

**MADISON GREEN
MASTER ASSOCIATION, INC.**

Financial Statements

***For the year ended
December 31, 2013***

Hafer & Company

Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Madison Green Master Association, Inc.

We have audited the accompanying financial statements of Madison Green Master Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2013, and the related statement of revenues and expenses and changes in fund balances 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.

Auditor's Responsibility

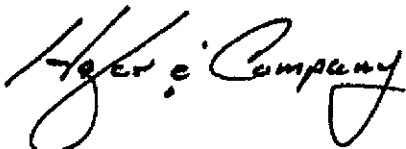
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 auditor's 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 Madison Green Master Association, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Palm Beach, Florida
May 13, 2014

MADISON GREEN MASTER ASSOCIATION, INC.
BALANCE SHEET
December 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assets			
Cash and cash equivalents	\$ 489,681	\$ 460,901	\$ 950,582
Certificates of deposits (Note 2)	-	237,632	237,632
Assessments receivable, net (Note 4)	130,938	-	130,938
Prepaid expenses	61,749	-	61,749
Utility deposits	1,660	-	1,660
	<u>1,660</u>	<u>-</u>	<u>1,660</u>
Total assets	<u>\$ 684,028</u>	<u>\$ 698,533</u>	<u>\$ 1,382,561</u>
Liabilities and fund balances			
Accounts payable	\$ 13,055	\$ -	\$ 13,055
Accrued expenses	8,636	-	8,636
Prepaid maintenance fees	50,663	-	50,663
Deferred cable income (Note 9)	69,774	-	69,774
Refundable deposits	26,556	-	26,556
	<u>26,556</u>	<u>-</u>	<u>26,556</u>
Total liabilities	168,684	-	168,684
Fund balances	<u>515,344</u>	<u>698,533</u>	<u>1,213,877</u>
Total liabilities and fund balances	<u>\$ 684,028</u>	<u>\$ 698,533</u>	<u>\$ 1,382,561</u>

See notes to financial statements.

MADISON GREEN MASTER ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Revenues			
Maintenance assessments	\$ 1,403,400	\$ 108,000	\$ 1,511,400
Interest, legal and late fees	26,355	-	26,355
Cable rebate revenue (Note 9)	21,469	-	21,469
Interest income	427	2,840	3,267
Other income	40,271	-	40,271
	<hr/>	<hr/>	<hr/>
Total revenues	1,491,922	110,840	1,602,762
Expenses			
Administration	245,278	-	245,278
Common area expenses	543,892	-	543,892
Grounds maintenance	273,858	-	273,858
Recreation expenses	267,793	-	267,793
Major repairs and replacements	-	61,489	61,489
	<hr/>	<hr/>	<hr/>
Total expenses	1,330,821	61,489	1,392,310
Excess of revenues over expenses	161,101	49,351	210,452
Fund balances, beginning of year	354,243	649,182	1,003,425
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 515,344</u>	<u>\$ 698,533</u>	<u>\$ 1,213,877</u>

See notes to financial statements.

MADISON GREEN MASTER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Cash flows from operating activities			
Excess of revenues over expenses	\$ 161,101	\$ 49,351	\$ 210,452
<u>Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:</u>			
Provision for bad debts	(62,080)	-	(62,080)
<u>Changes in assets and liabilities:</u>			
Assessments receivable	39,474	-	39,474
Prepaid expenses	(5,546)	-	(5,546)
Accounts payable	7,758	-	7,758
Accrued expenses	5,561	-	5,561
Prepaid maintenance fees	(25,807)	-	(25,807)
Deferred cable income	(21,469)	-	(21,469)
Refundable deposits	9,010	-	9,010
Total changes in account balances	<u>8,981</u>	<u>-</u>	<u>8,981</u>
Net cash provided by operating activities	108,002	49,351	157,353
Cash flows (to) investing activities			
Purchases of certificates of deposits	-	(237,632)	(237,632)
Cash flows (to) financing activities			
Payments on insurance payable, net proceeds	<u>(45,417)</u>	<u>-</u>	<u>(45,417)</u>
Net increase (decrease) in cash and cash equivalents	62,585	(188,281)	(125,696)
Cash and cash equivalents, beginning of year	<u>427,096</u>	<u>649,182</u>	<u>1,076,278</u>
Cash and cash equivalents, end of year	<u>\$ 489,681</u>	<u>\$ 460,901</u>	<u>\$ 950,582</u>

See notes to financial statements.

MADISON GREEN MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1: Organization

Madison Green Master Association, Inc. ("the Association") was incorporated under the law of the State of Florida as a not-for-profit corporation on December 30, 1999. The Association is responsible for maintaining and preserving the common property of the Association in accordance with the terms of Florida Statutes §720 and the provisions of the Association's governing documents. The Association consists of 1,145 units located in Royal Palm Beach, Florida.

NOTE 2: Summary of significant accounting policies

Fund accounting

The Association prepares its financial statements on the accrual basis of accounting and presents them using fund accounting, using separate funds for operations and future major repairs and replacements. Disbursements from the operating fund are generally for the day-to-day operations and non-recurring unanticipated expenditures of the Association and are made at the discretion of the Board of Directors. Disbursements from the replacement fund generally are made only for designated purposes.

Interest earned

Interest earned by each fund is allocated to the appropriate fund. Income taxes on the interest earned are paid from the operating fund.

Property and depreciation

The Association capitalizes all personal and real property which it purchases. Common areas owned by the Association are reserved for the use of the owners and/or are required to be maintained as common areas under the Declaration and/or governmental restrictions; therefore, the sale of such common areas for revenue is remote. Accordingly, such common areas are not recorded in the financial records of the Association. Capitalized property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation.

Estimates

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

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including certificates of deposits and money market funds. Cash equivalents include highly liquid securities with a maturity of 90 days or less.

Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash and cash equivalents, assessments receivable, accounts payable, accrued expenses and other assets and liabilities, approximate their fair values due to their short-term maturities.

Compensated absences

Employees of the Association are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. The Association policy is that employees must use vacation annually or it is no longer available; accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when paid to employees.

MADISON GREEN MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 2: Summary of significant accounting policies (continued)

Certificates of deposit

Certificates of deposit consist of those certificates with original maturities of more than 90 days. The certificates are carried at cost plus any interest earned and reinvested. The Association, at least annually, assesses for any other-than-temporary impairment, and as of the date of these financial statements, the Association does not believe any impairment exists. The certificates have varying maturity dates and varying interest rates. At December 31, 2013, certificates of deposit totaled \$237,632.

Utility pass-through

In accordance with FASB ASC 605-45, the Association recognizes utility pass-through assessments using principal agent considerations. The Association is primarily involved in the determination of a specific service, it has the discretion in selecting the suppliers of such services, and it bears the credit risk for the amounts billed for the service; accordingly the management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

Subsequent events

Subsequent events have been evaluated through May 13, 2014 the date the financial statements were available to be issued in accordance with FASB ASC 855.

NOTE 3: Concentration of credit risk

The Association maintains its cash in bank at various financial institutions whereby are insured up to \$250,000 by the Federal Deposit Insurance Corporation. At December 31, 2013, the Association has uninsured deposits in the amount of \$324,243.

NOTE 4: Owners' assessments

Monthly assessments to unit owners are based upon a share of the budgeted operating expenses and future major repairs and replacements. The Association retains excess operating funds at the end of the year for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments paid in advance are included on the balance sheet as prepaid assessments. Assessments receivable at December 31, 2013 were as follows:

Assessments receivable	\$ 614,639
Less: allowance for doubtful accounts	(483,701)
	<u>\$ 130,938</u>

NOTE 5: Income taxes

The Association may elect to be taxed as a regular corporation or as a homeowners' association under Internal Revenue Code Section 528. The Association elected to be taxed as a homeowners' association under the tax rules for all tax years since inception. Under that election, the Association is generally taxed only on non-membership income, such as interest earnings, at the appropriate rates. Additionally, from time to time, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as whole. As such, the Association has not recorded deferred income taxes at December 31, 2013.

MADISON GREEN MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 5: Income taxes (continued)

The Association has adopted FASB ASC 740 which clarifies the accounting for uncertainty in income taxes by defining the attributes a tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with generally accepted accounting principles. In accordance with the disclosure requirements, the Association's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense. At December 31, 2013, the Association did not have any uncertain tax positions. The Association's federal income tax returns for 2011 – 2013 remain subject to examination by the Internal Revenue Service.

NOTE 6: Litigation

The Association is a party to various legal actions normally associated with homeowners' 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: Insurance contingencies

In the event of a loss due to a hurricane the Association would be responsible for a deductible of approximately 5% of the total insured value of the property under the provisions of the hurricane loss insurance contract.

NOTE 8: Other commitments and contingencies

The Association has contracted with various vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE 9: Deferred cable revenue

On March 29, 2010, the Association entered into a bulk cable contract with Comcast. The Association engaged Converged Services, Inc. ("Converged") as a consultant to assist in the negotiations with Comcast. As consideration for entering into a seven (7) year contract, Comcast agreed to pay the Association \$175 per unit, or \$200,375 ("the compensation amount"). As compensation for their services, Converged was paid 25% of the total compensation amount, or \$50,094, resulting in a net amount to the Association totaling \$150,281. The Association, in accordance with accounting policies generally accepted in the United States of America, is amortizing the revenue over the life of the contract. Accordingly, for the year ended December 31, 2013, the Association has recognized \$21,469 as cable rebate revenue. Therefore, at December 31, 2013, the remaining balance of \$69,774 is recorded as deferred cable revenue, and will be recognized over the remaining life of the contract.

NOTE 10: Future major repairs and replacements

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and are generally not available for operating purposes. During 2013, the Board of Directors contracted with an independent contractor to conduct an independent study to estimate the remaining useful lives and replacement costs of the common property components. The schedule included in the supplementary information on future repairs and replacements is based upon this study. The Association is funding \$93,000 for 2014.

MADISON GREEN MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 10: Future major repairs and replacements (continued)

Actual expenditures may vary from the estimated amounts and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Components of the replacement fund are as follows:

	Balance 01/01/13	Additions	Interest Income	Expenses	Balance 12/31/13
General reserves	\$ 619,938	\$ 108,000	\$ -	\$ 61,489	\$ 666,449
Interest	29,244	-	2,840	-	32,084
	<u>\$ 649,182</u>	<u>\$ 108,000</u>	<u>\$ 2,840</u>	<u>\$ 61,489</u>	<u>\$ 685,533</u>

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors
Madison Green Master Association, Inc.

Report on the Financial Statements

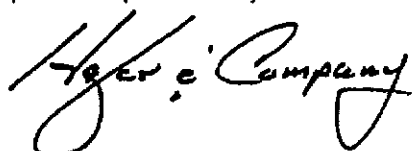
We have audited the financial statements of Madison Green Master Association, Inc. ("the Association") as of and for the year ended December 31, 2013, and our report thereon dated May 13, 2014, which expressed an unmodified opinion on those financial statements, appears on Page 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of operating expenses compared to budget on Pages 10 and 11, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary Schedule of Future Major Repairs and Replacements on Page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Palm Beach, Florida
May 13, 2014

MADISON GREEN MASTER ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2013

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Accounting service	\$ 29,127	\$ 30,000	\$ 873
Bad debt expense	-	85,000	85,000
Bank charges	798	700	(98)
Insurance expenses	54,180	51,300	(2,880)
Legal fees	9,397	15,000	5,603
Legal fees - collections	2,210	34,000	31,790
Licenses and permit fees	3,775	1,500	(2,275)
Office equipment	6,059	3,000	(3,059)
Office supplies and printing	8,445	9,000	555
Postage	2,228	6,000	3,772
Professional fees	9,636	6,400	(3,236)
Salaries	115,203	115,000	(203)
Telephone	4,220	5,400	1,180
	<u>245,278</u>	<u>362,300</u>	<u>117,022</u>
Common area maintenance			
Cable TV	541,611	553,000	11,389
Channel 63 and website	304	500	196
Repairs and maintenance	1,977	2,500	523
	<u>543,892</u>	<u>556,000</u>	<u>12,108</u>
Grounds maintenance			
Contingency - grounds	-	560	560
Fertilizer and pest control	23,077	13,000	(10,077)
Irrigation repairs and maintenance	18,511	20,000	1,489
Lakes and preserves	46,728	48,000	1,272
Lakes and preserves - extras	2,700	6,000	3,300
Landscape extras	9,828	11,000	1,172
Lawn and landscape maintenance	130,734	130,000	(734)
Mulch	12,500	15,000	2,500
Palm tree replacement	-	6,000	6,000
Seasonal flowers	4,225	5,000	775
Trees and palms trimming	25,555	24,000	(1,555)
	<u>\$ 273,858</u>	<u>\$ 278,560</u>	<u>\$ 4,702</u>

See auditors' report on supplementary information.

MADISON GREEN MASTER ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET (CONT'D)
For the year ended December 31, 2013

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Recreation expenses			
Air conditioners	\$ 587	\$ 1,500	\$ 913
Alarm system	3,676	2,500	(1,176)
Clubhouse functions	3,656	3,000	(656)
Electricity	55,391	67,000	11,609
Golf cart and minor equipment	265	500	235
Gym maintenance	4,387	4,000	(387)
ID system and doors	3,616	2,500	(1,116)
Janitorial supplies	4,984	5,500	516
Monitoring cameras	-	500	500
Pest control	2,183	1,200	(983)
Pool maintenance	16,925	17,500	575
Pool repairs and upgrade	6,380	5,000	(1,380)
Receivership MG275 saratoga	126	1,000	874
Repairs and maintenance	22,894	10,000	(12,894)
Special projects	26,506	50,700	24,194
Tennis and basketball courts	3,681	3,500	(181)
Trash removal	2,981	3,500	519
Uniforms	748	1,000	252
Wages	104,107	107,000	2,893
Water and sewer	4,700	7,000	2,300
	<u>267,793</u>	<u>294,400</u>	<u>26,607</u>
Total budgeted expenses	<u>\$ 1,330,821</u>	<u>\$ 1,491,260</u>	<u>\$ 160,439</u>

See auditors' report on supplementary information.

MADISON GREEN MASTER ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2013

The following schedule is based upon a study conducted by an independent consultant in 2013 to estimate the remaining useful lives and replacement costs of the components of common property. The schedule provides information about components of common property.

<u>Component</u>	<u>Estimated Useful Life (years)</u>	<u>Estimated Remaining Life (years)</u>	<u>Estimated Replacement Cost</u>	<u>Fund Balance 12/31/13</u>	<u>Approved Budgeted Funding 12/31/14</u>
Roofing	12-25	5-11	\$ 163,476	\$ -	\$ -
Painting	8-16	1-7	26,219	-	-
Paving	20-50	7-37	247,948	-	-
Interiors	6-30	1-19	362,410	-	-
Restoration	10-36	1-23	108,246	-	-
Pool area	5-32	2-29	250,437	-	-
Sports courts	8-28	2-15	145,940	-	-
General reserves	-	-	-	666,449	93,000
Interest	-	-	-	32,084	-
			<u>\$ 1,304,676</u>	<u>\$ 698,533</u>	<u>\$ 93,000</u>

See auditors' report on supplementary information.