

January 2011

To the Mount Kemble Lake community:

The following discussion summarizes the financial status of the Mount Kemble Lake Association (“MKLA”) and The Lakeshore Company (“Lakeshore”); together the “Community”, for the year-ended December 30, 2010 by analyzing the Summary Revenues and Expenditures per the attached statement. Additional details are provided by the Profit and Loss, Balance Sheet and Statement of Cash Flows which are also attached. The financial items have been recorded on an accrual basis which, except for dues related revenues, generally approximates the cash basis; the basis on which the companies file their tax returns. Unpaid Dues are reflected in Accounts Receivable on the Balance Sheet. In addition, the summary statements distributed to the community show \$23,783 Dredging Dues Assessment as Revenues for MKLA since they invoice the amounts. However, the Income Statements and tax returns correctly include the amount as revenues for Lakeshore since they ultimately receive the money. Note that MKLA actually collects \$23,750 (\$250 from 95 Members), whereas Lakeshore receives \$23,783 (one-half of Lakeshore’s loan payments) with the difference reflected in the Balance Sheet in 2221 – Miscellaneous Liabilities. There are no accounts payable or accrued expenses because all 2010 related expenses are included in the accompanying financial statements. The Community’s financial status is presented on a combined basis to highlight its overall financial condition since together we benefit from and our jointly responsible for its well being. Legally, Lakeshore owns the common real estate and the water company assets with Lakeshore bearing the expenses of the real estate taxes and water company operations and MKLA maintaining the community’s assets.

Revenues

Total MKLA Operating Revenues for the year ended December 31, 2010 of \$172,443 exceeded the 2010 budget of \$158,000 but were less than the \$178,774 for the year ended December 31, 2009. The increase from budget was due primarily to higher Miscellaneous Income from Late Payment Fees for unpaid dues of \$10,050, of which any uncollected amounts are included in Accounts Receivable. We do not budget any amount for Late Payment Fees expecting community members to pay their dues on a timely basis. The \$2,000 budgeted for 2010 is for the snow refund from Harding; of which \$2,640 was received in August. Compared to 2009, Interest Income was essentially equal; the majority of which is from Members related to unpaid dues. Interest income from banks was lower compared to 2009 reflecting the lower interest rate earned on our cash balances. There were also fewer Clubhouse rentals in 2010 resulting in lower revenues than in 2009.

Total Lakeshore Operating Revenues for the year ended December 31, 2010 of \$132,416 exceeded the 2010 budget of \$128,282 and the \$123,625 for the for the year ended December 31, 2009. The increase from 2009 was due to higher Miscellaneous and Interest Income related to Late Payment Fees for unpaid dues; of which any uncollected amounts are included in Accounts Receivable. The 2010 Dues Revenues were less than budgeted because the budgeted dues increase for July 2010 was deferred until January 2011. The \$23,782 budgeted amount is the MKLA’s portion of the loan payments for the loan from the State of NJ for the lake dredging and dam repair.

Expenses

Mount Kemble Lake Association

Administration – Expenses of \$24,023 for the year ended December 31, 2010 were less than the 2010 budget of \$41,000 and the \$56,449 for the year ended December 31, 2009 primarily due to lower insurance costs and reserves for uncollectable dues, partially offset by higher legal costs and utilities. The insurance costs decreased due to lower insurance premiums reflecting the aggressive shopping by our broker that took advantage of the soft market conditions. We continue to purchase insurance from highly rated insurers. Insurance expense is charged to MKLA and Lakeshore based upon identifiable assets and revenues depending on the policy. There was no bad debt expense in 2010 as the existing reserve was deemed adequate. The increase in Professional Fees from 2009 was related to budgeted Finance Committee matters. Note that Professional Fees related to collection efforts are charged to the members who necessitated the fees; of which the board is actively pursuing collection.

Beaches and Docks – Expenses of \$7,470 exceeded 2009 expenses of \$6,327 due to budgeted herbicide treatments and a water quality monitoring program not performed for several years. Thanks to Don’s judicial oversight, the spending for Beach Operations and Water Analysis & Treatment was under budget.

Grounds – Expenses of \$13,411 were less than the 2010 budget of \$16,500 and 2009 spending of \$29,110 because of a concerted effort to minimize spending given the progress made in 2009 on maintenance of the Community’s property. Diane and her committee will continue their efforts to improve the community’s appearance while minimizing the spending. Volunteers are welcome on the many projects Diane and her committee have identified.

Clubhouse Operations and Repairs & Maintenance – Expenses of \$9,329 were less than the 2010 budget of \$13,000 and \$17,817 spent in 2009. There were no significant items in 2010 when compared to the 2010 budget or 2009. Bruce

and Joyce, and their committees, will continue to work on projects to improve the clubhouse's appearance while also minimizing costs.

Roads – Expenses of \$19,800 exceeded the 2010 Budget of \$17,000 by nearly \$3,000 but were less than the 2009 spending of \$20,043. While Snow Removal costs of nearly \$12,000 were less than the \$16,000 budgeted, they exceeded 2009 spending by \$1,500. Conversely, while Road Operations spending was approximately \$1,500 less than 2009's spending, the cost of Road Operations exceeded budget by nearly \$7,000. It was expected that the costs of removing the leaves and branches from the road cleanups in 2009 would not be necessary again in 2010; however they were. The efforts of many volunteers, see the Newsletter articles, resulted in a marked improvement in fire lanes' accessibility and condition of our beaches and roads. Note that the snow refund from Harding Township is included in Miscellaneous Income above.

Summary – Overall, excluding the \$5,800 for the new dock, which is a capital item, the 2010 MKLA spending was over \$20,000 less than budget and 2009. Note that \$34,000 of the \$55,000 decrease from 2009's expenses was the reserve for uncollectible accounts and not "spent". Cash on hand at December 31st was \$107,000.

The Lakeshore Company

Administration – Expenses of \$8,356 were nearly \$5,000 less than budget and \$4,000 less than 2009 due primarily to lower insurance as noted above. Professional fees were also less than budget and 2009. Taxes of \$37,067 were also less than 2009 of \$38,037 and budget of \$40,000.

Water Operations – Expenses of \$17,245 were nearly \$14,000 less than the 2010 budget of \$31,000 and nearly \$16,000 less than the 2009 spending of \$33,009 due primarily to lower Repairs and Maintenance expenses. Overall, our program to modernize and automate the water company operations should continue to lower our operating costs, as well as the time required of our community volunteers. However, we were fortunate in 2010 that there was no significance maintenance or replacement of the water mains required.

Summary – Overall, Lakeshore's operating expenses were \$20,000 less than 2009 and the 2010 Budget. However, Lakeshore's cash balance continues to decline. At December 31, Lakeshore had \$30,000 in cash, a decline of \$10,000 from their December 31, 2009 balance of approximately \$40,000. The dues increase will provide approximately \$25,000 of additional cash flow to adequately meet their operating expenses but there are no reserves for any significant water system repairs.

Combined Balance Sheet

Current Assets – Current assets consist primarily of cash, all of which is in interest bearing accounts and readily available if required. Because of the low balance and low interest rates available, no longer term investments such as CDs have been made. The combined balance at December 31, 2010 of \$137,000 is essentially unchanged from the December 31, 2009 balance. The reduced operating expenditures at both companies were offset by capital costs, primarily the lagoon dredging and bulkhead repair, and uncollected dues. While one of the three large receivables from December 2009 was partially collected, the other two large receivables remain unpaid. In addition, there are several other members in arrears at December 31, 2010. The \$27,000 increase in the receivables balance from 2009 is attributable to unpaid dues of approximately \$9,000, interest of \$4,000, late fees of \$12,000 and legal fees for liens of \$2,000. Note that approximately \$3,000 of the late fees and \$500 of the interest related to 2009 but was billed in 2010. The board continues to actively pursue collection of all amounts due. Our assessment of the realizability of the all receivables at year-end did not require any additional reserves.

Liabilities – The Long Term Liabilities represent the reserves established for clubhouse repairs and contingencies, as well as the loans from the State of New Jersey for the Dam and Lake Dredging and Somerset Hills for the Road repairs.

If you have any questions please do not hesitate to contact the Treasurer, Bob Yingling, or any of the board members.

Sincerely,

Austin Godfrey, President

Bob Yingling, Treasurer,

Nancy Priscu, Secretary

Rick Barrett, Water Operations

Diane Bonar, Grounds

Gail Chalfant, Roads

Barbara Coe, Newsletter

Don Kuhn, Beaches and Docks

Joyce Murray, Housekeeping

Bruce Scolnick, Clubhouse Maintenance