

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
HABITAT 1, SECTION A  
December 31, 2008

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# Strauss & Associates, P.A.

Certified Public Accountants

6 Park Center Court, Suite 100 • Owings Mills, Maryland 21117  
(410) 363-1011 • Fax (410) 363-6919

## 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, 2008 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, 2008 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 10 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.*

September 14, 2009

HABITAT 1, SECTION A

BALANCE SHEET

December 31, 2008

ASSETS

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 26,517	\$611,861	\$638,378
Assessments receivable	22,540	-	22,540
Accrued interest receivable	-	1,521	1,521
Prepaid expenses	1,738	-	1,738
Due from operating fund	<u>-</u>	<u>6,620</u>	<u>6,620</u>
 Total current assets	 <u>\$ 50,795</u>	 <u>\$620,002</u>	 <u>\$670,797</u>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 6,757	\$ -	\$ 6,757
Prepaid assessments	9,599	-	9,599
Income taxes payable	629	-	629
Due to replacement fund	<u>6,620</u>	<u>-</u>	<u>6,620</u>
 Total current liabilities	 23,605	 -	 23,605
 <b>FUND BALANCES</b>	 <u>27,190</u>	 <u>620,002</u>	 <u>647,192</u>
	 <u>\$ 50,795</u>	 <u>\$620,002</u>	 <u>\$670,797</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, 2008

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
<b>REVENUES</b>			
Assessments	\$233,867	\$ 62,628	\$296,495
Interest income	15	23,272	23,287
Late fee income	2,847	-	2,847
Other income	<u>2,277</u>	<u>-</u>	<u>2,277</u>
	<u>239,006</u>	<u>85,900</u>	<u>324,906</u>
<b>EXPENSES</b>			
Capital improvements	-	51,940	51,940
Electricity	9,697	-	9,697
Exterminating	4,100	-	4,100
Grounds	20,915	-	20,915
Income taxes	4,649	-	4,649
Insurance	21,101	-	21,101
Management fees	34,155	-	34,155
Office expense	7,284	165	7,449
Professional fees	3,346	-	3,346
Repairs and maintenance	57,288	-	57,288
Water and sewer	<u>33,844</u>	<u>-</u>	<u>33,844</u>
	<u>196,379</u>	<u>52,105</u>	<u>248,484</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	42,627	33,795	76,422
<b>FUND BALANCES (DEFICIT)</b>			
- beginning of year	<u>(15,437)</u>	<u>586,207</u>	<u>570,770</u>
<b>FUND BALANCES</b>			
- end of year	<u>\$ 27,190</u>	<u>\$620,002</u>	<u>\$647,192</u>

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

HABITAT 1, SECTION A

STATEMENT OF CASH FLOWS

Year ended December 31, 2008

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 42,627	\$ 33,795	\$ 76,422
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	(10,708)	-	(10,708)
Accounts receivable	202	-	202
Accrued interest receivable	-	269	269
Prepaid expenses	242	-	242
Due from operating fund	-	(1,647)	(1,647)
Increase (decrease) in:			
Accounts payable	(5,736)	-	(5,736)
Prepaid assessments	(208)	-	(208)
Income taxes payable	(4,896)	-	(4,896)
Due to replacement fund	<u>1,647</u>	<u>-</u>	<u>1,647</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>23,170</u>	 <u>32,417</u>	 <u>55,587</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 23,170	 32,417	 55,587
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>3,347</u>	 <u>579,444</u>	 <u>582,791</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 26,517</u>	 <u>\$611,861</u>	 <u>\$638,378</u>
 <u>SUPPLEMENTAL DISCLOSURE</u>			
Income taxes paid	\$ 9,545	\$ -	\$ 9,545

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

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

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 has engaged Brodie 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.

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, 2008, 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, 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. 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.

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.

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.



**SUPPLEMENTARY INFORMATION**

HABITAT 1, SECTION A

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS

December 31, 2008

(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>