

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

Schulman Black & Katz, LLP

CERTIFIED PUBLIC ACCOUNTANTS

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Assets, Liabilities and Fund Balances - Modified Cash Basis	3
Statement of Revenues and Expenses - Modified Cash Basis	4
Statement of Changes in Fund Balances - Modified Cash Basis	5
Notes to Financial Statements	6 - 9

Schulman Black & Katz, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Upper Greenwood Lake Property Owners' Association, Inc. (a not for profit organization), which comprise the statements of assets, liabilities, and fund balances – modified cash basis as of December 31, 2022, and the related statements of revenues and expenses – modified cash basis and changes in fund balances – modified cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances of Upper Greenwood Lake Property Owners' Association, Inc. as of December 31, 2022, and its revenue and expenses and changes in fund balances for the year then ended, in accordance with the modified basis of accounting as described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Upper Greenwood Lake Property Owners' Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Upper Greenwood Lake Property Owners' Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Upper Greenwood Lake Property Owners' Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Upper Greenwood Lake Property Owners' Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the estimated remaining lives and replacement costs of the common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified 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 Black & Katz

SCHULMAN BLACK & KATZ, LLP
Certified Public Accountants
New City, New York
August 3, 2023

Upper Greenwood Lake Property Owners' Association, Inc.
Statement of Assets, Liabilities and Fund Balances
Modified Cash Basis
December 31, 2022

	<u>Total</u>	<u>POA Fund</u>	<u>Easement Fund</u>
<u>ASSETS</u>			
Current Assets:			
Cash In Banks and Cash Equivalents	\$ 418,955	\$ 134,689	\$ 284,266
Investments	829,270	159,699	669,571
Investments - Restricted for Dredging Expenses	361,153	-	361,153
Investments - Restricted for Sinking Funds	295,736	-	295,736
Cash - Restricted for Capital Improvements	53,597	53,597	-
Cash - Restricted for Encroachment Enforcement	29,670	-	29,670
Cash - Restricted for Legal Expenses	8,500	-	8,500
Interfund Receivable/(Payable)	-	262	(262)
Total Current Assets	<u>1,996,881</u>	<u>348,247</u>	<u>1,648,634</u>
Property and Equipment:			
Land	55,320	19,335	35,985
Land Improvements	1,425,462	20,251	1,405,211
Building	677,717	669,127	8,590
Building Improvements	14,000	-	14,000
Bulkhead Improvements	222,939	-	222,939
Dam Improvements	132,408	-	132,408
Equipment and Clubhouse Improvements	284,864	210,963	73,901
Total	<u>2,812,710</u>	<u>919,676</u>	<u>1,893,034</u>
Less: Accumulated Depreciation	<u>1,447,984</u>	<u>514,698</u>	<u>933,286</u>
Total Property and Equipment (Net)	<u>1,364,726</u>	<u>404,978</u>	<u>959,748</u>
TOTAL ASSETS	<u>\$ 3,361,607</u>	<u>\$ 753,225</u>	<u>\$ 2,608,382</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Current Liabilities:			
Accrued Interest Payable	\$ 39,994	\$ -	\$ 39,994
Clubhouse Deposits Payable	860	860	-
Total Current Liabilities	<u>40,854</u>	<u>860</u>	<u>39,994</u>
Noncurrent Liabilities:			
Long-Term Debt (Note 5)	<u>581,990</u>	<u>-</u>	<u>581,990</u>
TOTAL LIABILITIES	<u>622,844</u>	<u>860</u>	<u>621,984</u>
FUND BALANCES			
Unrestricted General Fund	1,990,107	698,768	1,291,339
Restricted:			
Barge Motor Trust Fund	5,000	-	5,000
Boat Motor Trust Fund	16,000	-	16,000
Clubhouse Capital Improvement Fund	53,597	53,597	-
Dam Fund	167,556	-	167,556
Dredging Trust Fund	400	-	400
Encroachment Enforcement Fund	29,670	-	29,670
Future Dredging Fund	360,753	-	360,753
Legal Fund	8,500	-	8,500
Stump Sinking Fund	107,180	-	107,180
Total Restricted Funds	<u>748,656</u>	<u>53,597</u>	<u>695,059</u>
Total Fund Balances	<u>2,738,763</u>	<u>752,365</u>	<u>1,986,398</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,361,607</u>	<u>\$ 753,225</u>	<u>\$ 2,608,382</u>

See accompanying notes to financial statements

Upper Greenwood Lake Property Owners' Association, Inc.
Statement of Revenues and Expenses
Modified Cash Basis
For the Year Ended December 31, 2022

	Total	POA Fund	Easement Fund
REVENUES			
Membership Dues and Assessments - Current Year	\$ 610,580	\$ 223,200	\$ 387,380
Membership Dues and Assessments - Prior Year	69,685	550	69,135
Late Fees	38,286	5,350	32,936
Storage and Rental Income	9,690	9,690	-
Other Income	2,880	2,880	-
Interest and Dividend Income	2,633	281	2,352
TOTAL REVENUES	733,754	241,951	491,803
OPERATING EXPENSES			
Payroll and Related Taxes	168,498	90,042	78,456
Depreciation	147,302	26,334	120,968
Real Estate Taxes	56,763	17,392	39,371
Building and Parkland Maintenance	45,559	21,338	24,221
Insurance	44,154	13,246	30,908
Weed Control	35,983	-	35,983
Legal - Minor Actions and Reviews	16,757	1,878	14,879
Utilities	16,603	8,401	8,202
Interest Expense	12,618	-	12,618
Beach	12,190	12,190	-
Activities, Net	11,308	11,308	-
Office	10,887	5,349	5,538
Dam Maintenance	6,505	-	6,505
Accounting	5,000	1,500	3,500
Security	3,357	-	3,357
Legal - Retainer	2,700	810	1,890
Surety Bond	2,500	2,500	-
Membership	2,243	1,510	733
Contingency Fund	1,971	-	1,971
Web/IT Services	1,558	-	1,558
Environmental	1,356	-	1,356
Dock Maintenance	1,233	1,233	-
Barge Maintenance	1,098	-	1,098
Equipment/Service	637	-	637
TOTAL OPERATING EXPENSES	608,780	215,031	393,749
Income From Operations	124,974	26,920	98,054
EXPENSES FROM RESERVE FUNDS			
Capital Improvement Fund - Total	36,669	36,669	-
Future Dredging Fund - Total	207,416	-	207,416
Legal Fund - Legal Bill Payment	1,500	-	1,500
Deficiency of Revenues over Expenses	\$ (120,611)	\$ (9,749)	\$ (110,862)

See accompanying notes to financial statements

Upper Greenwood Lake Property Owners' Association, Inc.
Statement of Changes in Fund Balances
Modified Cash Basis
For the Year Ended December 31, 2022

	<u>Total</u>	<u>POA Fund</u>	<u>Easement Fund</u>
Fund Balances, December 31, 2021	\$ 2,622,705	\$ 751,295	\$ 1,871,410
Deficiency of Revenues over Expenses	(120,611)	(9,749)	(110,862)
Intercompany Fund Reimbursement	-	(25,850)	25,850
Capitalized Improvements/Loan Payment from Reserve Funds	<u>236,669</u>	<u>36,669</u>	<u>200,000</u>
Fund Balances, December 31, 2022	<u>\$ 2,738,763</u>	<u>\$ 752,365</u>	<u>\$ 1,986,398</u>

See accompanying notes to financial statements

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

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 charged to property owners and is responsible for the maintenance and upkeep of the Association's realty, including the lake and dam, but not the clubhouse 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 modified 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 full 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.

The Association conducted a study to determine the remaining useful lives of the components and current estimates of costs of major repairs and replacements of the clubhouse only during the year ended December 31, 2016. The study identified \$135,000 of repairs and replacements that will need to be made to the clubhouse between 2017 and 2026. The Association adopted a program to begin accumulating funds for estimated future major repairs of the clubhouse beginning in 2017. \$30,183 was allocated to the Clubhouse Capital Improvement Fund during the year ended December 31, 2022. \$36,639 was utilized from the reserve fund during the year ended December 31, 2022 in for two new air conditioning units, replacing all the fire sensors and striping the repaved parking lot. The balance of the Clubhouse Capital Improvement Fund as of December 31, 2022 was \$53,597.

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.

Fair Value Measurement

The fair value of financial instruments is determined by reference to market data and other valuation techniques, as appropriate. The Foundation's financial instruments consist of cash, investments and loans payable. The fair value of financial instruments approximates their carrying value. In January 2010, the Financial Accounting Standards Board issued amended guidance for fair value measurements and improved disclosures about fair value measurements. The guidance requires entities to enhance disclosures about fair value measurements. The adoption of this provision in 2011 did not have any impact on the Association's financial statements.

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 2 - Summary of Significant Accounting Policies (cont'd)

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, 2022 was \$147,302.

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 and investment accounts have been set aside for the purpose of barge and boat motors, capital improvements, dam costs, dredging costs, encroachment enforcement, legal fees and stump removal expenses.

Note 4 – Investments

The FASB's *Fair Value Measurements and Disclosures* provides the framework for measuring fair value. The framework defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price"), in an orderly transaction between market participants.

In determining fair value, the Association uses various valuation approaches, including market, income and/cost. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in inactive markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The valuation methodology used for assets measured at fair value are quoted market prices and net asset value of shares at year end. This method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 4 – Investments (cont'd)

The Association's financial assets subject to fair value measurements as of December 31, 2022 are as follows:

<u>Fair Value Measurements as of December 31, 2022</u>				
<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments with RBC	\$ 1,486,159	\$ -	\$ 1,486,159	\$ -

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the year ended December 31, 2022, there were no transfers into or out of Levels 1, 2 or 3.

Note 5 – Dredging Loan Payable

The Association was approved for a \$1,000,000 loan by the State of New Jersey through the New Jersey Department of Environmental Protection. The proceeds of the loan may only be used to finance the dredging of the lake. The loan calls for semi-annual repayments over a 20 year at a 2.00% interest rate beginning nine months after the final drawdown of the loan. The dredging project began in 2020 and the Association drew a total of \$781,990 in two drawdowns in 2020. The Association repaid \$200,000 in March of 2022. The loan payable balance was \$581,990 as of December 31, 2022. Interest accrues on each loan drawdown at an interest rate of 2.00% and is payable three months after the final drawdown of the loan. Accrued interest payable on the loan payable as of December 31, 2022 was \$39,994.

Note 6 - 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 exceeded federally insured limits by \$120,570 as of December 31, 2022.

Note 7 – Reserve Fund Expenses

The Association has set aside funds to be used for projects outside of normal year to year operating activities. Capital Improvement Fund reserves utilized for the year ended December 31, 2022 totaling \$36,669, included \$34,000 for two new air conditioning units, \$1,999 for replacing all the fire sensors and \$670 for striping the repaved parking lot. Future Dredging Fund reserve funds utilized for the year ended December 31, 2022 totaling \$207,416, included \$200,000 for a Dredging Loan payment and \$7,416 for bathymetric surveys. Legal Fund reserves utilized for the year ended December 31, 2022 included \$1,500 in payments for legal services.

UPPER GREENWOOD LAKE PROPERTY OWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 8 – Contingent Liability

In August of 2020 there was an accidental drowning in the Lake. In August 2022, the Association was named as a defendant in a wrongful death claim by the decedent's estate. The Association has denied fault and the Association's insurance carrier has assigned counsel to represent the Association. The discovery period in this case remains open and no trial date has been set yet. At this stage, it is too early to quantify any amount for which the Association would potentially be liable for.

There has been an ongoing dispute between the Association and the owners of two adjacent properties. The dispute relates to the property owners' reconstruction of a bulkhead wall on the Association's property at the water line, which exceeded the Association's authority granted for the project. The Association was negotiating to resolve the issues regarding the height of the wall and other encroachment issues with the property owners amicably, but no agreement was reached. Therefore, in April 2022, the property owners instituted legal action against the Association. The action is being covered and defended by the Association's insurance carrier. In July 2022, the Association filed a counterclaim against the property owners. The cases are scheduled to go to trial in late August 2023 and the outcome of the cases cannot be predicted. However if the plaintiffs win, the Association estimates that the cost of lowering the bulkhead wall is likely to exceed \$50,000, which will have to be paid by the Association and its insurance carrier.

Note 9 - Subsequent Events

The Association evaluated subsequent events through August 3, 2023, which is the date the financial statements were available to be issued. As of August 3, 2023, the Association did not find any other matters that would require recognition or additional disclosures in these financial statements.

