

**HERITAGE HARBOUR MASTER
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED
DECEMBER 31, 2010**

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INTEGRITY KNOWLEDGE SERVICE COMMITMENT®

INDEPENDENT AUDITOR'S REPORT

Lennar Homes
Bradenton, Florida

We have audited the accompanying balance sheet of Heritage Harbor Master Association, Inc. (the "Association"), as of December 31, 2010 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, 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.

As discussed in Note B to the financial statements, there are delinquent assessments receivable. Management has made an allowance for doubtful accounts in the amount of \$229,000, of which the ultimate collectibility cannot be presently determined. The ultimate realizable value of the assessments receivable may be less than \$382,660.

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

PRINCIPAL OFFICE

20900 NE 30TH AVE., STE. 200
AVENTURA, FL 33180
786.427.1002 • f 305.749.0999

14030 METROPOLIS AVE., STE. 200
FORT MYERS, FL 33912
239.433.1002 • f 239.433.0249

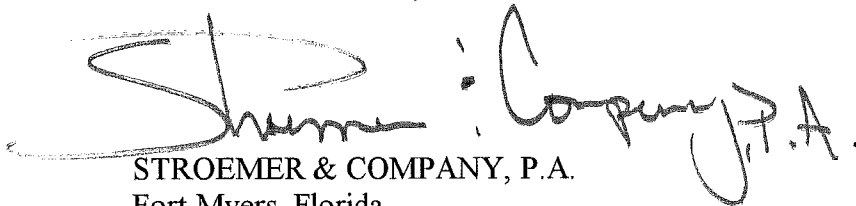
1640 PERIWINKLE WAY, STE. 4
SANIBEL, FL 33957
239.395.5325 • f 239.395.2396

www.stroemercpa.com

Lennar Homes
Page Two

As indicated in Note D 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 Financial Accounting Standards Board and the Florida Statutes. 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.", is written over the typed name of the firm.

STROEMER & COMPANY, P.A.
Fort Myers, Florida
August 5, 2011

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
BALANCE SHEET
December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 159,388	\$ 137,131	\$ 296,519
Assessments receivable, net	382,660	-	382,660
Due from operating fund	-	5,654	5,654
Due from other	2,417	-	2,417
Prepaid insurance	4,551	-	4,551
Deposits	6,853	-	6,853
	<u>555,869</u>	<u>142,785</u>	<u>698,654</u>
TOTAL ASSETS	\$ 555,869	\$ 142,785	\$ 698,654
 LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 170,036	\$ -	\$ 170,036
Accrued expenses	12,778	-	12,778
Due to Developer	99,980	-	99,980
Due to other	312	-	312
Due to replacement fund	5,654	-	5,654
Prepaid assessments	106,282	-	106,282
	<u>395,042</u>	<u>-</u>	<u>395,042</u>
TOTAL LIABILITIES	395,042	-	395,042
 FUND BALANCES	 <u>160,827</u>	 <u>142,785</u>	 <u>303,612</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 555,869	\$ 142,785	\$ 698,654

The accompanying notes are an integral part of this statement.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES
Year ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Assessments	\$ 1,614,894	\$ 32,566	\$ 1,647,460
Resale capital assessments	352,000	-	352,000
Other income	283,867	-	283,867
Rental income	20,440	-	20,440
Interest income	847	1,194	2,041
	<u>2,272,048</u>	<u>33,760</u>	<u>2,305,808</u>
TOTAL REVENUES			
EXPENSES			
Administrative	1,000,446	-	1,000,446
Common ground maintenance	869,244	-	869,244
Utility expense	172,576	-	172,576
Central park	37,380	-	37,380
Lake expense	25,643	-	25,643
	<u>2,105,289</u>	<u>-</u>	<u>2,105,289</u>
TOTAL EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES			
	<u>\$ 166,759</u>	<u>\$ 33,760</u>	<u>\$ 200,519</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, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Balances, January 1, 2010	\$ (5,932)	\$ 109,025	\$ 103,093
Excess of revenues over (under) expenses	<u>166,759</u>	<u>33,760</u>	<u>200,519</u>
Balances, December 31, 2010	<u>\$ 160,827</u>	<u>\$ 142,785</u>	<u>\$ 303,612</u>

The accompanying notes are an integral part of this statement.

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash collected from assessments	\$ 1,856,724	\$ 32,566	\$ 1,889,290
Cash collected from Developer	50,000	-	50,000
Cash collected from other income	283,867	-	283,867
Cash collected from rentals	20,440	-	20,440
Cash paid to suppliers	(1,917,790)	-	(1,917,790)
Cash paid to Developer	(196,000)	-	(196,000)
Interest income received	847	1,194	2,041
Interest paid	(719)	-	(719)
	<u>97,369</u>	<u>33,760</u>	<u>131,129</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
	97,369	33,760	131,129
CASH FLOWS FROM INVESTING ACTIVITIES			
	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	<u>4,807</u>	<u>(4,807)</u>	<u>-</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
	<u>4,807</u>	<u>(4,807)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS			
	102,176	28,953	131,129
Cash and cash equivalents, as of January 1, 2010	<u>57,212</u>	<u>108,178</u>	<u>165,390</u>
CASH AND CASH EQUIVALENTS, AS OF DECEMBER 31, 2010			
	<u>\$ 159,388</u>	<u>\$ 137,131</u>	<u>\$ 296,519</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	\$ 166,759	\$ 33,760	\$ 200,519
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:			
Bad debt expense	57,007	-	57,007
Increase in assessments receivable	(125,606)	-	(125,606)
Increase in due from other	(2,417)	-	(2,417)
Decrease in prepaid insurance	1,574	-	1,574
Decrease in property and equipment, net	1,131	-	1,131
Increase in accounts payable	138,146	-	138,146
Decrease in accrued expenses	(8,973)	-	(8,973)
Decrease in due to Developer	(146,000)	-	(146,000)
Increase in due to others	312	-	312
Increase in prepaid assessments	<u>15,436</u>	<u>-</u>	<u>15,436</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 97,369</u>	<u>\$ 33,760</u>	<u>\$ 131,129</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 2,318 units were closed as of December 31, 2010. 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")."

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Association to make estimates and assumptions that affect the reported amounts of assets, 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and cash equivalents

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.

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 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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and equipment, continued

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, pavilion, recreation fields 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.

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, 2010 using the 1120H method of tax filing.

The Association's tax filings are subject to audit by various taxing authorities. Certain income tax returns filed by the Association remain open to examination by these government agencies. The Financial Accounting Standards Board has issued guidance on accounting for uncertainty in income taxes and the Association adopted this guidance. The Association has evaluated its tax positions and any estimates utilized in its tax returns, and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Interest and penalties associated with uncertain tax positions will be recognized in income tax expense, if required.

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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Concentration of credit risk, continued

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, payables, due from/to others 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

Assessments receivable are carried at the original charge amount less an estimate made for doubtful receivables, if any, based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

An assessments receivable is considered to be past due if any portion of the receivable balance is outstanding for more than one month. A late fee is charged on assessments receivable that are outstanding for more than one month and is recognized as income as it is charged.

Assessments receivable consists of the following as of December 31, 2010:

	<u>Amount</u>
Assessments receivable	\$ 611,660
Allowance for doubtful accounts	<u>(229,000)</u>
	<u>\$ 382,660</u>

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 for the year ended December 31, 2010 is \$0. For the year ended December 31, 2010, the Association made a payment of \$196,000 to the Developer, the Developer had made total payments of \$50,000, and had a due to Developer of \$245,980 at December 31, 2009, leaving a due to Developer of \$99,980 at December 31, 2010.

This is comprised of the following items:

	Operating Fund	Replacement Fund	Total
Common expenses (other than reserves)	\$ 2,105,289	\$ -	\$ 2,105,289
Budgeted reserves	-	32,566	32,566
Assessments from unit owners other than the Developer and other income	(2,272,048)	(32,566)	(2,304,614)

NOTE C - DUE TO DEVELOPER, CONTINUED

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Developer's subsidy obligation	-	-	-
Due to Developer, December 31, 2009	(245,980)	-	(245,980)
Payments made by the Developer	(50,000)	-	(50,000)
Payments made to the Developer	<u>196,000</u>	<u>-</u>	<u>196,000</u>
Due to Developer	<u>\$ (99,980)</u>	<u>\$ -</u>	<u>\$ (99,980)</u>

NOTE D - REPLACEMENT FUND

The Association has established reserve component funds to be accumulated for future major repairs and replacements. As of December 31, 2010 the Association had established a replacement fund, which was owed \$5,654 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.

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.

NOTE D - REPLACEMENT FUND, CONTINUED

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	\$ 2,628	\$ 662	\$ -	\$ 3,290
Building repainting	9,413	1,413	-	10,826
Fencing	3,281	770	-	4,051
Roof replacement - pavilion	1,001	279	-	1,280
Pavilion repainting	(2,522)	790	-	(1,732)
Roof replacement - restroom	995	280	-	1,275
Restroom repainting	2,392	18	-	2,410
Pavement resurfacing	24,744	4,468	-	29,212
Paver block replacement	21,418	10,536	-	31,954
Fountain pumps	3,023	1,307	-	4,330
Park equipment	23,349	6,382	-	29,731
Storm damage	12,242	5,316	-	17,558
Contingency	2,522	345	-	2,867
Unallocated interest	4,539	1,194	-	5,733
	<u>\$ 109,025</u>	<u>\$ 33,760</u>	<u>\$ -</u>	<u>\$ 142,785</u>

NOTE E - RELATED PARTY TRANSACTIONS

Developer

For the year ended December 31, 2010, the Association's Board of Directors was controlled by Lennar Homes (the "Developer"). As such, the Developer controls the Association's management, policy setting, and finances. As of December 31, 2010, the Association had a balance due to the Developer of \$99,980.

Transactions with affiliate

The Developer provides irrigation services to the Association through an affiliate. Expenses related to these services were approximately \$100,000 during the year ended December 31, 2010. Approximately \$30,000 of these expenses were included in accrued expenses at December 31, 2010.

NOTE E - RELATED PARTY TRANSACTIONS, CONTINUED

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.

NOTE F - COMMITMENTS AND CONTINGENCIES

The Association maintains insurance coverage for damage sustained by the condominium building. The insurance coverage in force includes substantial deductible amounts which the Association would be required to fund. In addition, inasmuch as certain other expenses may be incurred by the Association in the event of a hurricane, the ultimate extent of any such loss in excess of the aforementioned maximum deductible cannot be determined.

The Association has entered into an agreement with Bright House Networks, LLC which grants them the exclusive right to install, construct, operate, maintain, repair, upgrade, replace, and remove a cable communication system for a term of twelve years from January 1, 2003. This agreement allows Bright House Networks, LLC to charge approximately \$27 per month per closed unit for the first year the agreement is in place. The agreement allows for annual rate increases which will not exceed 5% each year. Costs associated with this agreement were \$815,133 for December 31, 2010.

NOTE G - SUBSEQUENT EVENTS

Management has assessed subsequent events through August 5, 2011, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

HERITAGE HARBOUR MASTER ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
Year ended December 31, 2010

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, 2010
Roof replacement	15 years	\$ 25,000	\$ 3,290
Building repainting	5 years	22,925	10,826
Fencing	10 years	20,000	4,051
Roof replacement - pavilion	5 years	3,000	1,280
Pavilion repainting	5 years	5,075	(1,732)
Roof replacement - restroom	5 years	3,000	1,275
Restroom repainting	5 years	1,575	2,410
Pavement resurfacing	8 years	100,000	29,212
Paver block replacement	10 years	250,000	31,954
Fountain pumps	2 years	6,000	4,330
Park equipment	6 years	100,000	29,731
Storm damage	1 year	25,000	17,558
Contingency	10 years	10,000	2,867
Unallocated interest	N/A	-	5,733
		\$ 571,575	\$ 142,785