

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2010

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

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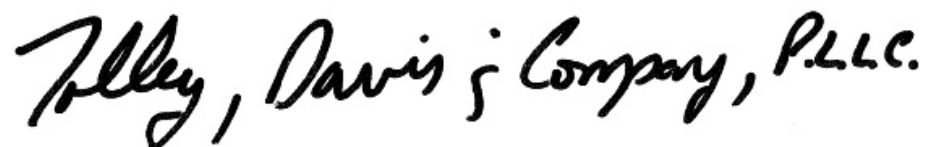
INDEPENDENT AUDITORS' REPORT

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, 2010, 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, 2010, 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.
March 31, 2011

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2010

	Operating Fund	Replacement Fund	Total All Funds
ASSETS			
Cash, including interest bearing deposits	\$ 421,875	\$ 1,462,373	\$ 1,884,248
Assessments receivable, net of allowance for uncollectible accounts of \$140,540	302,595	-	302,595
Prepaid expenses	7,175	-	7,175
Property and equipment, net of accumulated depreciation of \$34,325	9,227	-	9,227
Security deposits	20,566	-	20,566
Due (to) from other funds	(3,501)	3,501	-
TOTAL ASSETS	<u>\$ 757,937</u>	<u>\$ 1,465,874</u>	<u>\$ 2,223,811</u>
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 11,753	\$ -	\$ 11,753
Unearned assessments	49,570	-	49,570
TOTAL LIABILITIES	61,323	-	61,323
Fund balances	696,614	1,465,874	2,162,488
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 757,937</u>	<u>\$ 1,465,874</u>	<u>\$ 2,223,811</u>

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, 2010

	Operating Fund	Replacement Fund	Total All Funds
REVENUES			
Assessment fees	\$ 1,089,535	\$ 418,829	\$ 1,508,364
Late fees and interest charges	38,644	-	38,644
Facility, keys, printing, and other	70,394	-	70,394
Interest income	799	8,113	8,912
	1,199,372	426,942	1,626,314
EXPENSES			
Alarm monitoring	180,222	-	180,222
Bad debts	529	-	529
Bank service charges	1,572	35	1,607
Depreciation	4,632	-	4,632
Insurance	41,759	-	41,759
Interest	3,995	-	3,995
Janitorial	30,000	-	30,000
Landscaping and lawn maintenance	147,254	-	147,254
Legal and professional	19,378	-	19,378
Licenses and permits	820	-	820
Management fees	40,627	-	40,627
Miscellaneous	10,352	-	10,352
Office	40	-	40
Payroll burden	76,499	-	76,499
Postage and printing	16,632	-	16,632
Recreation facilities costs	18,180	-	18,180
Repairs and maintenance	68,675	134,944	203,619
Security	180,075	-	180,075
Telephone	10,652	-	10,652
Utilities	67,186	-	67,186
	919,079	134,979	1,054,058
EXCESS OF REVENUES OVER EXPENSES	280,293	291,963	572,256
FUND BALANCES - BEGINNING OF YEAR			
Capital contributed - prior period	136,933	-	136,933
Fund balance	529,388	923,911	1,453,299
	666,321	923,911	1,590,232
Transfer of funds	(250,000)	250,000	-
FUND BALANCES - END OF YEAR	\$ 696,614	\$ 1,465,874	\$ 2,162,488

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, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total All Funds</u>
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES			
Excess revenues over expenses	\$ 280,293	\$ 291,963	\$ 572,256
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	4,632	-	4,632
(Increase) decrease in:			
Assessments receivable	(72,329)	-	(72,329)
Prepaid expenses	2,732	-	2,732
Other receivables	2,500	-	2,500
Interfund balances	(172,709)	172,709	-
Increase (decrease) in:			
Accounts payable and accrued expenses	11,753	-	11,753
Unearned assessments	12,511	-	12,511
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>69,383</u>	<u>464,672</u>	<u>534,055</u>
NET INCREASE IN CASH	69,383	464,672	534,055
CASH AT BEGINNING OF YEAR	<u>352,492</u>	<u>997,701</u>	<u>1,350,193</u>
CASH AT END OF YEAR	<u>\$ 421,875</u>	<u>\$ 1,462,373</u>	<u>\$ 1,884,248</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:	
Interest (net of amount capitalized)	\$ 3,995

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, 2010

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, 2010

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, 2010. 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, 2010. 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.

Recently Issued Accounting Standards

In May 2009, the Financial Accounting Standards Board issued SFAS 165, "Subsequent Events", which establishes standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued or ready to be issued. SFAS 165 was adopted for the year ending December 31, 2010. The adoption did not have a material impact on Kendall Breeze Homeowners Association's results of operations, financial position, or cash flow. Kendall Breeze has evaluated subsequent events through March 31, 2011, which is the date the financial statements were issued.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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>34,325</u>
		<u>\$ 9,227</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.	\$ 330	2011
Michael K. Fish, C.P.A., P.A.	3,302	2011
Monarch Security Services, Inc.	14,920	2011
Salman Landscape Services, Inc.	7,300	2011
Proman Group, LLC	2,500	2011
United Communication and Protection, Inc.	14,965	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.

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, 2010. The Association did not have any uninsured cash balances at December 31, 2010.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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. The Association's Board of Directors has not made any adjustments since the prior reserve study.

	Fund Balance Beginning of Period	Additions to Fund	Interest Allocated	Transfers	Charges to Fund	Fund Balance End of Period
Cabana	\$ 28,754	\$ -	\$ 189	\$ 4,000	\$ -	\$ 32,943
Clubhouse phase I	81,529	-	535	56,925	-	138,989
Clubhouse phase II	38,411	-	252	57,779	-	96,442
Exterior features	319,730	-	2,099	19,709	-	341,538
Fountain phase I	(2,327)	-	-	72,087	-	69,760
Fountain phase II	28,143	-	185	-	-	28,328
Insurance deductible	69,531	-	456	-	-	69,987
Irrigation system	21,662	-	142	-	-	21,804
Mailboxes cabana	15,286	-	100	-	-	15,386
Mailboxes phase I	13,500	-	88	-	-	13,588
Mailboxes phase II	15,286	-	100	-	-	15,386
Painting – entrance	15,163	-	100	-	-	15,263
Painting - exterior (22 foot town home)	(16,397)	238,378	1,002	-	(80,175)	142,808
Painting - exterior (30 foot town home)	3,420	30,073	236	-	-	33,729
Painting - exterior (35 foot town home)	(32,669)	51,579	-	-	(54,804)	(35,894)
Painting - recreational room	5,601	-	37	-	-	5,638
Pool - deck resurfacing	6,766	-	44	-	-	6,810
Pool – equipment	5,882	-	39	3,360	-	9,281
Pool – furniture	346	-	2	16,255	-	16,603
Pool – resurfacing	11,982	-	79	2,000	-	14,061
Recreational room – furniture	3,541	-	23	-	-	3,564
Roof - 22 foot town home	226,269	75,216	1,812	-	-	303,297
Roof - 30 foot town home	46,896	23,583	476	-	-	70,955
Roof - recreational room	9,566	-	63	17,885	-	27,514
Roof Exterior painting - (35 x 65)	8,040	-	54	-	-	8,094
Total	\$ 923,911	\$ 418,829	\$ 8,113	\$ 250,000	\$ (134,979)	\$ 1,465,874

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, 2010 through December 31, 2010.

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.

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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, 2010 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, 2010 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.

Tolley, Davis & Company, P.L.L.C.
March 31, 2011

**KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010**

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, 2010
Common area exterior	2-16	\$	113,366	\$	345,102
HVAC equipment	7-17		20,900		-
Mailboxes	21		78,400		44,360
Painting & waterproofing	2-6		43,550		46,755
Pools	7-17		139,543		401,766
Roof replacement	1-27		69,684		169,638
Site improvement	8-21		397,508		366,462
TOTALS		\$	862,951	\$	1,374,083
					91,791
				Total Reserve Fund Balance	\$ 1,465,874