

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2011

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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, 2011, 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, 2011, 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 & Hill, P.L.L.C.
March 31, 2012

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total All Funds
ASSETS			
Cash, including interest bearing deposits	\$ 417,564	\$ 2,240,400	\$ 2,657,964
Assessments receivable, net of allowance for uncollectible accounts of \$129,113	205,778	-	205,778
Prepaid expenses	7,665	-	7,665
Property and equipment, net of accumulated depreciation of \$38,305	5,247	-	5,247
Security deposits	20,566	-	20,566
Due (to) from other funds	(3,501)	3,501	-
	<u>653,319</u>	<u>2,243,901</u>	<u>2,897,220</u>
TOTAL ASSETS	\$ <u>653,319</u>	\$ <u>2,243,901</u>	\$ <u>2,897,220</u>
 LIABILITIES AND FUND BALANCES			
Accounts payable and accrued expenses	\$ 11,307	\$ -	\$ 11,307
Unearned assessments	45,321	-	45,321
	<u>56,628</u>	<u>-</u>	<u>56,628</u>
TOTAL LIABILITIES	56,628	-	56,628
Fund balances	<u>596,691</u>	<u>2,243,901</u>	<u>2,840,592</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>653,319</u>	\$ <u>2,243,901</u>	\$ <u>2,897,220</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, 2011

	Operating Fund	Replacement Fund	Total All Funds
REVENUES			
Assessment fees	\$ 1,089,535	\$ 418,829	\$ 1,508,364
Late fees and interest charges	35,661	-	35,661
Facility, keys, printing, and other	68,929	-	68,929
Interest income	517	9,206	9,723
	1,194,642	428,035	1,622,677
EXPENSES			
Alarm monitoring	180,222	-	180,222
Bad debts	40,000	-	40,000
Bank service charges	835	8	843
Depreciation	3,980	-	3,980
Insurance	43,615	-	43,615
Interest	3,966	-	3,966
Janitorial	28,750	-	28,750
Landscaping and lawn maintenance	145,473	-	145,473
Legal and professional	9,069	-	9,069
Licenses and permits	562	-	562
Management fees	41,958	-	41,958
Miscellaneous	5,806	-	5,806
Office	350	-	350
Payroll burden	78,008	-	78,008
Postage and printing	18,860	-	18,860
Recreation facilities costs	22,520	-	22,520
Repairs and maintenance	58,687	-	58,687
Security	187,268	-	187,268
Telephone	11,461	-	11,461
Utilities	63,175	-	63,175
	944,565	8	944,573
EXCESS OF REVENUES OVER EXPENSES	250,077	428,027	678,104
FUND BALANCES - BEGINNING OF YEAR			
Capital contributed - prior period	136,933	-	136,933
Fund balance	559,681	1,465,874	2,025,555
	696,614	1,465,874	2,162,488
Transfer of funds	(350,000)	350,000	-
FUND BALANCES - END OF YEAR	\$ 596,691	\$ 2,243,901	\$ 2,840,592

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, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total All Funds</u>
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES			
Excess revenues over expenses	\$ 250,077	\$ 428,027	\$ 678,104
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	3,980	-	3,980
(Increase) decrease in:			
Assessments receivable	96,817	-	96,817
Prepaid expenses	(490)	-	(490)
Interfund balances	(350,000)	350,000	-
Increase (decrease) in:			
Accounts payable and accrued expenses	(446)	-	(446)
Unearned assessments	(4,249)	-	(4,249)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(4,311)</u>	<u>778,027</u>	<u>773,716</u>
NET (DECREASE) INCREASE IN CASH	(4,311)	778,027	773,716
CASH AT BEGINNING OF YEAR	<u>421,875</u>	<u>1,462,373</u>	<u>1,884,248</u>
CASH AT END OF YEAR	<u>\$ 417,564</u>	<u>\$ 2,240,400</u>	<u>\$ 2,657,964</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest (net of amount capitalized)	\$ 3,966
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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, 2011

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, 2011

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, 2011. 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, 2011. 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, 2011. 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, 2012, which is the date the financial statements were issued.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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>38,305</u>
		<u>\$ 5,247</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	2012
Michael K. Fish, C.P.A., P.A.	3,497	2012
Monarch Security Services, Inc.	13,820	2012
Salman Landscape Services, Inc.	7,700	2012
Sosa International, Inc.	2,500	2012
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 FUND TRANSFER

On November 29, 2011, the board of directors voted and approved to move operating surplus to common area reserve fund in the amount of \$350,000.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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	\$ 32,943	\$ -	\$ 207	\$ 11,839	\$ -	\$ 44,989
Clubhouse phase I	138,989	-	873	50,043	-	189,905
Clubhouse phase II	96,442	-	606	34,767	-	131,815
Exterior features	341,538	-	1,920	133,529	-	476,987
Fountain phase I	69,760	-	438	25,214	-	95,412
Fountain phase II	28,328	-	178	10,172	-	38,678
Insurance deductible	69,987	-	440	25,131	-	95,558
Irrigation system	21,804	-	137	7,829	-	29,770
Mailboxes cabana	15,386	-	97	5,525	-	21,008
Mailboxes phase I	13,588	-	85	4,879	-	18,552
Mailboxes phase II	15,386	-	97	5,525	-	21,008
Painting – entrance	15,263	-	96	5,481	-	20,840
Painting - exterior (22 foot town home)	142,808	238,378	897	-	(8)	382,075
Painting - exterior (30 foot town home)	33,729	30,073	212	-	-	64,014
Painting - exterior (35 foot town home)	(35,894)	51,579	-	-	-	15,685
Painting - recreational room	5,638	-	35	2,024	-	7,697
Pool - deck resurfacing	6,810	-	43	2,446	-	9,299
Pool – equipment	9,281	-	58	3,340	-	12,679
Pool – furniture	16,603	-	104	6,000	-	22,707
Pool – resurfacing	14,061	-	88	5,054	-	19,203
Recreational room – furniture	3,564	-	22	1,280	-	4,866
Roof - 22 foot town home	303,297	75,216	1,903	-	-	380,416
Roof - 30 foot town home	70,955	23,583	446	-	-	94,984
Roof - recreational room	27,514	-	173	9,922	-	37,609
Roof Exterior painting - (35 x 65)	8,094	-	51	-	-	8,145
Total	\$ 1,465,874	\$ 418,829	\$ 9,206	\$ 350,000	\$ (8)	\$ 2,243,901

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, 2011 through December 31, 2011.

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.

KENDALL BREEZE HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 7 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, 2011. The Association did not have any uninsured cash balances at December 31, 2011.

SUPPLEMENTARY INFORMATION

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, 2011 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, 2011 on page 11 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 & Hill, P.L.L.C.
March 31, 2012

KENDALL BREEZE HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011

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, 2011
Common area exterior	2-15	\$	113,366	\$	481,853
HVAC equipment	7-16		20,900		-
Mailboxes	20		78,400		60,568
Painting & waterproofing	2-5		43,550		63,888
Pools	7-16		139,543		513,009
Roof replacement	1-26		69,684		498,456
Site improvement	8-20		397,508		500,799
TOTALS		\$	862,951	\$	2,118,573
					125,328
					2,243,901

Insurance deductible and Irrigation system

Total Reserve Fund Balance \$