

**UPPER GREENWOOD LAKE
PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Upper Greenwood Lake Property Owners' Association, Inc.
Hewitt, New Jersey

We have audited the accompanying statement of assets, liabilities, and fund balances (cash basis) of Upper Greenwood Lake Property Owners' Association, Inc. (a not for profit organization) as of December 31, 2011, and the related statements of revenues and expenses (cash basis) and changes in fund balances (cash basis) for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management is responsible for the preparation of these financial statements in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects the financial position of Upper Greenwood Lake Property Owners' Association, Inc. as of December 31, 2011, and the results of its operations and its fund balances for the year then ended, in accordance with the basis of accounting as described in Note 2.

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



SCHULMAN AND BLACK, LLP
Certified Public Accountants

February 5, 2013

Upper Greenwood Lake Property Owners' Association Inc.
Statement of Assets, Liabilities and Fund Balances
(Cash Basis)
December 31, 2011

	Total	POA Fund	Easement Fund
<u>ASSETS</u>			
Current Assets:			
Cash In Banks and Cash Equivalents	\$ 399,885	\$ 133,277	\$ 266,608
Cash - Restricted for Dredging Expenses (Note 3)	265,707	-	265,707
Cash - Restricted for Dam Expenses (Note 3)	106,759	-	106,759
Cash - Restricted (Note 3)	49,699	49,699	-
Total Current Assets	<u>822,050</u>	<u>182,976</u>	<u>639,074</u>
Property and Equipment:			
Land	55,320	19,335	35,985
Land Improvements (Note 2)	558,905	7,461	551,444
Building (Note 2)	616,495	607,905	8,590
Building Improvements (Note 2)	14,000	-	14,000
Equipment (Note 2)	149,192	100,847	48,345
Total	1,393,912	735,548	658,364
Less: Accumulated Depreciation	(684,577)	(276,779)	(407,798)
Total Property and Equipment (Net)	<u>709,335</u>	<u>458,769</u>	<u>250,566</u>
TOTAL ASSETS	<u>\$ 1,531,385</u>	<u>\$ 641,745</u>	<u>\$ 889,640</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Current Liabilities:			
Current Portion of Long-Term Debt (Note 4)	\$ 19,620	\$ -	\$ 19,620
Total Current Liabilities	<u>19,620</u>	<u>-</u>	<u>19,620</u>
Noncurrent Liabilities:			
Long-Term Debt (Note 4)	195,312	-	195,312
Total Noncurrent Liabilities	<u>195,312</u>	<u>-</u>	<u>195,312</u>
TOTAL LIABILITIES	<u>214,932</u>	<u>-</u>	<u>214,932</u>
 FUND BALANCES			
Unrestricted	1,106,542	616,745	489,797
Restricted	209,911	25,000	184,911
Total Fund Balances	<u>1,316,453</u>	<u>641,745</u>	<u>674,708</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,531,385</u>	<u>\$ 641,745</u>	<u>\$ 889,640</u>

See accompanying notes to financial statements

Upper Greenwood Lake Property Owners' Association Inc.
Statement of Revenues and Expenses
(Cash Basis)
For the Year Ended December 31, 2011

	Total	POA Fund	Easement Fund
REVENUES			
Membership Dues and Assessment - Current Year	\$ 423,168	\$ 146,475	\$ 276,693
Membership Dues and Assessment - Prior Year	26,842	1,125	25,717
Late Fees	18,535	8,598	9,937
Storage and Rental Income	11,055	9,370	1,685
Interest and Dividend Income	830	58	772
Capital Improvements	23,150	-	23,150
Other Income	1,760	1,760	-
TOTAL REVENUES	<u>505,340</u>	<u>167,386</u>	<u>337,954</u>
EXPENSES			
Payroll and Related Taxes	101,098	59,655	41,443
Weed Control	37,694	-	37,694
Insurance	42,166	11,187	30,979
Depreciation (Note 2)	59,030	24,790	34,240
Real Estate Taxes	49,412	15,463	33,949
Building and Parkland Maintenance	46,464	5,203	41,261
Activities Expense, Net	10,854	10,854	-
Beach	9,778	9,778	-
Interest	5,814	1,411	4,403
Legal	20,349	3,915	16,434
Office	9,419	2,085	7,334
Utilities	14,547	8,207	6,340
Security	2,759	-	2,759
Environmental	1,250	-	1,250
Accounting	3,600	1,080	2,520
Membership	1,970	1,296	674
Dam Maintenance	2,011	-	2,011
TOTAL EXPENSES	<u>418,215</u>	<u>154,924</u>	<u>263,291</u>
Excess Revenues over Expenses	<u>\$ 87,125</u>	<u>\$ 12,462</u>	<u>\$ 74,663</u>

See accompanying notes to financial statements

Upper Greenwood Lake Property Owners' Association Inc.
Statement of Changes in Fund Balances
(Cash Basis)
For the Year Ended December 31, 2011

	<u>Total</u>	<u>POA Fund</u>	<u>Easement Fund</u>
Fund Balances, December 31, 2010	\$ 1,229,328	\$ 629,283	\$ 600,045
Excess Revenues over Expenses	<u>87,125</u>	<u>12,462</u>	<u>74,663</u>
Fund Balances, December 31, 2011	<u>\$ 1,316,453</u>	<u>\$ 641,745</u>	<u>\$ 674,708</u>

See accompanying notes to financial statements

**UPPER GREENWOOD LAKE
PROPERTY OWNERS' ASSOCIATION, INC.
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Note 1 - Organization

The Association maintains two funds – Property Owners' Association Inc. (POA) and Easement. The accounts in each fund reflect the cash receipts and disbursements applicable to that fund.

The POA Fund receives its income from members of the Association and is responsible for the maintenance and repair of the buildings and beach areas. The Easement Fund receives its income from assessments against property owners and is responsible for the maintenance and upkeep of the Association's realty, including the lake and dam, other than building and beach areas.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The Association's policies are to prepare its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, except for financing (if any), capitalization, and subsequent expensing of property and equipment purchased and the accrual of payroll taxes, revenues are recognized when received rather than earned, and the expenses are recognized when cash is disbursed rather than when the obligation is incurred.

Future Major Repairs and Replacements

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to borrow, utilize reserve funds, increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment is stated at cost. Additions and improvements that increase an asset's useful life are capitalized. Expenditures for maintenance and repairs are charged as an expense as disbursed. Depreciation is provided on the straight-line method over the estimated useful lives, as follows:

Equipment	5-10 years
Improvements (including dam)	10-20 years
Building	39 years

Depreciation expense for the year ended December 31, 2011 is \$59,030.

Income Taxes

The Association is incorporated under New Jersey law to operate as a not for profit corporation within the meaning of Section 501(c)(7) of the Internal Revenue Code of 1986. Accordingly, a provision for Federal or New Jersey corporate income taxes is not required other than for unrelated business and investment income.

Note 3 – Cash: Restricted Use

The easement holders have agreed that certain assessments collected by the Association would be restricted as to use. Separate money market accounts have been set aside for the purpose of dredging and dam expenses.

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Note 4 – Long Term Debt

Long term debt consists of the following:

A) Mortgage note payable, secured by the clubhouse land and building, calling for monthly installments of \$2,417 including interest at a rate of 6.52% per annum with a maturity February 1, 2013. The Association has made additional payments towards the principal and the loan was paid off in full during the year ended December 31, 2011.

B) The State of New Jersey approved a long term low interest loan of \$375,000 to the association for the purpose of dredging the lake. The Town of West Milford has cosigned the loan for this plan. The terms of the loan are as follows: 2% interest, payable in thirty eight installments at six month intervals beginning January 29, 2003 and ending July 29, 2021. As of December 31, 2011 the loan payable was \$214,932.

Required annual principal payments at December 31, 2011 are as follows:

2012	\$	19,620
2013		20,014
2014		20,417
2015		20,827
2016		21,246
Thereafter		112,808
	\$	<u>214,932</u>

Note 5 - Contributions

The Association's primary management personnel, including the Board of Trustees and the Officers are volunteers. Certain of these individuals receive nominal stipends, which are immaterial in amount. These disbursements are reported as expenses. The value of the volunteers' contributed time is not reflected in the financial statements because no reliable basis exists for reasonable determining an appropriate amount.

Note 6 – Contingency

The Association is party to various legal actions normally associated with property owner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

Note 7 - Concentration of Credit Risk

Financial instruments that potentially subject the Association to credit risk consist principally of cash. The Association places its cash with several high credit quality institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The balances exceed federally insured limits by \$191,949 as of December 31, 2011.

Note 8 - Subsequent Events

The Association has evaluated subsequent events through February 5, 2013, which is the date the financial statements were available to be issued. During August 2012, the Association entered into a settlement with the Township of West Milford, New Jersey with respect to the West Milford Township road drainage (grits matter). The Association had brought the lawsuit against the town due to concerns regarding winter road grits entering the lake. As a result of the settlement, the Township of West Milford has agreed to institute a seven year program to install and/or retrofit the sedimentation/catch basins in the Upper Greenwood Lake Development; to annually sweep the roads that have been paved by the Township in the Upper Greenwood Lake Development; and to remove road grits and to clean sedimentation basins in the Upper Greenwood Lake Development four times a year.