

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
HABITAT 1, SECTION A
December 31, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat 1, Section A

We have audited the accompanying balance sheet of Habitat 1, Section A as of December 31, 2006 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the company'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 Habitat 1, Section A at December 31, 2006 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Table of Future Repairs and Replacements on page 11 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, 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.

Strauss & Associates P.A.

HABITAT 1, SECTION A

BALANCE SHEET

December 31, 2006

ASSETS

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash	\$ 24,095	\$524,017	\$548,112
Assessments receivable (Net of allowance for doubtful accounts of \$1,725)	5,678	-	5,678
Prepaid expenses	3,452	-	3,452
Due from replacement fund	<u>22,300</u>	<u>-</u>	<u>22,300</u>
Total current assets	<u>\$ 55,525</u>	<u>\$524,017</u>	<u>\$579,542</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 6,412	\$ -	\$ 6,412
Prepaid assessments	15,133	-	15,133
Income taxes payable	2,160	-	2,160
Due to operating fund	<u>-</u>	<u>22,300</u>	<u>22,300</u>
Total current liabilities	23,705	22,300	46,005
FUND BALANCES	<u>31,820</u>	<u>501,717</u>	<u>533,537</u>
	<u>\$ 55,525</u>	<u>\$524,017</u>	<u>\$579,542</u>

See independent auditor's report and notes to financial statements.

HABITAT 1, SECTION A

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

Year ended December 31, 2006

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
REVENUES			
Assessments	\$209,852	\$ 59,630	\$269,482
Interest income	27	18,487	18,514
Late fee income	2,538	-	2,538
Legal fee income	11,433	-	11,433
Other income	<u>8,971</u>	<u>-</u>	<u>8,971</u>
	<u>232,821</u>	<u>78,117</u>	<u>310,938</u>
EXPENSES			
Bad debt expense	2,656	-	2,656
Capital improvements	-	22,300	22,300
Electricity	8,325	-	8,325
Exterminating	4,100	-	4,100
Grounds	20,835	-	20,835
Income taxes	3,573	-	3,573
Insurance	13,265	-	13,265
Management fees	29,260	-	29,260
Office expense	10,041	-	10,041
Professional fees	9,182	-	9,182
Repairs and maintenance	68,255	-	68,255
Snow and ice removal	1,778	-	1,778
Water and sewer	<u>31,425</u>	<u>-</u>	<u>31,425</u>
	<u>202,695</u>	<u>22,300</u>	<u>224,995</u>
EXCESS OF REVENUES OVER EXPENSES	30,126	55,817	85,943
FUND BALANCES			
- beginning of year	58,210	389,384	447,594
INTERFUND TRANSFER	<u>(56,516)</u>	<u>56,516</u>	<u>-</u>
FUND BALANCES			
- end of year	<u>\$ 31,820</u>	<u>\$501,717</u>	<u>\$533,537</u>

See independent auditor's report and notes to financial statements.

HABITAT 1, SECTION A

STATEMENT OF CASH FLOWS

Year ended December 31, 2006

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 30,126	\$ 55,817	\$ 85,943
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	24,240	-	24,240
Prepaid expenses	(2,249)	-	(2,249)
Due from replacement fund	(22,300)	-	(22,300)
Increase (decrease) in:			
Accounts payable	(1,125)	-	(1,125)
Prepaid assessments	8,800	-	8,800
Income taxes payable	1,855	-	1,855
Allowance for doubtful accounts	1,725	-	1,725
Due to operating fund	<u>-</u>	<u>22,300</u>	<u>22,300</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>41,072</u>	 <u>78,117</u>	 <u>119,189</u>
 CASH FLOW FROM FINANCING ACTIVITIES			
Interfund transfer	<u>(56,516)</u>	<u>56,516</u>	<u>-</u>
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 <u>(56,516)</u>	 <u>56,516</u>	 <u>-</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 <u>(15,444)</u>	 <u>134,633</u>	 <u>119,189</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>39,539</u>	 <u>389,384</u>	 <u>428,923</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 24,095</u>	 <u>\$524,017</u>	 <u>\$548,112</u>

SUPPLEMENTAL DISCLOSURE

Income taxes paid	\$ 1,718	\$ -	\$ 1,718
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See independent auditor's report and notes to financial statements.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A - ORGANIZATION, PURPOSE, AND MANAGEMENT

Habitat 1, Section A, an unincorporated association, exists for the private benefit of its members having as its purpose the general upkeep and maintenance of the common elements of the development and any other common expenses of the unit owners. The Association, located in Crofton, Maryland, is comprised of 108 residential condominium units.

The Association had engaged Comanco, Inc. and Association Management, Inc. as its agent to collect maintenance fees for the unit owners, to administer the policies of the Board of Directors and to assist in the management of the Association's affairs. As of March 1, 2006 Brodie Management Inc. has been engaged to perform these duties.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant policies consistently applied in the preparation of the accompanying statements follows:

1. Funds

The Association uses fund accounting, which requires that funds, such as operating and replacement funds, be classified separately for accounting and reporting purposes. The operating fund is used to account for financial resources available for the general operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

2. Income taxes

Condominium associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2006, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earned, at regular federal and state corporate rates.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Property and equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units.

4. 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 those estimates.

5. Assessments receivable

An allowance for doubtful accounts has been set up as an estimate for those accounts which may not be collectible.

NOTE C - REPLACEMENT FUND

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Board of Directors conducted a study in 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

NOTE C - REPLACEMENT FUND - CONTINUED

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. The funding for future expenditures will be from accumulated funds and special assessments.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income 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 needs for major repairs and replacements. If additional funds are needed within the year, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE D - UNINSURED CASH BALANCES

The Association maintains its cash and bank deposit accounts which at times may exceed federally insured limits. The Association does not believe that it is exposed to any significant credit risk on cash and cash equivalents.

SUPPLEMENTARY INFORMATION

HABITAT 1, SECTION A

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS

December 31, 2006

(Unaudited)

The board of directors conducted a study in 2005 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following table is based on the study and presents significant information about the components of common property.

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIFE (IN YEARS)</u>	<u>ESTIMATED CURRENT REPLACEMENT COST</u>
Concrete	8	\$ 63,492
Siding	12	651,000
Roofs	7.5	202,500
Asphalt paving	unknown	unknown
Gutters and downspouts	4	17,485
Windows	0	415,800
Doors with side windows	0-3	199,800
Garage doors	0-3	92,500
Electrical	0-3	107,250
Water and sewer	2	<u>32,175</u>
TOTALS		<u>\$1,782,002</u>

