board of Trustees. It is inconceivable how compliance with PREDFA could cost anywhere near the \$62,000 already spent by the Board of Trustees to defend non-compliance with PREDFA. This needless expense, accounting for over half the 2005 deficit, gives the appearance that the Trustees are either incapable of properly managing Radburn's finances, or they have knowingly breached their fiduciary duty to the dues paying property owners of Radburn.

An analysis of the 2005 projected amounts and the 2006 budget reveals several items worthy of further discussion.

First, 2005 administrative costs are projected to be 57% of projected revenue, and slightly over 50% of projected 2005 expenses. In other words, administrative costs in 2005 are more than the costs of all the Radburn Association programs and services including recreation activities (for both adults and children), swimming pools, parks (including landscaping and snow removal), R pool reconstruction, and maintenance expenditures combined.

In the proposed 2006 budget, administrative expenses are 50% of the total budget or as much as the cost of all the aforementioned programs, services, capital, and maintenance expenditures combined.

Second, the single largest item in the 2006 budget is professional services. Professional services are projected to be 22% of 2005 revenue. Put another way, nearly one quarter of all Radburn's total projected 2005 income was spent on professional services (other than accounting fees).

For 2006, professional services (excluding accounting fees) are budgeted to be 16% of all expenditures, expenditures that are budgeted to be 5.31% higher than in 2005.

To put this in some perspective, 2005 professional services expenditures were more than the total costs of operating the swimming pools, and are budgeted to be nearly the total cost of operating the swimming pools in 2006.

Last, is the subject of reserves. The word reserve is an obsolete accounting term with a specific meaning which is not the meaning of the way it is used in the budget. While it is prudent to set aside money for future expenditures, it is not clear from the terminology used (in the budget) what the intended uses of the reserves are or will be.

Is the "CURRENT YEAR CAPITAL RESERVE" to be used for a capital expenditure in the current year? If so, why isn't that expenditure budgeted with all the other expenditures? If the reserve is not to be used in the current year, why is it called current year and how is it different from the "LONG TERM CAPITAL RESERVE?"

Furthermore, the intended use of the "OPERATING RESERVE" is not clear. What is the operating reserve being used for? When is the operating reserve to be used? Is it prudent to fund an operating reserve when there is an operating deficit in excess of \$121,000?

Additional questions include: Is the Long Term Capital Reserve being invested? If so, how is it being invested? Did the Trustees adopt an investment policy? If yes, what is the investment policy? If no, why was an investment policy not adopted?

In conclusion, the information contained in the *Radburn Bulletin* raises serious questions about the management of the Radburn Association's finances, finances that are the responsibility of the Radburn Association's Board of Trustees.

Respectfully submitted,

Gary Konecky, CPA