

**VERANDAH COMMUNITY ASSOCIATION, INC.**  
FORT MYERS, FLORIDA  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2013



Myers, Brettholtz & Company, PA

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

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THE EXCEPTION TO THE RULE

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Verandah Community Association, Inc.

We have audited the accompanying financial statements of Verandah Community Association, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 Verandah Community 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.

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THE EXCEPTION TO THE RULE

To the Board of Directors of  
Verandah Community Association, Inc.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 14 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund revenues and expenses - budget to actual, 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 relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, the 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 any assurance on it.



MYERS, BRETTHOLTZ & COMPANY, PA  
Fort Myers, Florida  
June 19, 2014

VERANDAH COMMUNITY ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2013

	FUNDS		
	Operating	Replacement	Total
<b>ASSETS</b>			
Cash	\$ 695,234	\$ 122,858	\$ 818,092
Certificates of deposit	715,000	2,500,000	3,215,000
Accounts receivable - members, net	51,548	-	51,548
Accounts receivable - other	37,428	40,000	77,428
Interest receivable	9	154	163
Prepaid expenses	14,480	-	14,480
Deposits	10,067	-	10,067
Property and equipment, net	587,690	-	587,690
Due from replacement fund	16,576	-	16,576
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,128,032</u>	<u>\$ 2,663,012</u>	<u>\$ 4,791,044</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 108,137	\$ -	\$ 108,137
Accrued payroll	12,751	-	12,751
Assessments received in advance	1,127,799	-	1,127,799
Due to operating fund	-	16,576	16,576
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	1,248,687	16,576	1,265,263
<b>FUND BALANCES</b>	<u>879,345</u>	<u>2,646,436</u>	<u>3,525,781</u>
Total liabilities and fund balances	<u>\$ 2,128,032</u>	<u>\$ 2,663,012</u>	<u>\$ 4,791,044</u>

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.

VERANDAH COMMUNITY ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2013

	FUNDS		
	Operating	Replacement	Total
<b>REVENUES</b>			
Assessments - residents	\$ 2,001,568	\$ 292,000	\$ 2,293,568
Assessments - club	85,062	-	85,062
Late fees and interest	6,381	-	6,381
Interest	1,412	9,379	10,791
Other	43,647	-	43,647
<b>Total revenues</b>	<u>2,138,070</u>	<u>301,379</u>	<u>2,439,449</u>
<b>EXPENSES</b>			
Cost of sales	22,283	-	22,283
Administration			
Cable	844,418	-	844,418
Provision for uncollectible accounts	2,026	-	2,026
Management fee	57,008	-	57,008
Legal and accounting	18,830	-	18,830
Compensation and benefits	100,506	-	100,506
Insurance - casualty	7,803	-	7,803
Other	49,793	-	49,793
Common area landscape maintenance			
Compensation and benefits	109,607	-	109,607
Landscape contractor	454,964	-	454,964
Landscape supplies and irrigation	369,921	-	369,921
Community patrol/gatehouse operations			
Compensation and benefits	319,902	-	319,902
Gatehouse operations	44,174	-	44,174
<b>Total expenses</b>	<u>2,401,235</u>	<u>-</u>	<u>2,401,235</u>
(Deficiency) excess of revenues over expenses	(263,165)	301,379	38,214
<b>FUND BALANCES - January 1, 2013</b>	984,662	2,502,905	3,487,567
<b>INTERFUND TRANSFER</b>	<u>157,848</u>	<u>(157,848)</u>	<u>-</u>
<b>FUND BALANCES - December 31, 2013</b>	<u>\$ 879,345</u>	<u>\$ 2,646,436</u>	<u>\$ 3,525,781</u>

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.

VERANDAH COMMUNITY ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	FUNDS		
	Operating	Replacement	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Assessments, late fees and interest collected	\$ 2,419,339	\$ 252,000	\$ 2,671,339
Interest received	1,403	9,225	10,628
Other revenue received	43,647	-	43,647
Cash paid for expenditures	<u>(2,356,806)</u>	<u>-</u>	<u>(2,356,806)</u>
Net cash provided by operating activities	<u>107,583</u>	<u>261,225</u>	<u>368,808</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of certificates of deposit	(13,115,000)	(2,500,000)	(15,615,000)
Proceeds from redemptions of certificates of deposit	13,550,000	2,350,000	15,900,000
Purchases of property and equipment	<u>(262,296)</u>	<u>-</u>	<u>(262,296)</u>
Net cash provided (used) by investing activities	<u>172,704</u>	<u>(150,000)</u>	<u>22,704</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund reimbursement	(101,225)	101,225	-
Interfund transfer	<u>157,848</u>	<u>(157,848)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>56,623</u>	<u>(56,623)</u>	<u>-</u>
Net increase in cash	336,910	54,602	391,512
CASH - January 1, 2013	<u>358,324</u>	<u>68,256</u>	<u>426,580</u>
CASH - December 31, 2013	<u>\$ 695,234</u>	<u>\$ 122,858</u>	<u>\$ 818,092</u>

	FUNDS		
	Operating	Replacement	Total
<b>RECONCILIATION OF (DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
(Deficiency) excess of revenues over expenses	\$ (263,165)	\$ 301,379	\$ 38,214
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	50,046	-	50,046
Recovery of bad debt	(8,416)	-	(8,416)
Changes in:			
Accounts receivable - members	30,502	-	30,502
Accounts receivable - other	(10,931)	(40,000)	(50,931)
Interest receivable	(9)	(154)	(163)
Prepaid expenses	7,374	-	7,374
Deposits	50,328	-	50,328
Accounts payable	(46,644)	-	(46,644)
Accrued payroll	(5,744)	-	(5,744)
Assessments received in advance	304,242	-	304,242
Total adjustments	370,748	(40,154)	330,594
Net cash provided by operating activities	\$ 107,583	\$ 261,225	\$ 368,808

Read Independent Auditor's Report.  
The accompanying notes are an integral  
part of the financial statements.

VERANDAH COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**NOTE 1 - THE ASSOCIATION**

Verandah Community Association, Inc. (the "Association") was incorporated on September 19, 2002, under the laws of Florida as a corporation not-for-profit, to operate and manage Verandah (the "Community"), a planned community consisting of 1,648 single and multi family lots developed in two phases, located in Fort Myers, Florida. The owners of all lots in the Association are the only members. As of December 31, 2013, 1,054 lots had been sold.

The Association's geographical territory is encompassed within the Verandah East Community Development District and the Verandah West Community Development District, which are local limited purpose independent government agencies designed to provide the community related services to its residents by maintaining the infrastructure owned by the community development districts.

**NOTE 2 - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 19, 2014, the date that the financial statements were available to be issued.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Fund Accounting

The Association prepares its financial statements on the accrual basis and presents them as separate funds based on its different funding policies for operations and major repairs and replacements.

The operating fund reflects the operating portion of the annual assessments billed to the lot owners to meet the various day-to-day expenditures incurred in the administration, maintenance, and operation of the Community and recreational facilities.

The replacement fund is composed of the initial and resale contributions designated in the budget to fund future major repairs and replacements, as further described in Note 8.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable are generally considered delinquent when they are 30 days past due. The Association accounts for potential losses in accounts receivable utilizing the allowance method. The Association maintains an allowance for uncollectible accounts at an amount that it believes is sufficient to provide adequate protection against future losses. Provisions for losses are determined principally on the basis of experiences in the preceding years, taking into account historical losses, industry standards and current economic conditions. All accounts or portions thereof deemed to be uncollectible are included in the allowance for uncollectible accounts. Provision for uncollectible accounts expense was \$2,026 for the year ended December 31, 2013.

Common Property

Ownership of the commonly owned assets is vested directly or indirectly in the lot owners, and those assets are not deemed to be severable. As a result, commonly owned assets are not recorded in the Association's financial statements. Improvements and repairs are expensed in the period in which they occur. Common property not capitalized consists of a gate house, dog park, kayak launch and kayaks, Blossoms meeting room, Oak Park, landscaping, roads, sidewalks and buffer.

VERANDAH COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment that meets the criteria for capitalization is recorded at cost and depreciated on a straight-line basis over the estimated useful life of the related asset. Management reviews property and equipment for possible impairments whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management evaluates the valuation and depreciation, as applicable, of the Association's long lived assets. Any write-down due to impairment is charged to operations at the time impairment is identified. No impairments have been recorded during the year ended December 31, 2013.

Income Taxes

Management has analyzed its various federal filing positions and believes that the Association's income tax filing positions and deductions are well documented, supported and contain no uncertain tax positions. Additionally, management believes that no accruals for tax liabilities, interest or penalties are required. Therefore, no reserves for uncertain income tax positions have been recorded. Further, no interest or penalties have been included since no reserves were recorded. When applicable, such interest and penalties will be reported as income tax expense. The years 2010 through 2013 remain open to examination under federal statute limitations.

The Association has elected to be taxed as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its investment income and other non-exempt function income, less allocable expenses. There are no temporary differences between the financial reporting and tax reporting with respect to the non-exempt function income; therefore, no deferred tax provision has been recorded. The Association incurred no federal income tax liability for the year ended December 31, 2013. There is no state income tax imposed on the Association.

Fair Value of Financial Instruments

Substantially all of the Association's assets and liabilities, excluding prepaid expenses, property and equipment and assessments received in advance, are considered financial instruments. These assets and liabilities are reflected at fair value, or at carrying amounts that approximate fair value because of the short maturity of the instrument.

Revenue Recognition

Assessments revenue is recognized monthly in the amount of the membership assessment allocation specified for current period operations, based on the annual budget, adopted by the Board. Each lot owner is an Association member and an equal portion of the maintenance fees is assessed for each lot.

Late charges and interest revenue is recognized when collected.

VERANDAH COMMUNITY ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2013

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash Flows

The Association made no cash payments for income tax or interest during the year ended December 31, 2013.

Estimates

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

**NOTE 4 - CONCENTRATION OF CREDIT RISK**

The Association maintains cash balances and certificates of deposit at various financial institutions. Accounts and certificates of deposit at the institutions are insured by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2013, the uninsured balance was \$446,581, based on the bank statement balances, less the FDIC insurance.

**NOTE 5 - ACCOUNTS RECEIVABLE - MEMBERS**

Accounts receivable - members, as of December 31, 2013, consisted of the following:

Assessments	\$ 215,146
Less: Allowance for uncollectible accounts	(163,598)
	<u>\$ 51,548</u>

**NOTE 6 - PROPERTY AND EQUIPMENT**

As of December 31, 2013, property and equipment consisted of the following:

	Estimated Useful Lives	Amount
Walls and fences	15 years	\$ 11,277
Decks and gazebos	15 - 22 years	52,452
Furniture, fixtures and equipment	5 - 15 years	110,178
Bikepaths and sidewalks	7 - 40 years	417,114
Vehicles	3 - 5 years	39,897
Irrigation system	15 years	86,160
		<u>717,078</u>
Less: accumulated depreciation		(129,388)
		<u>\$ 587,690</u>

Depreciation expense for the year ended December 31, 2013 was \$50,046.

VERANDAH COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**NOTE 7 - ASSESSMENTS RECEIVED IN ADVANCE**

Assessments received in advance consisted of 2014 assessments received by the Association prior to January 1, 2014.

**NOTE 8 - REPLACEMENT FUND**

The Association's replacement fund is utilized to accumulate funds for future major repairs and replacements. An initial reserve assessment for the purpose of future major repairs and replacement is levied against all non-exempt property at the time of sale. In addition a resale reserve assessment is levied upon the purchase of all resale properties. The Association's policy is to retain the interest earned on replacement cash, in the replacement fund.

The Association has adopted the pooling method of funding.

The components' actual replacement costs, useful lives, and investment income may vary from estimated amounts and the variation may be material. Therefore, the Association's replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board, on behalf of the Association, has the power to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**NOTE 9 - ASSESSMENTS - CLUB**

In consideration of its access and use of the access areas and the benefits which is derived from the proper maintenance of the Verandah Club (the "Club"), the Club pays the Association an annual maintenance fee. The fee is based on 15% of the joint area cost as defined in the Verandah Covenant to Share Cost Agreement between the Club and the Association. The annual maintenance fee assessed to the Club was \$85,062 for the year ended December 31, 2013. As of December 31, 2013, \$35,062 was due to the Association and is included in accounts receivable - other.

**NOTE 10 - DEVELOPER GUARANTEE**

In accordance with Article 8.7(b) of the Declaration of Covenants, Conditions and Restrictions for Verandah, during the Class "B" membership, Declarant may satisfy its obligation for assessments on units which it owns and are subject to assessments or for which is it contractually obligated to fund a builder's assessment obligation either by: (i) paying such assessments in the same many as any other owner, or (ii) by paying the difference between the amount of assessments levied on all other units subject to assessments plus other income of the Association and the amount of actual expenditures by the Association (excluding any amounts in the budget of common expenses for capital and contingency reserves) during the fiscal year. Unless the Declarant otherwise notifies the Board in writing at least 60 days before the beginning of each fiscal year, the Declarant shall be deemed to have elected to continue paying on the same basis as during the immediately preceding fiscal year. Regardless of the Declarant's election, the Declarant's obligations hereunder may be satisfied in the form of cash or by "in kind" contributions of services or materials, or by a combination of these. After termination of the Class "B" membership, the Declarant shall pay assessments on its unsold units in the same manner as any other owner.

Kolter Group, LLC (the "Developer") is the subsequent developer of the Community. Certain Board members are employees of the Developer. During the year ended December 31, 2013, there was no amount due from the Developer related to the subsidy obligation. As of December 31, 2013, there was no amount due to the Association from the Developer.

VERANDAH COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

**NOTE 11 - RETIREMENT PLAN**

The Association participates in the Veritas Employer Services Retirement Savings Plan which covers all employees with at least one year of service having completed a minimum of 1,000 hours of service. Under the terms of the Plan, the Association contributes an amount determined by management. The amount contributed was \$0, for the year ended December 31, 2013.

**NOTE 12 - COMMITMENTS**

The Association has a ten-year water service agreement with, Resource Conservation Systems, LLC ending in October 2017. The contract automatically renews for two successive five-year periods.

The Association has a cable service agreement with Comcast ending in November 2014. The agreement can be cancelled at any time with a written notice sent 90 days prior to the expiration of the contract.