

**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**HABITAT 1, SECTION A**  
**December 31, 2011**

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEET	4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
SUPPLEMENTARY INFORMATION	11

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Habitat 1, Section A

We have audited the accompanying balance sheet of the Habitat 1, Section A as of December 31, 2011 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 the Habitat 1, Section A at December 31, 2011 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Strauss & Associates P.A.*

February 8, 2012

HABITAT 1, SECTION A

BALANCE SHEET

December 31, 2011

ASSETS

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 90,347	\$ 561,584	\$ 651,931
Assessments receivable (net of allowance for doubtful accounts of \$45,882)	67,276	-	67,276
Prepaid expenses	1,869	-	1,869
Income taxes recoverable	2,065	-	2,065
Due from operating fund	-	55,808	55,808
<b>Total current assets</b>	<u>\$ 161,557</u>	<u>\$ 617,392</u>	<u>\$ 778,949</u>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 3,550	\$ -	\$ 3,550
Prepaid assessments	9,746	-	9,746
Due to replacement fund	55,808	-	55,808
<b>Total current liabilities</b>	69,104	-	69,104
<b>FUND BALANCES</b>	<u>92,453</u>	<u>617,392</u>	<u>709,845</u>
<b>Total liabilities and fund balances</b>	<u>\$ 161,557</u>	<u>\$ 617,392</u>	<u>\$ 778,949</u>

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

HABITAT 1, SECTION A

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

For the year ended December 31, 2011

	Operating fund	Replacement fund	Total
<b>REVENUES</b>			
Assessments	\$ 250,761	\$ 67,500	\$ 318,261
Interest income	43	3,949	3,992
Late fee income	4,863	-	4,863
Other income	3,012	-	3,012
	<u>258,679</u>	<u>71,449</u>	<u>330,128</u>
<b>EXPENSES</b>			
Bad debt expense	45,883	-	45,883
Capital improvements	-	63,667	63,667
Electricity	10,109	-	10,109
Exterminating	4,350	-	4,350
Grounds	22,119	-	22,119
Income taxes	354	-	354
Insurance	16,293	-	16,293
Management fees	37,684	-	37,684
Office expenses	7,178	-	7,178
Professional fees	4,355	-	4,355
Repairs and maintenance	84,825	-	84,825
Snow removal	1,540	-	1,540
Water and sewer	36,905	-	36,905
	<u>271,595</u>	<u>63,667</u>	<u>335,262</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(12,916)	7,782	(5,134)
<b>FUND BALANCES</b>			
- beginning of year	<u>105,369</u>	<u>609,610</u>	<u>714,979</u>
<b>FUND BALANCES</b>			
- end of year	<u>\$ 92,453</u>	<u>\$ 617,392</u>	<u>\$ 709,845</u>

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

HABITAT 1, SECTION A

STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	Operating fund	Replacement fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses	\$ (12,916)	\$ 7,782	\$ (5,134)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	(27,624)	-	(27,624)
Prepaid expenses	251	-	251
Income taxes recoverable	354	-	354
Due from replacement fund	11,244	-	11,244
Due from operating fund	-	(55,808)	(55,808)
Increase (decrease) in:			
Accounts payable	(2,501)	-	(2,501)
Prepaid assessments	(74)	-	(74)
Allowance for doubtful accounts	45,882	-	45,882
Due to operating fund	-	(11,244)	(11,244)
Due to replacement fund	55,808	-	55,808
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>70,424</u>	<u>(59,270)</u>	<u>11,154</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	70,424	(59,270)	11,154
<b>CASH AT BEGINNING OF YEAR</b>	<u>19,923</u>	<u>620,854</u>	<u>640,777</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 90,347</u>	<u>\$ 561,584</u>	<u>\$ 651,931</u>

SUPPLEMENTAL INFORMATION

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

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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, 2011, 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, 2011

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.

4. 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 of Future Major Repairs and Replacements is based on the study.



HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2011

NOTE C - REPLACEMENT FUND - CONTINUED

The Association 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. 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, 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 - SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 8, 2012, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

HABITAT 1, SECTION A

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS

December 31, 2011

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

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIFE</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>
<b>TOTAL</b>		<b><u>\$1,782,002</u></b>