**The Lake Hopatcong Foundation**
**(a New Jersey Non-Profit Corporation)**

**Financial Statements**

**Year Ended December 31, 2016**

**(With Summarized Financial Information**
**for the Year Ended December 31, 2015)**

**(With Independent Auditors' Report Thereon)**

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CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

**To the Board of Trustees**
**The Lake Hopatcong Foundation**
**Lake Hopatcong, New Jersey**

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Lake Hopatcong Foundation (a New Jersey nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditors' Responsibility**

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 auditors' judgment, including the assessment of the risks of material misstatement of 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.

**Opinion**

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of The Lake Hopatcong Foundation as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited The Lake Hopatcong Foundation's 2015's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Caristia, Kulsar & Wade, LLC

**Caristia, Kulsar, & Wade LLC**
**Sparta, New Jersey**
**July 26, 2017**

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**The Lake Hopatcong Foundation**
**Statements of Financial Position**
**December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| **Assets** | | |
| Cash and cash equivalents | $ 522,331 | $ 538,821 |
| Property and equipment, at cost, net of accumulated depreciation | 823,901 | 495,927 |
| Grants receivable | 83,442 | 5,404 |
| Prepaid expenses | 7,000 | - |
| Contributions receivable | 728 | 100 |
| Cash restricted to investment in property and equipment | - | 78,815 |
| **Total assets** | $ 1,437,402 | $ 1,119,067 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Note payable | $ 46,333 | $ 63,469 |
| Deferred revenue | 19,337 | 40,433 |
| Accounts payable | 7,952 | 2,033 |
| **Total liabilities** | 73,622 | 105,935 |
| **Net assets** | | |
| Unrestricted | 586,212 | 451,859 |
| Investment in property and equipment | 777,568 | 432,458 |
| Board designated funds | - | 50,000 |
| **Total unrestricted net assets** | 1,363,780 | 934,317 |
| Temporarily restricted | - | 78,815 |
| **Total net assets** | 1,363,780 | 1,013,132 |
| **Total liabilities and net assets** | $ 1,437,402 | $ 1,119,067 |

**See independent auditors' report and accompanying notes to financial statements**

**The Lake Hopatcong Foundation**
**Statement of Activities**
**Year Ended December, 31, 2016**
**(With Summarized Financial Information for the Year Ended December 31, 2015)**

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| **Revenue and Support** | | | | |
| Contributions | $ 359,953 | $ - | $ 359,953 | $ 534,515 |
| Special events | 117,687 | - | 117,687 | 118,931 |
| Initiative income | 47,113 | - | 47,113 | 41,964 |
| Grant income | 195,343 | - | 195,343 | 219,061 |
| In-kind contributions | 9,806 | - | 9,806 | 22,760 |
| Interest income | 439 | - | 439 | 444 |
| Net assets released from restrictions | 78,815 | (78,815) | - | - |
| **Total revenue and support** | 809,156 | (78,815) | 730,341 | 937,675 |
| **Functional expenses** | | | | |
| Program services | 237,299 | - | 237,299 | 283,962 |
| Management and general | 70,420 | - | 70,420 | 88,945 |
| Fundraising | 71,974 | - | 71,974 | 74,851 |
| **Total functional expenses** | 379,693 | - | 379,693 | 447,758 |
| **Changes in net assets** | 429,463 | (78,815) | 350,648 | 489,917 |
| **Net assets, beginning of year** | 934,317 | 78,815 | 1,013,132 | 523,215 |
| **Net assets, end of year** | $ 1,363,780 | $ - | $ 1,363,780 | $ 1,013,132 |

**See independent auditors' report and accompanying notes to financial statements**

**The Lake Hopatcong Foundation**
**Statement of Functional Expenses**
**Year Ended December 31, 2016**
**(With Summarized Financial Information for the Year Ended December 31, 2015)**

| | 2016 | | | | 2015 |
|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Total |
| **Functional Expenses** | | | | | |
| Payroll and related expenses | $ 116,717 | $ 42,622 | $ 36,867 | $ 196,206 | $ 180,804 |
| Projects and initiatives | 52,747 | - | - | 52,747 | 97,633 |
| Professional fees | 22,542 | 16,925 | 1,113 | 40,580 | 33,978 |
| Printing and publications | 19,378 | 836 | 3,402 | 23,616 | 14,155 |
| Event expenses | - | - | 19,355 | 19,355 | 25,211 |
| Office expense and supplies | 4,803 | 935 | 2,819 | 8,557 | 10,124 |
| Postage and delivery | 5,117 | 787 | 2,142 | 8,046 | 6,507 |
| Insurance | 4,562 | 578 | 741 | 5,881 | 4,738 |
| Advertising | 823 | 726 | 2,751 | 4,300 | 6,207 |
| Outside services | 387 | 2,638 | 888 | 3,913 | 2,913 |
| Rent | 2,142 | 782 | 676 | 3,600 | 3,600 |
| Interest expense | 3,090 | - | - | 3,090 | 11,886 |
| Occupancy | 1,292 | 951 | 823 | 3,066 | 20,641 |
| Charitable awards | 2,000 | 1,050 | - | 3,050 | 24,000 |
| Depreciation | 1,199 | 438 | 379 | 2,016 | 4,030 |
| Membership | 500 | 1,152 | 18 | 1,670 | 1,331 |
| **Total functional expenses** | $ 237,299 | $ 70,420 | $ 71,974 | $ 379,693 | $ 447,758 |

**See independent auditors' report and accompanying notes to financial statements**

**The Lake Hopatcong Foundation**
**Statements of Cash Flows**
**Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Changes in net assets | $ 350,648 | $ 489,917 |
| **Adjustments to reconcile changes in net assets to net cash provided by operating activities:** | | |
| Depreciation | 2,016 | 4,030 |
| Temporarily restricted contributions for investment in property and equipment | - | (125,321) |
| Decrease (increase) in: | | |
| Grants receivable | (78,038) | (5,404) |
| Prepaid expenses | (7,000) | - |
| Contributions receivable | (628) | 12,633 |
| Increase (decrease) in: | | |
| Accounts payable | 5,919 | (364) |
| Deferred revenue | (21,096) | 31,938 |
| **Total adjustments** | (98,827) | (82,488) |
| **Net cash provided by operating activities:** | 251,821 | 407,429 |
| **Cash flows from investing activities:** | | |
| Capital expenditures | (329,990) | (48,294) |
| Restrictions released from donors purchases of property and equipment | 78,815 | 95,994 |
| **Net cash provided (used) by investing activities:** | (251,175) | 47,700 |
| **Cash flows from financing activities:** | | |
| Principal payments on note payable | (17,136) | (200,839) |
| **Net cash used by financing activities:** | (17,136) | (200,839) |
| **Net increase (decrease) in cash and cash equivalents** | (16,490) | 254,290 |
| **Cash and cash equivalents, beginning of year** | 538,821 | 284,531 |
| **Cash and cash equivalents, end of year** | $ 522,331 | $ 538,821 |

**Supplemental Cash Flow Information**

Cash paid during the year for:

| | 2016 | 2015 |
|---|---|---|
| Interest | $ 3,090 | $ 11,886 |
| Income taxes | $ - | $ - |

**See independent auditors' report and accompanying notes to financial statements**

**The Lake Hopatcong Foundation**
**Notes to Financial Statements**
**December 31, 2016 and 2015**

**Note 1 - Nature of Foundation**

The Lake Hopatcong Foundation (the "Foundation"), which is located in Lake Hopatcong, New Jersey, was formed in 2012 as a New Jersey nonprofit corporation. The primary purpose of the Foundation is to improve the lake experience and environment of Lake Hopatcong, New Jersey's largest lake. Contributions, fundraising events, and grant income are the Foundation's primary source of revenue. In addition to initiating projects for the betterment of the lake, the Foundation also provides financial support toward efforts undertaken by other lake organizations. These initiatives include:

- Providing real-time information to boaters about severe weather and wake restrictions
- Maintaining water-quality monitoring throughout the lake
- Creating a trail system around and within Lake Hopatcong
- Continuing efforts to prevent invasive species of plants
- Establishing models for water level based on upstream inflow, weather, and outflow levels
- Partnering with businesses and local organizations to enhance the lake's sense of community
- Educating the public on opportunities to improve the quality of life on the lake
- Teaching local students about the lake environment, lake safety, and lake history
- Improving public safety on the lake through enhanced police patrols
- Conducting clean-ups to remove debris from the lake
- Preserving historical resources on Lake Hopatcong
- Improving riparian vegetation to reduce pollution into the lake

**Note 2 - Summary of Significant Accounting Policies**

**Basics of Presentation**

The Foundation prepares its financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). GAAP requires that unconditional promises to give be recorded as receivables and revenue and requires the Foundation to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. GAAP establishes standards for external financial reporting by non-profit foundations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Revenue, Contributions, and Support Recognition**

Contributions are recognized as revenue when they are received or unconditionally pledged. The Foundation reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, the Foundation reports gifts of cash and other assets subject to temporary restrictions by donor stipulations as unrestricted contributions in the statement of activities, if the restriction is met during the accounting period in which the gift was recognized.

**Grant Revenue Recognition**

The Foundation accounts for grant revenue, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purpose specified by the grantor during the period. In applying this concept, the legal and contractual requirements of each individual program are used as guidance. Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statements of financial position.

**Property and Equipment**

All acquisitions of property and equipment in excess of $5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment purchased are stated at cost and fixed assets donated are stated at fair market value. Both are reported less accumulated depreciation, which is provided by using the straight-line method over the estimated useful lives of the respective assets.

**Tax Status**

The Foundation qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and State of New Jersey Title 15, *New Jersey Nonprofit Corporation Act*. Accordingly, the Foundation is exempt from federal and state income taxes. These sections enable the Foundation to accept donations, which qualify as charitable contributions to the donor. The Foundation is not classified as a private foundation.

The Foundation follows *Accounting for Uncertainty in Income Taxes*, in accordance with GAAP. The determination of uncertain tax positions uses tax judgments which are based on the requirements for maintaining tax-exempt status and on the filing of various information returns.

The Foundation files federal information tax returns with the IRS and state information returns with the State of New Jersey. The Foundation is subject to income tax examinations at any time within three years from the latest filing date for federal and four years from the latest filing date for New Jersey.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities.

Costs are allocated between program services, management and general, and fundraising based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

**Contributions and Grants Receivables**

The Foundation considers all contributions and grants receivables to be fully collectable; accordingly, no allowance for doubtful accounts is required.

**In-Kind Contributions**

In-kind contributions consist primarily of professional fees, rent, services, and supplies. Rent is recorded based on current fair values of the donated space. Contributed services and professional fees, as more fully described in Note 10, are recognized as revenue if the services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills, and typically need to be purchased if they had not been donated. Contributed services and professional fees are recorded at the fair value of the services provided. Contributed services and professional fees that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements. Donated supplies are recorded at actual cost.

The Board of Trustees makes significant contributions of time relative to general management and operations of the Foundation. Since the donated time does not meet the criteria for recognition under GAAP, there has been no reflection of this in the financial statement.

**Fair Value Measurement**

The Foundation follows FASB Accounting Standards Codification *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. *Fair Value Measurements* applies to other accounting pronouncements that require or permit fair value measurements. The primary effect of adopting *Fair Value Measurements* on the Foundation was to expand the required disclosures pertaining to methods used to determine fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

**Note 2 - <u>Summary of Significant Accounting Policies</u> (continued)**

**<u>Fair Value Measurement</u> (continued)**

*Fair Value Measurements* establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. 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 (Level 3 measurements). The three levels of fair value hierarchy under *Fair Value Measurements* are as follows:

<u>Level 1:</u> Unadjusted quoted prices in active markets that are accessible at the measurement for identical, unrestricted assets or liabilities.

<u>Level 2:</u> Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

<u>Level 3:</u> Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

The Foundation bases its fair value on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Foundation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon management's own estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future value.

The following is a description of valuation methodologies used for assets and liabilities measured at fair value:

Cash and cash equivalents, grants receivable, prepaid expenses, contributions receivable, cash restricted to investment in property and equipment, accounts payable and deferred revenue: the carrying amounts approximate fair value, because of the short term maturity of these instruments.

Note payable is carried at amortized cost. However, management of the Foundation believes that they can obtain similar loans at similar terms; therefore management has determined it approximates fair value.

**<u>Comparative Information</u>**

The statements of activities and functional expenses contain certain prior-year summarized comparative information in total, but not net asset or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2015.

**<u>Reclassifications</u>**

Certain prior year amounts have been reclassified to conform to current year presentation.

**Note 3 - Contributions Receivable**

Contributions receivable consisted of the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Due within one year | $ 728 | $ 100 |

**Note 4 - Property and Equipment**

Property and equipment consisted of the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Building | $ 445,617 | $ 445,617 |
| Software | 27,210 | 27,210 |
| Construction in progress | 378,284 | 48,294 |
| | 851,111 | 521,121 |
| Less: accumulated depreciation | (27,210) | (25,194) |
| Net property and equipment | $ 823,901 | $ 495,927 |

Depreciation expense amounted to $2,016 and $4,030 for the years ended December 31, 2016 and 2015, respectively.

**Note 5 - Note Payable**

Note payable consisted of the following for the years ended December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Note payable to a bank, payable in monthly installments of $1,685, currently bearing interest of 4.50%. The rate will reset every five years to the Federal Home Loan Bank Rate of NY Five (5/20) Year Advance Rate + 2.50% with a floor of 4.50%. The final payment is due November, 2024. During the year ended December 31, 2015, an additional payment was made in the amount of $192,500. The loan is anticipated to be paid off during the year ended December 31, 2019, assuming that current payments continue. The note is secured by the mortgage on the land located in Landing, NJ. | $ 46,333 | $ 63,469 |

**Note 5 - Note Payable (continued)**

Assuming that the note continues to amortized overs it current terms, principal maturities of the mortgage note due in future years are as follows:

| Year ending December 31, | |
|---|---|
| 2017 | $ 18,556 |
| 2018 | 19,409 |
| 2019 | 8,368 |
| | $ 46,333 |

**Note 6 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are to be used for the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Building project | $ - | $ 78,815 |

Temporarily restricted net assets were released from restrictions during the years ended December 31, 2016 and 2015 for the following programs:

| | 2016 | 2015 |
|---|---|---|
| Building project | $ 78,815 | $ 95,994 |

**Note 7 - Board Designated Funds**

Board designated funds consisted of the following as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Building project | $ - | $ 50,000 |

**Note 8 - Related Party Transactions**

The Foundation engages in certain transactions for the purchase of goods and services with businesses located within the community that are owned or operated by certain members of its Board of Trustees.

During the years ended December 31, 2016 and 2015, the Foundation received $150,000 and $190,000 in contributions from a donor advised fund established by one member of its Board of Trustees.

During the years ended December 31, 2016 and 2015, the Foundation received $125,000 and $21,600, in contributions from one member of its Board of Trustees, respectively.

**Note 9 - Concentrations**

**Major Donors**

During the years ended December 31, 2016 and 2015, the Foundation received approximately $294,000 and $320,000 in contributions from two donors, respectively.

**Credit Risk**

The Organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risks related to cash.

**Note 10 - In-Kind Contributions**

The Foundation records contribution revenue for certain in-kind donations received at their fair value. In kind contributions consisted of the following items as of December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Professional fees | $ 2,328 | $ 17,605 |
| Rent | 3,600 | 3,600 |
| Services | 2,500 | 950 |
| Supplies | 1,378 | 605 |
| | $ 9,806 | $ 22,760 |

For the years ended December 31, 2016 and 2015, the following in-kind contributions were received from companies controlled by members of its Board of Trustees:

| | 2016 | 2015 |
|---|---|---|
| Professional fees | $ 2,328 | $ 17,605 |
| Rent | 3,600 | 3,600 |
| | $ 5,928 | $ 21,205 |

**Note 11 - Subsequent Events**

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through July 26, 2017, the date the financial statements were available for issue. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosures.