

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2006

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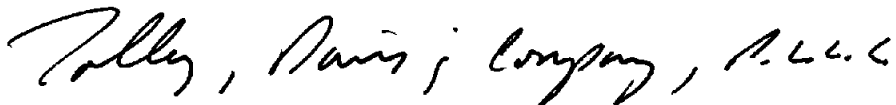
INDEPENDENT AUDITORS' REPORT

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, 2006, 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, 2006, 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.



Tolley, Davis & Company, P.L.L.C.
February 22, 2007

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2006

| | Operating Fund | Replacement Fund | Total All Funds |
|--|---------------------------|-----------------------------|----------------------------|
| ASSETS | | | |
| Cash, including interest bearing deposits | \$ 367,978 | \$ 447,909 | \$ 815,887 |
| Assessments receivable, net of allowance for uncollectible accounts of \$22,249 | 75,046 | 3,835 | 78,881 |
| Prepaid expenses | 13,058 | - | 13,058 |
| Property and equipment, net of accumulated depreciation of \$15,936 | 27,616 | - | 27,616 |
| Security deposits | 18,032 | - | 18,032 |
| TOTAL ASSETS | \$ 501,730 | \$ 451,744 | \$ 953,474 |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable and accrued expenses | \$ 41,760 | \$ - | \$ 41,760 |
| Unearned assessments | 49,382 | - | 49,382 |
| Facility deposits | 1,025 | - | 1,025 |
| Capital lease payable | 3,559 | - | 3,559 |
| TOTAL LIABILITIES | 95,726 | - | 95,726 |
| Fund balances | 406,004 | 451,744 | 857,748 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 501,730 | \$ 451,744 | \$ 953,474 |

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, 2006

| | Operating Fund | Replacement Fund | Total All Funds |
|--|---------------------------|-----------------------------|----------------------------|
| REVENUES | | | |
| Assessment fees | \$ 1,105,380 | \$ 327,610 | \$ 1,432,990 |
| Late fees and interest charges | 45,017 | - | 45,017 |
| Violation income | 22,650 | - | 22,650 |
| Application and screening fees | 13,478 | - | 13,478 |
| Facility, keys, printing, and other | 10,840 | - | 10,840 |
| Interest Income | 10,452 | 8,292 | 18,744 |
| | 1,207,817 | 335,902 | 1,543,719 |
| EXPENSES | | | |
| Alarm monitoring | 220,396 | - | 220,396 |
| Bad debts | 22,248 | - | 22,248 |
| Bank service charges | 1,886 | - | 1,886 |
| Depreciation | 10,703 | - | 10,703 |
| Insurance | 29,048 | - | 29,048 |
| Interest | 317 | - | 317 |
| Janitorial | 28,919 | - | 28,919 |
| Landscaping and lawn maintenance | 185,006 | - | 185,006 |
| Legal and professional | 38,168 | - | 38,168 |
| Licenses and permits | 1,867 | - | 1,867 |
| Management fees | 64,089 | - | 64,089 |
| Office | 989 | - | 989 |
| Payroll burden | 42,013 | - | 42,013 |
| Postage and printing | 23,760 | - | 23,760 |
| Recreation facilities costs | 23,620 | - | 23,620 |
| Repairs and maintenance | 67,000 | 8,034 | 75,034 |
| Screening | 6,430 | - | 6,430 |
| Security | 225,456 | - | 225,456 |
| Telephone | 6,694 | - | 6,694 |
| Utilities | 65,774 | - | 65,774 |
| Waste removal | 1,525 | - | 1,525 |
| | 1,065,907 | 8,034 | 1,073,941 |
| EXCESS OF REVENUES OVER EXPENSES | 141,910 | 327,868 | 469,778 |
| FUND BALANCES - JANUARY 1, 2006 | | | |
| Capital contributed - prior period | 136,933 | - | 136,933 |
| Fund balance | 127,162 | 123,876 | 251,038 |
| | 264,095 | 123,876 | 387,971 |
| FUND BALANCES - DECEMBER 31, 2006 | \$ 406,004 | \$ 451,744 | \$ 857,748 |

Read accompanying notes and independent auditors' report.

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Operating Fund | Replacement Fund | Total All Funds |
|---|---------------------------|-----------------------------|----------------------------|
| CASH FLOWS PROVIDED BY OPERATING ACTIVITIES | | | |
| Excess Revenues over expenses | \$ 141,910 | \$ 327,868 | \$ 469,778 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | | |
| Depreciation | 10,703 | - | 10,703 |
| (Increase) decrease in: | | | |
| Assessments receivable | 4,730 | 6,825 | 11,555 |
| Prepaid expenses | (5,574) | - | (5,574) |
| Security deposits | (13,126) | - | (13,126) |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | 7,110 | - | 7,110 |
| Unearned assessments | 27,124 | - | 27,124 |
| Facility deposits | 1,025 | - | 1,025 |
| | <u>173,902</u> | <u>334,693</u> | <u>508,595</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| CASH FLOWS (USED FOR) INVESTING ACTIVITIES | | | |
| Purchase of equipment | (26,682) | - | (26,682) |
| Sale of equipment | (208) | - | (208) |
| | <u>(26,890)</u> | <u>-</u> | <u>(26,890)</u> |
| NET CASH (USED FOR) INVESTING ACTIVITIES | | | |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | | | |
| Loan payments - principal | 4,114 | - | 4,114 |
| Loan proceeds | (555) | - | (555) |
| | <u>-</u> | <u>-</u> | <u>(555)</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | | |
| | <u>3,559</u> | <u>-</u> | <u>3,559</u> |
| NET INCREASE IN CASH | | | |
| | 150,571 | 334,693 | 485,264 |
| CASH AT BEGINNING OF PERIOD - JANUARY 1, 2006 | | | |
| | <u>217,407</u> | <u>113,216</u> | <u>330,623</u> |
| CASH AT END OF PERIOD - DECEMBER 31, 2006 | | | |
| | <u>\$ 367,978</u> | <u>\$ 447,909</u> | <u>\$ 815,887</u> |

Read accompanying notes and independent auditors' report.

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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 three pools. The Association contains 4 types of living units: single family homes and town homes with lot 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:

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

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. 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, 2006

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, 2006. 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, 2006. 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, 2006

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 ended December 31, 2006 no adjustments for this standard.

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE C. PROPERTY AND EQUIPMENT

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

| | | |
|--------------------------------|----|---------------|
| Awnings | \$ | 4,740 |
| Blinds | | 1,108 |
| Computer equipment | | 4,114 |
| Electronic equipment | | 6,700 |
| Furniture and equipment | | 8,963 |
| Garbage containers | | 5,602 |
| Golf cart | | 3,345 |
| Pool gate access equipment | | <u>8,980</u> |
| | | 43,552 |
| Less: accumulated depreciation | | <u>15,936</u> |
| | \$ | <u>27,616</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, 2006 through December 31, 2006.

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 performed on February 15, 2006.

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

| | Fund | | | Fund |
|---|-------------------|-------------------|-------------------|-------------------|
| | Balance | Additions | Charges | Balance |
| | Beginning | to | to | End of |
| | of Period | Fund | Fund | Period |
| Cabana | \$ - | \$ 6,799 | \$ - | \$ 6,799 |
| Clubhouse phase I | - | 29,391 | - | 29,391 |
| Clubhouse phase II | - | 22,913 | (2,684) | 20,229 |
| Exterior features | - | 87,487 | (1,990) | 85,497 |
| Fountain phase I | - | 4,913 | - | 4,913 |
| Fountain phase II | - | 5,263 | - | 5,263 |
| Insurance deductible | - | 22,915 | - | 22,915 |
| Irrigation system | - | 7,544 | - | 7,544 |
| Mailboxes cabana | - | 3,800 | - | 3,800 |
| Mailboxes phase I | - | 3,800 | - | 3,800 |
| Mailboxes phase II | - | 3,800 | - | 3,800 |
| Painting -- entrance | 3,961 | 4,120 | - | 8,081 |
| Painting - exterior (22 foot town home) | 29,402 | 32,590 | - | 61,992 |
| Painting - exterior (30 foot town home) | 7,327 | 5,641 | - | 12,968 |
| Painting - exterior (35 foot town home) | 4,512 | 84 | - | 4,596 |
| Painting - recreational room | 370 | 1,696 | - | 2,066 |
| Pool - deck resurfacing | 864 | 736 | - | 1,600 |
| Pool -- equipment | 578 | 424 | (3,360) | (2,358) |
| Pool -- furniture | 2,298 | 1,952 | - | 4,250 |
| Pool -- resurfacing | 1,727 | 1,463 | - | 3,190 |
| Recreational room -- furniture | 863 | 731 | - | 1,594 |
| Roof - 22 foot town home | 58,695 | 64,684 | - | 123,379 |
| Roof - 30 foot town home | 11,845 | 14,491 | - | 26,336 |
| Roof - recreational room | 1,434 | 1,405 | - | 2,839 |
| Roof Exterior painting - (35 x 65) | - | 7,260 | - | 7,260 |
| Total | \$ 123,876 | \$ 335,902 | \$ (8,034) | \$ 451,744 |

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

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

| | Monthly Expense | Contract Expires |
|---|--------------------|---------------------|
| Dell Financial Services, Inc. | \$ 174 | 2009 |
| Gables Professional Management Company | 5,341 | 2007 |
| Michael K. Fish, C.P.A., P.A. | 2,720 | 2007 |
| Monarch Security Services, Inc. | 18,842 | 2007 |
| McGrath Property Services, Inc. | 720 | 2007 |
| Salman Landscape Services, Inc. | 7,300 | 2007 |
| Sprint / Nextel | 128 | 2009 |
| Triana Services, Inc. | 2,500 | 2007 |
| United Communication and Protection, Inc. | 17,094 | 2013 |

2. The Association is located within a Community Development District, hereinafter referred to as "CDD." The CDD shall be responsible to finance, construct and maintain some or all of the public infrastructure including but not limited to water system, sewer system, drainage system and roadway system will be owned, operated and maintained by the CDD.
3. 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.

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

4. During December, 2006, the Board of Directors cancelled their contract with the Gables Professional Management Company, Inc. The association entered into a contract with Michael K. Fish, C.P.A, P.A. Inc., work commenced on January 1, 2007. Michael K. Fish, C.P.A, P.A. will provide accounting services, annual budgeting, financial statements, year-end statements, and tax preparation. A board of directors is an employee of the firm contracted to perform the accounting services for the Association. The board of directors was not involved in the selection of the accounting firm or negotiations of the contract. The board of director will not be compensated directly or indirectly .

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 \$220,300 of uninsured cash balances at December 31, 2006.

SUPPLEMENTARY INFORMATION

Tolley, Davis & Company, P.L.L.C.
Certified Public Accountants

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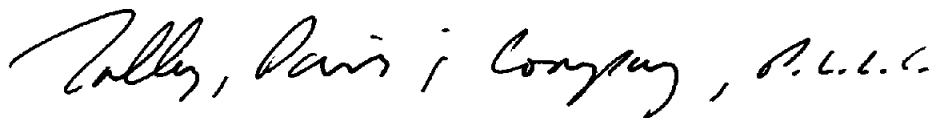
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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

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, 2006 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, 2006 on page 14 is presented for purposes of additional analysis and is 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.



Tolley, Davis & Company, P.L.L.C.
February 22, 2007

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

An independent engineer conducted a study in February 15, 2006 to estimate useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest thousand dollars.)

| COMPONENTS | ESTIMATED REMAINING USEFUL LIFE (YEARS) | ESTIMATED CURRENT REPLACEMENT COST | REPLACEMENT FUND BALANCE AT DECEMBER 31, 2006 |
|-----------------------------|--|---|--|
| Common area interiors | 2-17 | \$ 113,366 | \$ 87,091 |
| HVAC equipment | 7-18 | 20,900 | 56,419 |
| Mailboxes | 22 | 78,400 | 11,399 |
| Painting & waterproofing | 2-7 | 43,550 | 96,963 |
| Pools | 7-18 | 139,543 | 6,682 |
| Roof replacement | 1-28 | 69,684 | 152,554 |
| Site improvement | 8-22 | 397,508 | 17,720 |
| TOTALS | | \$ 862,951 | \$ 428,829 |