

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2008

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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, 2008, and the related statements 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, 2008, 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.

Tolley, Davis & Company, P.L.L.C.
March 31, 2009

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total All Funds
ASSETS			
Cash, including interest bearing deposits	\$ 304,939	\$ 1,379,123	\$ 1,684,062
Assessments receivable, net of allowance for uncollectible accounts of \$164,959	125,939	-	125,939
Prepaid expenses	11,524	-	11,524
Property and equipment, net of accumulated depreciation of \$24,940	18,612	-	18,612
Security deposits	18,066	-	18,066
Due (to) from other funds	76,507	(76,507)	-
 TOTAL ASSETS	 \$ 555,587	 \$ 1,302,616	 \$ 1,858,203
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 31,923	\$ 30,000	\$ 61,923
Unearned assessments	44,279	-	44,279
Capital lease payable	172	-	172
 TOTAL LIABILITIES	 76,374	 30,000	 106,374
Fund balances	479,213	1,272,616	1,751,829
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 555,587	 \$ 1,302,616	 \$ 1,858,203

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

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total All Funds
REVENUES			
Assessment fees	\$ 1,084,289	\$ 400,149	\$ 1,484,438
Late fees and interest charges	4,853	-	4,853
Application and screening fees	15,666	-	15,666
Facility, keys, printing, and other	18,541	-	18,541
Interest income	1,231	26,073	27,304
	1,124,580	426,222	1,550,802
EXPENSES			
Alarm monitoring	198,513	-	198,513
Bad debts	51,078	-	51,078
Bank service charges	1,855	-	1,855
Depreciation	6,097	-	6,097
Insurance	41,678	-	41,678
Interest	301	-	301
Janitorial	30,000	-	30,000
Landscaping and lawn maintenance	161,495	-	161,495
Legal and professional	26,094	-	26,094
Licenses and permits	4,930	-	4,930
Management fees	35,965	-	35,965
Miscellaneous	946	-	946
Office	115	-	115
Payroll burden	71,625	-	71,625
Postage and printing	21,179	-	21,179
Recreation facilities costs	21,910	-	21,910
Repairs and maintenance	63,420	57,551	120,971
Screening	140	-	140
Security	222,677	-	222,677
Telephone	10,707	-	10,707
Utilities	74,297	-	74,297
	1,045,022	57,551	1,102,573
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	79,558	368,671	448,229
FUND BALANCES - BEGINNING OF YEAR			
Capital contributed - prior period	136,933	-	136,933
Fund balance	262,722	903,945	1,166,667
	399,655	903,945	1,303,600
FUND BALANCES - END OF YEAR	\$ 479,213	\$ 1,272,616	\$ 1,751,829

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

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total All Funds</u>
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES			
Excess revenues over expenses	\$ 79,558	\$ 368,671	\$ 448,229
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	6,097	-	6,097
(Increase) decrease in:			
Assessments receivable	7,179	-	7,179
Prepaid expenses	(4,489)	-	(4,489)
Increase (decrease) in:			
Accounts payable and accrued expenses	(9,753)	30,000	20,247
Unearned assessments	3,522	-	3,522
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>82,114</u>	<u>398,671</u>	<u>480,785</u>
CASH FLOWS (USED) BY FINANCING ACTIVITIES			
Loan payments - principal	<u>(1,857)</u>	<u>-</u>	<u>(1,857)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(1,857)</u>	<u>-</u>	<u>(1,857)</u>
NET INCREASE IN CASH	80,257	398,671	478,928
CASH AT BEGINNING OF YEAR	<u>224,682</u>	<u>980,452</u>	<u>1,205,134</u>
CASH AT END OF YEAR	\$ <u><u>304,939</u></u>	\$ <u><u>1,379,123</u></u>	\$ <u><u>1,684,062</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:	
Interest (net of amount capitalized)	\$ 301

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

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

NOTE 1 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 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses. Each 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.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Prepaid expenses consist of unexpired insurance and other operating expenses.

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.

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.

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, 2008. 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, 2008. The Association's investment income and other non-exempt income net of certain expenses should result in no taxable income.

Interest Earned

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

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

NOTE 3 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>24,940</u>
		<u><u>\$ 18,612</u></u>

NOTE 4 COMMITMENTS, CONTRACTS AND OTHER MATTERS

The Association is committed with contracts for services as follows:

	Monthly Expense	Contract Expires
Dell Financial Services, Inc.	\$ 174	2009
Michael K. Fish, C.P.A., P.A.	2,720	2009
Monarch Security Services, Inc.	18,842	2009
Salman Landscape Services, Inc.	7,300	2009
Sprint / Nextel	128	2009
Proman Group, LLC	2,500	2009
United Communication and Protection, Inc.	17,094	2013

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.

The Association entered into a contract with Michael K. Fish, CPA, P.A. and work commenced on January 1, 2007. Michael K. Fish, CPA, P.A. provides accounting services, annual budgeting, financial statements, year end statements, and tax preparation. A director of the Association's Board of Directors is an employee of the firm that was contracted to perform the accounting services for the Association. This director was not involved in the selection of the accounting firm or negotiations of the contract. The director will not be compensated directly or indirectly and has no role in signing checks on any of the bank accounts.

On July 29, 2008, the Association approved to engage Roy's Painting to perform community painting in the amount of \$914,900. Work will begin in 2009.

NOTE 5 UNINSURED CASH BALANCES

The Association maintains its cash balance at a financial institution located in South Florida. The account is insured up to \$250,000 for the year ended December 31, 2008. The Association did not have any uninsured cash balances at December 31, 2008.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008

NOTE 6 FUTURE MAJOR REPAIRS AND REPLACEMENTS

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.

	Fund Balance Beginning of Period	Additions to Fund	Interest Allocated	Charges to Fund	Fund Balance End of Period
Cabana	\$ 14,360	\$ 13,405	\$ 414	\$ -	\$ 28,179
Clubhouse phase I	54,200	24,985	1,563	(850)	79,898
Clubhouse phase II	6,676	31,624	193	(850)	37,643
Exterior features	272,396	80,858	7,857	(47,729)	313,382
Fountain phase I	(7,377)	5,263	(213)	-	(2,327)
Fountain phase II	18,398	8,651	531	-	27,580
Insurance deductible	45,565	21,261	1,314	-	68,140
Irrigation system	15,804	4,969	456	-	21,229
Mailboxes cabana	8,654	6,076	250	-	14,980
Mailboxes phase I	8,654	4,326	250	-	13,230
Mailboxes phase II	8,654	6,076	250	-	14,980
Painting – entrance	8,637	5,974	249	-	14,860
Painting - exterior (22 foot town home)	108,061	129,696	3,117	-	240,874
Painting - exterior (30 foot town home)	23,345	25,811	673	-	49,829
Painting - exterior (35 foot town home)	18,051	13,177	521	-	31,749
Painting - recreational room	3,724	1,658	107	-	5,489
Pool - deck resurfacing	4,057	2,457	117	-	6,631
Pool – equipment	1,679	4,037	48	-	5,764
Pool – furniture	6,402	1,874	185	(8,122)	339
Pool – resurfacing	7,497	4,029	216	-	11,742
Recreational room – furniture	2,496	902	72	-	3,470
Roof - 22 foot town home	215,526	-	6,217	-	221,743
Roof - 30 foot town home	44,513	-	1,284	-	45,797
Roof - recreational room	6,157	3,040	178	-	9,375
Roof Exterior painting - (35 x 65)	7,816	-	224	-	8,040
Total	\$ 903,945	\$ 400,149	\$ 26,073	\$ (57,551)	\$ 1,272,616

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, 2008 through December 31, 2008.

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.

SUPPLEMENTARY INFORMATION

Tolley, Davis & Company, P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

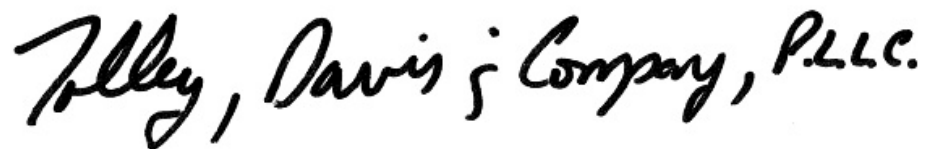
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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, 2008 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, 2008 on page 10 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.
March 31, 2009

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2008

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.

COMPONENTS	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	REPLACEMENT FUND BALANCE AT DECEMBER 31, 2008
Common area exterior	2-17	\$ 113,366	\$ 316,852
HVAC equipment	7-18	20,900	-
Mailboxes	22	78,400	43,190
Painting & waterproofing	2-7	43,550	350,841
Pools	7-18	139,543	24,476
Roof replacement	1-28	69,684	276,915
Site improvement	8-22	397,508	170,973
TOTALS		<u>\$ 862,951</u>	<u>\$ 1,183,247</u>