

CIRCLE SQUARE RANCH MASTER
ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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Independent Auditor's Report

To the Board of Directors
Circle Square Ranch Master
Association, Inc.
Ocala, Florida

We have audited the accompanying financial statements of Circle Square Ranch Master Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses and changes in fund balance 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 from 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 Circle Square Ranch Master Association, Inc. as of December 31, 2016, 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.

*Christopher, Smith, Leonard,
Bristow + Stanell, P.A.*

CHRISTOPHER, SMITH, LEONARD,
BRISTOW & STANELL, P.A.

March 13, 2017
Bradenton, Florida

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 203,988
Maintenance assessments receivable	58,575
Due from developer	<u>298,013</u>

TOTAL ASSETS \$ 560,576

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

Accounts payable	\$ 23,873
Due to affiliates	<u>400,847</u>

TOTAL LIABILITIES 424,720

FUND BALANCE 135,856

TOTAL LIABILITIES AND FUND BALANCE \$ 560,576

The accompanying notes are an integral part of these financial statements.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

REVENUES	
Community service fees	\$ 2,362,757
Working capital assessment	24,971
Developer contributions	<u>298,013</u>
TOTAL REVENUES	<u>2,685,741</u>
EXPENSES	
Management services	1,644,513
Roadway landscape maintenance	501,329
Utilities	502,661
Roadways and signage	2,446
Professional fees	14,435
Insurance	14,750
Taxes	5,530
General and administrative	<u>77</u>
TOTAL EXPENSES	<u>2,685,741</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	-
FUND BALANCE, Beginning of year	<u>135,856</u>
FUND BALANCE, End of year	<u><u>\$ 135,856</u></u>

The accompanying notes are an integral part of these financial statements.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from members	\$ 2,378,872
Cash paid to developer	(52,035)
Cash paid for operating expenses	<u>(2,270,467)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>56,370</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	56,370
CASH AND CASH EQUIVALENTS – Beginning of year	<u>147,618</u>
CASH AND CASH EQUIVALENTS – End of year	<u><u>\$ 203,988</u></u>
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
EXCESS OF REVENUES OVER (UNDER) EXPENSES	\$ -
Adjustments to reconcile excess of revenues over expenditures to net cash provided by operating activities:	
Change in operating assets and liabilities:	
(Increase) decrease in assessments receivable	(8,856)
(Increase) decrease in due from developer	(298,013)
Increase (decrease) in accounts payable	(13,151)
Increase (decrease) in due to affiliate	<u>376,390</u>
Net cash provided by operating activities	<u><u>\$ 56,370</u></u>

The accompanying notes are an integral part of these financial statements.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A – NATURE OF ORGANIZATION

Circle Square Ranch Master Association, Inc., (the Master Association), was incorporated on May 20, 2004 as a not-for-profit corporation in the State of Florida. The Master Association is composed of Neighborhood Associations within Circle Square Ranch, On Top of The World Communities, Inc., located in Ocala, Florida. Members of the Master Association are On Top of the World Central Owners Association, Inc., On Top of the World Central Condominium Association, Inc. (OTOW Central Condominiums), Candler Hills Neighborhood Association, Inc. (Candler Hills), Indigo East Neighborhood Association, Inc. (Indigo East) and Stone Creek Community Association, Inc. (Stone Creek). The Master Association's duties are defined in the Declaration of Covenants, Conditions and Restrictions. On Top of the World Communities, Inc. is the developer for all of the Neighborhood Associations, with the exception of Stone Creek.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Master Association prepares its financial statements on the accrual basis of accounting. The Master Association maintains its accounts using fund accounting. The Master Association currently utilizes an Operating Fund.

Future Major Repairs and Replacements

The Master Association has not estimated the remaining useful lives and replacement costs of the structures and/or their components. The budget of the Master Association does not provide for reserve accounts for capital expenditures and deferred maintenance that may result in special assessments. Owners may elect to provide for reserve accounts pursuant to the provisions of section 720.303(6), Florida Statutes, upon obtaining the approval of a majority of the total voting interests of the Association by vote of the members at a meeting or by written consent.

Member Assessments

Master Association members are subject to monthly assessments, referred to as community service fees (CSF), to provide for the common expenses and operation of the Master Association. Assessments are determined annually by the Board of Directors and approved in the annual operating budget. Member assessments are recognized in the period to which they apply.

Pursuant to the Declaration of Covenants, Conditions and Restrictions of the Master Association, each Neighborhood Association is liable for their allocable share of the annual assessment budget levied by the Master Association. Each individual unit within each Neighborhood Association is assessed their allocable share of these assessments, by the Neighborhood Associations. At December 31, 2016, assessments receivable amounted to \$58,575 for amounts due, but not received prior to year end. The Master Association deems all amounts to be collectible based on experience. As a result, no allowance for doubtful accounts has been recorded.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Special Assessments

The Board of Directors may levy additional special assessments as needed for special projects not included in the budget. Special assessments revenue is recognized in the period that the expense for which it was levied is incurred. There were no special assessments in 2016.

Working Capital Assessment

Pursuant to the Declaration of Covenants, Conditions, and Restrictions, each Neighborhood Association shall pay to the Master Association for each unit under the jurisdiction of that Neighborhood Association, a one time only contribution to working capital equal to two twelfths of the annual assessment rate applicable to each residential unit. The working capital assessment does not apply to any unit in an existing development created prior to May 18, 2004.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association elected to be taxed as a homeowners' association and has elected to file Form 1120H. As a homeowners' association, membership income is exempt from taxation. Interest income is non-membership income and is subject to income taxes. At December 31, 2016, there were no material amounts of income taxes payable. The Association has no ongoing federal, state or local tax audits; however, the Association's past three tax years remain open to inspection by the Internal Revenue Service.

Common Property

The Master Association has no common properties. The amenities and roadways are owned by separate entities.

Cash and Cash Equivalents

The Master Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk

The Master Association maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Association has not experienced any losses in the past related to bank deposits in excess of insured limits. The Master Association believes that it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE C – RELATED PARTIES

The Developer is entitled to designate all members of the Board of Directors of the Master Association until owners other than the Developer own 90% of all units to be administered by the Master Association, as specified in the Declaration of Covenants, Conditions and Restrictions.

The Master Association has contracted with Parkway Maintenance & Management Co., (Parkway) to perform management and maintenance services, as well as provide amenities. Certain members of the Master Association's Board of Directors have an ownership interest in Parkway. The amenities provided are also owned by a related party. During the year ended December 31, 2016, Parkway provided net management and maintenance services to the Master Association in the amount of \$1,644,513. This consisted of management fees in the amount of \$145,490 as well as amenities and maintenance services in the amount of \$1,499,023.

At December 31, 2016, the total amounts due to related parties were \$400,847. The Master Association was also owed \$58,400 from Stone Creek at December 31, 2016.

The Master Association has contracted with Digital Communication Media, Inc. (DCM) to provide community systems-internet services for the benefit of Association members. Certain members of the Master Association's Board of Directors have an ownership interest in DCM. During the year ended December 31, 2016, DCM provided community systems-internet services in the amount of \$459,503 to the Master Association.

NOTE D – DEVELOPER CONTRIBUTIONS

During 2016, the Master Association's income from members was \$2,362,757 in community service fees and \$24,971 in working capital assessments for a total of \$2,387,728. Total expenses of the Master Association were \$2,685,741. As a result, the net Developer contributions were \$298,013. The amount due from the Developer at December 31, 2016 was \$298,013.

CIRCLE SQUARE RANCH MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE E - SUBSEQUENT EVENTS

The Master Association has evaluated subsequent events through March 13, 2017, which is the date the financial statements were available to be issued.