

**HERITAGE HARBOUR MASTER
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED
DECEMBER 31, 2009**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lennar Homes
Bradenton, Florida

We have audited the accompanying balance sheet of Heritage Harbor Master Association, Inc. (the "Association"), as of December 31, 2009 and the related statements of revenues and expenses, changes in fund balances and cash flows for the 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 Heritage Harbour Master Association, Inc. as of December 31, 2009 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.

As discussed in Note A to the financial statements, there are delinquent assessments receivable. Management has made an allowance for doubtful accounts in the amount of \$183,387, of which the ultimate collectibility cannot be presently determined. The ultimate realizable value of the assessments receivable may be less than \$314,061.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

Affiliations

Florida Institute of Certified Public Accountants
American Institute of Certified Public Accountants - Management Consulting Services Division / Private Companies Practice Section / Tax Division

Lennar Homes
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As indicated in Note C to the financial statements, the Association's governing documents allow for funds to be accumulated for future major repairs and replacements. However, because the Developer is not obligated to collect funds for future major repairs and replacements, there is an uncertainty that any accumulation of funds will adequately provide for future major repairs and replacements. The ultimate outcome of this uncertainty cannot presently be determined.

The supplementary schedule of future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures to the supplementary information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Stroemer & Company, P.A.", written over a horizontal line.

STROEMER & COMPANY, P.A.
Fort Myers, Florida
June 3, 2010

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
BALANCE SHEET
December 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 57,212	\$ 108,178	\$ 165,390
Assessments receivable, net	314,061	-	314,061
Due from operating fund	-	847	847
Prepaid insurance	6,125	-	6,125
Deposits - utilities	6,853	-	6,853
Property and equipment, net	<u>1,131</u>	<u>-</u>	<u>1,131</u>
TOTAL ASSETS	<u>\$ 385,382</u>	<u>\$ 109,025</u>	<u>\$ 494,407</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 31,890	\$ -	\$ 31,890
Accrued expenses	21,751	-	21,751
Due to Developer	245,980	-	245,980
Due to replacement fund	847	-	847
Prepaid assessments	<u>90,846</u>	<u>-</u>	<u>90,846</u>
TOTAL LIABILITIES	391,314	-	391,314
FUND BALANCES	<u>(5,932)</u>	<u>109,025</u>	<u>103,093</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 385,382</u>	<u>\$ 109,025</u>	<u>\$ 494,407</u>

The accompanying notes are an integral part of this statement.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES
Year ended December 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Assessments	\$ 1,502,343	\$ 31,682	\$ 1,534,025
Developer subsidy	199,810	-	199,810
Resale capital assessments	141,000	-	141,000
Other income	125,568	-	125,568
Rental income	12,519	-	12,519
Interest Income	<u>1,311</u>	<u>274</u>	<u>1,585</u>
TOTAL REVENUES	1,982,551	31,956	2,014,507
EXPENSES			
Administrative	1,005,723	-	1,005,723
Common ground maintenance	732,241	-	732,241
Utility expense	159,670	-	159,670
Lake expense	44,896	-	44,896
Central park	<u>40,021</u>	<u>-</u>	<u>40,021</u>
TOTAL EXPENSES	<u>1,982,551</u>	<u>-</u>	<u>1,982,551</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES BEFORE OTHER EXPENSES	<u>-</u>	<u>31,956</u>	<u>31,956</u>
OTHER EXPENSES			
Depreciation expense	<u>799</u>	<u>-</u>	<u>799</u>
TOTAL OTHER EXPENSES	<u>799</u>	<u>-</u>	<u>799</u>
EXCESS OF REVENUES OVER (UNDER) EXPENSES	<u>\$ (799)</u>	<u>\$ 31,956</u>	<u>\$ 31,157</u>

The accompanying notes are an integral part of this statement.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
STATEMENT OF CHANGES IN FUND BALANCES
Year ended December 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Balances, January 1, 2009	\$ (5,133)	\$ 77,069	\$ 71,936
Excess of revenues over (under) expenses	<u>(799)</u>	<u>31,956</u>	<u>31,157</u>
Balances, December 31, 2009	<u>\$ (5,932)</u>	<u>\$ 109,025</u>	<u>\$ 103,093</u>

The accompanying notes are an integral part of this statement.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash collected from assessments	\$ 1,393,162	\$ 31,682	\$ 1,424,844
Cash collected from Developer	516,997	-	516,997
Cash collected from rentals	125,568	-	125,568
Cash collected from other income	12,519	-	12,519
Cash paid to suppliers	(1,917,460)	-	(1,917,460)
Interest income received	1,311	274	1,585
	<u>132,097</u>	<u>31,956</u>	<u>164,053</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
	132,097	31,956	164,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid	(728)	-	(728)
	<u>(728)</u>	<u>-</u>	<u>(728)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
	(728)	-	(728)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	(74,357)	74,357	-
	<u>(74,357)</u>	<u>74,357</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
	(74,357)	74,357	-
NET CHANGE IN CASH AND CASH EQUIVALENTS			
	57,012	106,313	163,325
Cash and cash equivalents, as of January 1, 2009	<u>200</u>	<u>1,865</u>	<u>2,065</u>
CASH AND CASH EQUIVALENTS, AS OF DECEMBER 31, 2009			
	<u>\$ 57,212</u>	<u>\$ 108,178</u>	<u>\$ 165,390</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF EXCESS OF REVENUES
OVER (UNDER) EXPENSES TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess of revenues over (under) expenses	\$ (799)	\$ 31,956	\$ 31,157
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:			
Depreciation expense	799	-	799
Bad debt expense	109,386	-	109,386
Increase in assessments receivable	(214,855)	-	(214,855)
Increase in prepaid insurance	(1,883)	-	(1,883)
Decrease in due from Developer	71,207	-	71,207
Decrease in accounts payable	(41,653)	-	(41,653)
Decrease in accrued expenses	(759)	-	(759)
Increase in due to Developer	245,980	-	245,980
Decrease in prepaid assessments	<u>(35,326)</u>	<u>-</u>	<u>(35,326)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 132,097</u>	<u>\$ 31,956</u>	<u>\$ 164,053</u>

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

Heritage Harbour Master Association, Inc. (the "Association"), which is located in Florida was incorporated on March 6, 2000 under Chapter 617 of the Florida Statutes as a not-for-profit organization. The Declaration of Covenants, Conditions and Restrictions (the "Declaration") was filed in the official records of Manatee County, Florida on February 12, 2002. The Association is responsible for the preservation and maintenance of the common property in accordance with the terms of Florida Statutes, Chapters 720, and the provisions of the Declaration. The Association occupies a site of approximately 380 acres and consists of 4,888 residential units, of which 1,636 units were closed as of December 31, 2008. The Association's operations began in 2002.

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 major repairs and replacements.

The Association prepares its financial statements on the accrual basis of accounting and in accordance with the "Real Estate - Common Interest Realty Association's Topic of the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC")."

Assessments receivable

Unit owners are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The income and expenses of the Association are allocated to unit owners based on the number of units. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Assessments receivable, continued

assessments are delinquent. At December 31, 2009, the Association had delinquent assessments of approximately \$497,000. The Association's management has made an assessment of uncollectible receivables and determined that an allowance for uncollectible accounts of \$183,387 is appropriate as of December 31, 2009.

Prepaid assessments

Prepaid assessments represent amounts paid to the Association before the assessments were due.

Resale Capital Assessments

Pursuant to section 10.9 of the Declaration of Covenants, Conditions and Restrictions for the Association: In addition to the Initial Capital Contributions, the Community Association may levy a Resale Capital Assessment upon the transferee in any conveyance of a lot or living unit by a member. The amount of the Resale Capital Assessment and the manner of payment shall be as determined by resolution of the Board from time to time; provided, however, all lots or living units similarly situated shall be assessed at a uniform rate. The due date shall be the date of the closing of conveyance. Payment of the Resale Capital Assessment shall be the legal obligation of the transferee. For the purpose of this Section, the term "conveyance" shall mean the transfer of record legal title to a Lot or Living Unit by deed or other authorized means of conveyance, with or without valuable consideration, and shall also refer to a transfer of possession and beneficial ownership by means of an agreement for deed. It does not refer to a transfer of title to a Director or the transferor's spouse without changing occupancy, solely for estate planning or tax reasons. Resale Capital Assessments shall be considered an assessment and can be collected as such in accordance with the provisions under Article 10 of the Declaration of Covenants, Conditions and Restrictions.

Property and equipment

The Association follows prevalent industry practice, as contained in the "Real Estate - Common Interest Realty Associations Topic of the FASB ASC" in accounting for the common property of the Association. Property that is not directly associated with the units is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment, continued

dispose of the property at the discretion of the Board of Directors or the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. As a result, commonly owned assets are not recorded on the Association's financial statements. Assets not recorded on the books of the Association include buildings, gatehouses and roadways. Property directly associated with the units is not capitalized.

The Association capitalizes personal property at cost and depreciates it using the straight-line method.

Management estimates

The preparation of financial statements in conformity with generally accepted United States of America accounting principles requires the Association 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 those estimates.

Income taxes

The Association has selected a December 31 year-end and files its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to unit owners and other income received from Association unit owners solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest income, less a portion of allocated Association expenses. The Association had no tax due for December 31, 2008 using the 1120H method of tax filing.

Management has elected to defer the application of certain provisions included in the Income Taxes Topic of the FASB ASC. The Association will continue to follow the Accounting for Contingencies Topic of the FASB ASC, until it adopts Income Tax Topic of the FASB ASC.

Interest earned

Interest income earned in the operating fund or the replacement fund is recorded in its respective fund. The Association allocates interest earned in the replacement fund to an unallocated interest component.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Statement of cash flows

For purposes of reporting cash flows, the Association considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Association maintains accounts at financial institutions in bank deposits which, at times, may exceed federally-insured limits. The Association has not experienced any losses on such accounts and believes it is not exposed to any significant risk on cash.

Concentration of credit risk with respect to the receivables relate to billings to unit owners who pay quarterly assessments and live within the complex. The Association does not anticipate credit losses in the near future.

Fair value of financial instruments

The carrying value of cash, receivables, prepaids, accounts payables, prepaid assessments and due to Developer approximates fair value due to the short maturity of these financial instruments.

Revenue recognition

Assessment revenue is recorded quarterly in the amount of the assessment allocation specified for current period operations, based on the annual budget adopted by the Board of Directors. Each unit owner is an Association member and an equal portion of the assessment is assessed for each unit.

Compensated absences

The Association has not accrued compensated absences because the amount cannot be reasonably estimated.

NOTE B - ASSESSMENTS RECEIVABLE, NET

Assessments receivable consists of the following as of December 31, 2009:

	<u>Amount</u>
Assessments receivable	\$ 497,448
Allowance for doubtful accounts	<u>(183,387)</u>
	<u>\$ 314,061</u>

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE C - DUE TO DEVELOPER

In accordance with the provisions of the Declaration of Covenants, Conditions and Restrictions for Heritage Harbour Master Association, Inc. Section 10.10:

During the period that the Declarant membership exists, the Declarant covenants to subsidize the general operating expenses of the Association, by contributing the difference, if any, between net operating expenses and all income of the Association including but not limited to assessment income from members other than the Declarant, interest income and income from any and all ancillary operations. Declarant, however, shall not be obligated to contribute to or pay for funding any reserves for capital expenditures or deferred assessment, capital improvement fund, or special assessment. Declarant's rights and obligations hereunder may be assigned to a developer. During the period of Declarant control, in return for subsidizing the general operating expenses of the Association, any net operating profit made by the Association, will revert back to the Declarant to offset existing and future capital improvements, operating expenses, support costs, and start-up costs. Net operating profit shall mean the amount by which income from all sources of the Association exceeds operating costs and expenses, but excluding depreciation expense and amortization expense.

The Developer's total liability to the Association from January 1, 2009 to December 31, 2009 is \$199,810. As of December 31, 2009, the Developer had made payments of \$516,997 to the Association. The amount due from Developer as of December 31, 2008 was \$71,207 leaving a due to Developer as of December 31, 2009 of \$245,980.

This is comprised of the following items:

	Operating Fund	Replacement Fund	Total
Common expenses (other than reserves)	\$ 1,982,551	\$ -	\$ 1,982,551
Budgeted reserves	-	31,682	31,682
Assessments from unit owners other than the Developer and other income	<u>(1,782,741)</u>	<u>(31,682)</u>	<u>(1,814,423)</u>
Developer's subsidy obligation	199,810	-	199,810

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE C - DUE TO DEVELOPER, CONTINUED

	Operating Fund	Replacement Fund	Total
Due from Developer - December 31, 2008	71,207	-	71,207
Payments made by the Developer - net	<u>(516,997)</u>	<u>-</u>	<u>(516,997)</u>
Due to Developer	<u>\$ (245,980)</u>	<u>\$ -</u>	<u>\$ (245,980)</u>

NOTE D - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of office furniture and equipment, computer equipment, and maintenance vehicles. As of December 31, 2009, these items were as follows:

	Amount
Office furniture and equipment	\$ 580
Computer equipment	1,027
Maintenance vehicles	<u>5,456</u>
	7,063
Accumulated depreciation	<u>(5,932)</u>
	<u>\$ 1,131</u>

Depreciation expense for the year ended December 31, 2009 was \$799.

NOTE E - REPLACEMENT FUND

According to the Association's governing documents, the Board may establish one or more reserve funds to be accumulated for future major repairs and replacements. As of December 31, 2009 the Association had established a replacement fund, which was owed \$847 by the operating fund.

The accumulation of these funds occurs by an allocation of the assessment charged to each unit owner specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs, when incurred, which are determined by the Association's Board of Directors.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009

NOTE E - REPLACEMENT FUND, CONTINUED

Reserves and interest earned on the reserves shall be used only for the purpose expressed in the Declaration of Covenants, Conditions, and Restrictions and for such other purposes as the Association shall have within its powers.

The Board of Directors periodically reviews the major components of common property and establishes estimated remaining useful lives and replacements costs for Association assets. No outside independent analysis of remaining useful lives or future replacements costs has been conducted by the Association.

The Association is currently fully funding for such major repairs and replacements over the estimated useful lives of the components based on current replacement costs, using the straight-line method. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, borrow, or delay repairs and replacements until funds are available.

The following presents the changes in the replacement fund:

<u>Component</u>	<u>Beginning Fund Balance</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Ending Fund Balance</u>
Roof replacement	\$ 1,943	\$ 685	\$ -	\$ 2,628
Building repainting	7,610	1,803	-	9,413
Fencing	2,439	842	-	3,281
Roof replacement - pavilion	698	303	-	1,001
Pavilion repainting	(3,122)	600	-	(2,522)
Roof replacement - restroom	691	304	-	995
Restroom repainting	1,788	604	-	2,392
Pavement resurfacing	19,549	5,195	-	24,744
Paver block replacement	9,900	11,518	-	21,418
Fountain pumps	1,191	1,832	-	3,023
Park equipment	16,912	6,437	-	23,349
Storm damage	11,064	1,178	-	12,242
Contingency	2,141	381	-	2,522
Unallocated interest	4,265	274	-	4,539
	<u>\$ 77,069</u>	<u>\$ 31,956</u>	<u>\$ -</u>	<u>\$ 109,025</u>

NOTE F - SIGNIFICANT SOURCES OF REVENUE

Over ten percent of the Association's revenue was derived from the Developer.

NOTE G - RELATED PARTY TRANSACTIONS

Developer

During the year ended December 31, 2009 the Association's Board of Directors was controlled by Lennar Homes, LLC (the "Developer"). As such, the Developer controls the Association's management, policy setting, and finances.

Transactions With Affiliate

The Developer provides irrigation services to the Association through an affiliate. Expenses related to these services were approximately \$90,000 during the year ended December 31, 2009. Approximately \$8,000 of these expenses were included in accrued expenses at December 31, 2009.

Community Development District

The Association's geographical territory is encompassed within the Heritage Harbour South District and the Heritage Harbour North District, which are local limited purpose independent governmental agencies designed to provide community related services to its residents by maintaining the Community's infrastructure.

SUPPLEMENTARY INFORMATION

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
Year ended December 31, 2009

There has not been a formal study to estimate the remaining useful lives or to calculate the replacement costs of future major repairs and replacements. The estimated current replacement costs do not include the possible effect of inflation or interest rates between the date of the estimate and the date that the components will require repair or replacement. These estimates were made at the inception of the Association and were established by the Developer based on its knowledge of what it would cost to replace the common property. The Developer used its contractors to assist in estimating the current replacement costs of the future major repairs and replacements.

The following table is based on estimates provided by the Developer and presents significant information about the components of common property:

Component	Estimated Remaining Useful Life	Estimated Current Replacement Costs	Replacement Fund Balance at December 31, 2009
Roof replacement	15 years	\$ 25,000	\$ 2,628
Building repainting	5 years	22,925	9,413
Fencing	10 years	20,000	3,281
Roof replacement - pavilion	5 years	3,000	1,001
Pavilion repainting	5 years	5,075	(2,522)
Roof replacement - restroom	5 years	3,000	995
Restroom repainting	5 years	1,575	2,392
Pavement resurfacing	8 years	100,000	24,744
Paver block replacement	10 years	250,000	21,418
Fountain pumps	2 years	6,000	3,023
Park equipment	6 years	100,000	23,349
Storm damage	1 year	25,000	12,242
Contingency	10 years	10,000	2,522
Unallocated interest	N/A	-	4,539
		\$ 571,575	\$ 109,025