

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2005**

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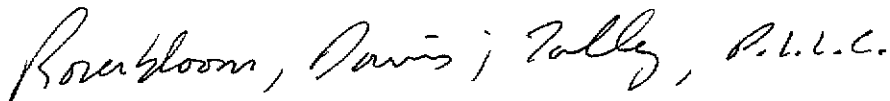
## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of  
Kendall Breeze Homeowners' Association, Inc.

We have audited the accompanying balance sheet of Kendall Breeze Homeowners' Association, Inc. as of December 31, 2005, and the related statement of revenues, expenses, and changes in fund balances and cash flows for year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Kendall Breeze Homeowners' Association, Inc. as of December 31, 2005, 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.



Rosenbloom, Davis & Tolley, P.L.L.C.  
March 15, 2006

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2005**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total All Funds</b>
<b>ASSETS</b>			
Cash, including interest bearing deposits	\$ 217,407	\$ 113,216	\$ 330,623
Assessments receivable, net of allowance for uncollectible accounts of \$7,506	77,277	10,660	87,937
Prepaid expenses	7,484	-	7,484
Due from developer, net of allowance for uncollectible account of \$25,844	-	-	-
Property and equipment, net of accumulated depreciation of \$5,441	13,929	-	13,929
Security deposits	4,906	-	4,906
 <b>TOTAL ASSETS</b>	 <b>\$ 321,003</b>	 <b>\$ 123,876</b>	 <b>\$ 444,879</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable and accrued expenses	\$ 34,650	\$ -	\$ 34,650
Unearned assessments	22,258	-	22,258
 <b>TOTAL LIABILITIES</b>	 56,908	 -	 56,908
 Fund balances	 264,095	 123,876	 387,971
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <b>\$ 321,003</b>	 <b>\$ 123,876</b>	 <b>\$ 444,879</b>

Read accompanying notes and independent auditors' report

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total All Funds</b>
<b>REVENUES</b>			
Assessment fees	\$ 1,053,830	\$ 123,853	\$ 1,177,683
Developers guarantee income	27,841	-	27,841
Late fees and interest charges	27,751	-	27,751
Violation income	23,800	-	23,800
Application and screening fees	13,940	-	13,940
Facility, keys, printing, and other	3,758	-	3,758
Interest income	68	23	91
	<u>1,150,988</u>	<u>123,876</u>	<u>1,274,864</u>
<b>EXPENSES</b>			
Alarm monitoring	249,997	-	249,997
Bad debts	29,795	-	29,795
Bank service charges	74	-	74
Depreciation	2,427	-	2,427
Insurance	15,282	-	15,282
Janitorial	48,609	-	48,609
Landscaping and lawn maintenance	129,411	-	129,411
Legal and professional	15,588	-	15,588
Licenses and permits	736	-	736
Management fees	87,980	-	87,980
Miscellaneous	4,217	-	4,217
Payroll burden	23,815	-	23,815
Postage and printing	13,020	-	13,020
Recreation facilities costs	21,191	-	21,191
Repairs and maintenance	27,206	-	27,206
Screening	9,620	-	9,620
Security	300,233	-	300,233
Telephone	2,734	-	2,734
Utilities	41,891	-	41,891
	<u>1,023,826</u>	<u>-</u>	<u>1,023,826</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>127,162</u>	<u>123,876</u>	<u>251,038</u>
<b>FUND BALANCES - JANUARY 1, 2005</b>			
Capital contributed - prior period	133,550	-	133,550
Capital contributed - current period	3,383	-	3,383
Fund balance	-	-	-
	<u>136,933</u>	<u>-</u>	<u>136,933</u>
<b>FUND BALANCES - DECEMBER 31, 2005</b>	<u>\$ 264,095</u>	<u>\$ 123,876</u>	<u>\$ 387,971</u>

Read accompanying notes and independent auditors' report.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total All Funds</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>			
Excess Revenues over expenses	\$ 127,162	\$ 123,876	\$ 251,038
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	2,427	-	2,427
(Increase) decrease in:			
Assessments receivable	(72,886)	(10,660)	(83,546)
Prepaid expenses	(6,366)	-	(6,366)
Due from developer	48,003	-	48,003
Security deposits	(161)	-	(161)
Increase (decrease) in:			
Accounts payable and accrued expenses	28,117	-	28,117
Unearned assessments	22,258	-	22,258
	<u>148,554</u>	<u>113,216</u>	<u>261,770</u>
<b>CASH FLOWS (USED FOR) INVESTING ACTIVITIES</b>			
Purchase of equipment	(6,899)	-	(6,899)
	<u>(6,899)</u>	<u>-</u>	<u>(6,899)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>			
Capital contributions	3,383	-	3,383
	<u>3,383</u>	<u>-</u>	<u>3,383</u>
<b>NET INCREASE IN CASH</b>	145,038	113,216	258,254
<b>CASH AT BEGINNING OF PERIOD - JANUARY 1, 2005</b>	<u>72,369</u>	<u>-</u>	<u>72,369</u>
<b>CASH AT END OF PERIOD - DECEMBER 31, 2005</b>	<u>\$ 217,407</u>	<u>\$ 113,216</u>	<u>\$ 330,623</u>

Read accompanying notes and independent auditors' report.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE A.     ORGANIZATION**

The Association was incorporated on April 20, 2001, in the State of Florida as a not-for-profit corporation for the purpose of administering and operating common property pursuant to Chapter 720 of the Florida Statutes and the provisions of the Declaration of Covenants and Restrictions. The Association property consists of land, two clubhouses, one cabana, and two pools. The Association contains 4 types of living units: single family homes and town homes with lots widths of 35, 30, and 22 feet.

The Declaration of Covenants and Restrictions was recorded on August 21, 2002. The first unit was conveyed to a unit owner other than the developer on August 28, 2002.

Article V - Assessments, section 10, and Article VI - Use of Property, section 2 and section 8 were amended on April 28, 2005. Article V, section 10 of the Declaration of Covenants and Restrictions is deleted in its entirety and restated to include provisions for late fees. Article VI, section 2 of the Declaration of Covenants and Restrictions is deleted in its entirety and is restated to require approvals of leases of a Lot by the Board of Directors. Article VI, section 8 of the Declaration of Covenants and Restrictions is restated to require approval by the Association for the sale of a lot and/or living unit.

**NOTE B.     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1.     Fund Accounting**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

**Operating Fund** - This fund is used to account for financial resources available for the general operations of the Association.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**Replacement Fund** - This fund is used to accumulate financial resources designated for future repairs and replacements.

Disbursements from the Operating Fund are generally at the discretion of the Board of Directors. Disbursements from the Replacement Fund generally may be made only for designated purposes by the Board of Directors.

**2. Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the Association considers all short-term investments with an original maturity of three months or less to be cash equivalents.

**3. Member Assessments**

Association members are subject to monthly assessments to provide funds for the Association's operating expenses. Each lot with a living unit that has been certified for occupancy and has been conveyed to an owner other than the developer shall be assessed at a rate that is uniform with other similar types of living units. For the period January 1, 2005 through December 31, 2005, the Board of Directors levied supplementary assessments to satisfy annual operating budget deficits.

Assessments receivable at the balance sheet date represent fees due from unit owners. Amounts due from developer are assessments guaranteed by the developer for operating expenses incurred by the Association not covered from the member assessments.

The annual budget and assessments of owners are determined and approved by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

**4. Prepaid Expenses**

Prepaid expenses consist of unexpired insurance and other operating expenses.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**5. Property and Equipment**

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-lined method. The Association also recognizes real property not directly associated with the units as assets when the Association has title and can dispose of the property, at the discretion of its Board of Directors, for cash, with the Association retaining the proceeds.

**6. 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. Actual results could differ from these estimates.

**7. Interest Earned**

The Board's policy is to allocate investment income to the Operating and Replacement Funds based upon average balances.

**8. Income Taxes**

The Association is classified as a non-exempt organization for both federal and state income tax purposes for the year ended December 31, 2005. The Association is subject to specific rulings and regulations applicable to non-exempt membership organizations. The Association will file its income tax return as a regular corporation under Section 528 of the Internal Revenue Code and does not project to incur a federal or state income tax liability for the year ended December 31, 2005. The Association's investment income and other non-exempt income net of certain expenses should result in no taxable income.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**9. Comprehensive Income**

The Association adopted Financial Accounting Standards Board's (FASB) SFAS 130, "Reporting Comprehensive Income" on January 1, 1999. The FASB establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. This statement only modifies disclosures, including financial statement disclosures, and does not result in other changes to the results or financial position of the Association. The Association's financial statements for the period April 20, 2001 (inception) through April 28, 2005 requires no adjustments for this standard.

**NOTE C. PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost and consist of the following:

Equipment	\$ 14,583
Furniture and fixtures	<u>4,787</u>
	19,370
Less: accumulated depreciation	<u>5,441</u>
	<u>\$ 13,929</u>

**NOTE D. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents allow for funds to be accumulated for future repairs and replacements. The Association's Board of Directors voted to fund for certain major repairs and replacements for the period January 1, 2005 through December 31, 2005.

The roofs of the 35 foot town home living units are not provided for in the accumulation of future major repairs and replacements such as the 30 and 22 foot town homes.

An independent study to determine the estimated remaining useful lives and the replacement costs of the components of common property was not performed during 2005. An independent study to determine the estimated useful lives and replacement costs of the components of common property was performed for the period January 1, 2006 through December 31, 2006.

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2005**

**NOTE E. COMMITMENTS, CONTRACTS, SUBSEQUENT EVENTS AND OTHER MATTERS**

1. The Association entered into contracts for service with five suppliers as follows:

	<u>Monthly</u> <u>Amount</u>	<u>Contract</u> <u>Expires</u>
Vanguard Security, Inc.	\$ 17,486	2005
United Communication & Protection Inc.	20,972	2012
Gables Professional Management, Inc.	7,382	2005
Centurion Building Services Corp d/b/a America Service Industries	3,899	2005
McGrath Property Services	1,600	2005

2. The general membership/turnover meeting held on April 28, 2005, elected the new Board of Directors comprising of unit owners only. Consequently, the unit owners of Kendall Breeze Homeowners' Association, Inc. were officially transferred control of the Board of Directors from the developer as of April 28, 2005.
3. The Association is located within a Community Development District, hereinafter referred to as "CDD." The CDD shall be responsible for the maintenance, operation, and repair of the water management, water supply, sewer, wastewater management, and roadways.
4. On January 1, 2006, the Association entered into a contract with United Communication and Protection, Inc. to extend the contract for the security alarm monitoring to December 31, 2006. The monthly service for each unit will gradually reduce from \$22 per unit plus tax to \$18 per unit plus tax. The Association pays for the security alarm monitoring for each unit.
5. Management has elected to establish an allowance for doubtful accounts for monies due from the developer of approximately \$25,844. These amounts due from the developer originated from operating deficits of the Association prior to turnover.

**NOTE F. UNINSURED CASH BALANCES**

The Association maintains its cash balance at a financial institution located in South Florida. The account is insured up to \$100,000. The Association had approximately \$130,623 of uninsured cash balances at December 31, 2005.

**SUPPLEMENTARY INFORMATION**

# Rosenbloom, Davis & Tolley, P.L.L.C.

Certified Public Accountants

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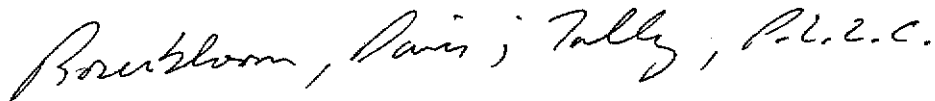
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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Members of  
Kendall Breeze Homeowners' Association, Inc.

Our report on our audit of the basic financial statements of Kendall Breeze Homeowners' Association, Inc. as of December 31, 2005 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information on Future Repairs and Replacements for the year ended December 31, 2005 on pages 11 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Rosenbloom, Davis & Tolley, P.L.L.C.  
March 15, 2006

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND REPLACEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

As indicated in Note D, an independent study to determine the estimated remaining lives and the replacement costs of the components of common property has not been performed during 2005.

	<u>Fund Balance Beginning of Period</u>	<u>Additions to Fund</u>	<u>Charges to Fund</u>	<u>Fund Balance End of Period</u>
Painting - entrance	\$ -	\$ 3,961	\$ -	\$ 3,961
Painting - exterior (35 foot town home)	-	4,512	-	4,512
Painting - exterior (30 foot town home)	-	7,327	-	7,327
Painting - exterior (22 foot town home)	-	29,402	-	29,402
Painting - recreational room	-	370	-	370
Pool - equipment	-	578	-	578
Pool - furniture	-	2,298	-	2,298
Pool - deck resurfacing	-	864	-	864
Pool - resurfacing	-	1,727	-	1,727
Recreational room - furniture	-	863	-	863
Roof - 30 foot town home	-	11,845	-	11,845
Roof - 22 foot town home	-	58,695	-	58,695
Roof - recreational room	-	1,434	-	1,434
<b>Total</b>	<u>\$ -</u>	<u>\$ 123,876</u>	<u>\$ -</u>	<u>\$ 123,876</u>

Read accompanying notes and independent auditors' report on supplementary information.