LAKE PARSIPPANY
PROPERTY OWNERS ASSOCIATION

June 23, 2021

2021 LPPOA Finance Committee
Prepared By:
Jason Blanke
Patty Ellis
Nishan Seal

Re: 2021 Finance Committee Review

Summary

Per Article 18 in the bylaws of Lake Parsippany Property Owners' Association (LPPOA) it is stated that, "A Finance Committee shall be appointed by the Board of Trustees. This Committee shall consist of three LPPOA members, non-trustees. It shall be the duty of the Committee to examine financial records of the LPPOA and to make a complete report of their findings no later than the June meeting."

The members appointed to this committee are Jason Blanke, Patty Ellis, and Nishan Seal. It is important to note that this is not an audit conducted under AICPA standards. The LPPOA is not required to perform an audit, however we strongly recommend that an annual audit take place which would reduce the need for a financial review by LPPOA members similar to other lake associations.

It was a challenge for the Financial Review Committee to complete its assigned task as financial records have been very poorly kept and material items not recorded at all.

We were unable to obtain financial statements prior to 2019 when the new accounting firm, Sanderson took over. Another reason we strongly recommend that the LPPOA perform an audit is that the Finance Committee did not have complete access to the accounting firm Sanderson and the accountants themselves requested that the Committee not contact them directly. The committee was told to go searching boxes themselves which is inefficient and unrealistic for working individuals to do.

We wanted to draw the Membership and Board's attention to a few items which we've commented on below and have made several recommendations to improve the financial reporting and overall finances for the LPPOA.

Budget

Although a budget was passed, budgets should be flexible based on collections and monitored by a qualified treasurer with accounting or finance experience. Additionally, budgets should not forecast a deficit except under certain circumstances. Budgeted income must cover budgeted expenditures and allow for some excess for reserves or unforeseen expenses.

Excessive Legal Expenses

Legal expenses were the largest line item on the LPPOA budget and accounted for a staggering 22% or $81k of the total expenses in 2020. This is extremely high relative to every other expense line including lake maintenance, and in our view, completely irresponsible spending of easement funds by the Board. It is clear that a large portion of the legal fees were spent in an effort to deny voting rights for members who were legally obligated to pay fees and requiring those members to pay additional fees to vote. Essentially, fees from paying members were used to deny voting rights for those same members. The NJ Department of Community Affairs (DCA) disallowed the system of denying voting rights so the easement funds spent in this endeavor were completely wasted and benefitted only the LPPOA's attorneys. We strongly recommend moving away from attorneys who charge fees by the hour since they are incentivized to provide counsel that prolongs a solution to a problem or disagreement which leads to more billable hours.

Reserves / Unrecorded Loans

In the 2021 budget there is an amount allocated for two loans: Lake Restoration Loan and Easement Assessment Loan. When the Finance Committee queried the accounting firm on loan documentation, we were puzzled when they replied that they had no record of a loan.

The Finance Committee eventually learned that approximately $330,00 was taken from a reserve account that was ear marked for lake restoration in order to purchase the club house.

The LPPOA's reserve account were significantly diminished by the past and current board members. The 2021 budgeted deficit will deplete reserves further, leaving the LPPOA within a few years of becoming insolvent without increasing fees.

This fiscal year began with a reserve balance of $179,000. 2021's budget forecasts a $29,000 deficit, however it will be much larger due to lower-than-expected dues collections. There will be a shortfall of dues and it must be carefully monitored.

IRS Form 990

Additionally, of concern, the LPPOA did not file an IRS Form 990 for several years prior to 2018. Given that there was also no financial audit conducted, there is an exceptionally long period where there is no independent accountability for LPPOA funds. For 2020, we advised the President to not sign the form 990 as it had been filled out incorrectly by a material amount of money by the accounting firm Sanderson. Income was reported on an Accrual basis though it was stated that the LPPOA maintains records on a cash basis. Additionally, a surplus of over $300k was reported which is completely incorrect. These are significant errors and given that the LPPOA is charged approximately $40k per year in accounting fees, we believe this is completely unacceptable.

Buildings & Land

Although we could not find appropriate record of this, we were told that there were large tracts of land which were sold in prior years, so it is particularly important that the funds be accounted for as LPPOA property. We attempted to discover how the cash was spent (apparently some taken from reserves) however there is no record of the purchase in the financial statements. On 1/1/19 Sanderson recorded Land and Buildings. Prior to that there is no record of the LPPOA owning property so we cannot comment on the accuracy of this record. We were unable to ascertain exactly which Land and Buildings this represents, and which were sold. We were told by the Treasurer that the LPPOA did not record such items. We were also told that the LPPOA owns additional properties that are not recorded. We were not given detailed information.

Recommendations

1) Move all financial records to a cloud based system like Google drive, Dropbox, OneDrive, etc
2) Budget should be balanced. For the next few years the budget should include a profit or line item to replenish reserves, otherwise the LPPOA will have to raise membership fees in order to avoid insolvency within a few years.
3) Budgeted line items should match the chart of accounts so that actual vs budget can easily be reported.
4) Budgeted expenses as passed must be flexible – it is not "set in stone" just as income is not guaranteed. As the year progresses, actual receipts and expenditures must be reviewed and the budget adjusted when necessary. This must be done to avoid future deficits. Hard decisions may have to be made.
5) Consider engaging a collection agency that is not a legal firm. Though they will take a % of what is collected it may be more palatable to the membership than a law firm which has a conflict of interest since they are providing the Board counsel on membership structures which ultimately benefit the law firm further.
6) An analysis of the number of members using the beach and other amenities should be completed to decide the reasonableness/fiscal responsibility of spending those funds.
7) In addition to the above, we identified that fishing has a direct cost of approximately $3,000 per annum and believe fishing badges should be sold to cover this cost.
8) The treasurer must be qualified with relevant accounting and finance background. They should be able to read and analyze financial statements, debits and credits, etc. The current and previous treasurer were under the assumption that prior reviews of the LPPOA's finances constituted a financial audit. A qualified treasurer with relevant accounting and finance experience would understand the difference between an audit conducted according to the standards set by the AICPA vs a review by members in the community. By the previous and current treasurer's own admissions, they do not have the experience and the accounting was completely inadequate for most of the LPPOA's fiscal years which the Committee found to be absolutely true.
9) Treasurer's report during monthly meetings should include:
    a. Beginning bank balance
    b. Receipts including number of members paid and in collections.
    c. Expenditures
    d. Ending Bank Balance
    e. Explanation of any income or expense out of the ordinary
10) Reorganize Chart of Accounts and create accounting system with new accountants to reduce fees, improve reporting, and make information more accessible.
11) Close Merrill Lynch account and use an FDIC insured account which would likely offer higher interest.
12) Terminate the accounting firm Sanderson and Associates for the following reasons.
    a. The fees of ~$40k that the LPPOA pays to the firm on an annual basis is far too high for the work done. They would not cooperate with the committee, and the LPPOA is charged for any report requested.
    b. There is a very material error on the recent Form 990 – Return of Organization Exempt From Income Tax for the 2020 fiscal year. They listed $671,891 as the gross receipts and a surplus for the 2020 year of $305,272. This is quite a glaring mistake and whether from

incompetence or lake of work ethic, we were disappointed that the Finance Committee had to point this out. If there was minimal review of the work performed the accountants should have instantly recognized that if we had a surplus of $305,272 then our bank balances would reflect that. The fact is the increase in our cash balances was $32,195.90 for 2020 due to easement funds from 2020 and the prior years.

		12/31/2019	**12/31/2020**
Chase		88,387.01	99,646.40
ML		158,161.59	179,098.10
Total		**246,548.60**	**278,744.50**
Surplus		**32,195.90**	

Of note, this is an exceedingly small surplus when taking into consideration approximately 1,000 additional members paid for 2 years of dues (2017 and 2020).

c. The reporting from Sanderson is very inefficient and does not give the Board the ability to see the state of gross receipts and ultimately whether the LPPOA is on plan for meeting its budget. The Finance Committee requested current information on gross receipts to determine if the LPPOA could meet its current budget, however we were told this information is only available on a weekly or bi-weekly basis. Additionally, reporting on gross receipts is a separate variable expense charge each time which makes this system expensive in addition to inefficient.

13) Reduce legal fees and terminate agreement with Dolan & Dolan due to poor advice and high costs.
14) Institute an annual audit by independent Accountant separates from Financial Review Committee
15) Beef up financial controls around cash. We were informed that several individuals have ATM cards and there were approximately $1,200 in ATM withdrawals in prior years. We did not examine the invoices for these cash withdrawals, but this brings several things into question including controls. This is also another reason why a true financial audit should be conducted annually.
16) We recommend that the Board examine the historical financial records for the period where there was no independent accountability and verify that there was not any misappropriation of LPPOA funds. Since a few of the board members are under the impression that high level review by LPPOA members was a financial audit, we want to be clear that this review together with prior reviews is not an audit. Additionally, we also want to make it clear that we are not accusing anyone of misappropriation, however independent accountability is very important and whether we had full trust or no trust in an entity's officers is irrelevant. This is necessary due to the unrecorded transactions that we have discovered.