FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

HABITAT 1, SECTION A

Year ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Habitat 1, Section A

We have audited the accompanying financial statements of Habitat 1, Section A, which comprise the balance sheet as of December 31, 2019 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat 1, Section A as of December 31, 2019 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 14 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, which 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.

November 6, 2020
Owings Mills, Maryland

HABITAT 1, SECTION A

BALANCE SHEET

December 31, 2019

ASSETS

	Operating fund	Replacement fund	Total
CURRENT ASSETS			
Cash	$ 174,063	$ 588,911	$ 762,974
Investments	-	462,078	462,078
Assessments receivable (net of allowance for doubtful accounts of $47,285)	12,992	-	12,992
Due from Brodie Management, Inc.	91	-	91
Prepaid expenses	1,090	-	1,090
Due from replacement fund	38,557	-	38,557
Total current assets	$ 226,793	$ 1,050,989	$ 1,277,782

LIABILITIES AND FUND BALANCES

	Operating fund	Replacement fund	Total
CURRENT LIABILITIES			
Accounts payable	$ 10,410	$ -	$ 10,410
Assessments received in advance	16,052	-	16,052
Income taxes payable	765	-	765
Due to operating fund	-	38,557	38,557
Total current liabilities	27,227	38,557	65,784
FUND BALANCES	199,566	1,012,432	1,211,998
Total liabilities and fund balances	$ 226,793	$ 1,050,989	$ 1,277,782

See accompanying notes to financial statements.

HABITAT 1, SECTION A

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

Year ended December 31, 2019

	Operating fund	Replacement fund	Total
REVENUES			
Assessments	$ 259,013	$ 70,500	$ 329,513
Late fee income	3,174	-	3,174
Interest income	501	14,164	14,665
Other income	3,328	-	3,328
	266,016	84,664	350,680
EXPENSES			
Capital improvements	-	59,486	59,486
Electricity	7,120	-	7,120
Exterminating	7,230	-	7,230
Grounds	49,112	4,456	53,568
Income taxes	3,005	-	3,005
Insurance	26,191	-	26,191
Management fees	43,995	-	43,995
Office expenses	9,894	-	9,894
Professional fees	7,096	-	7,096
Repairs and maintenance	44,293	-	44,293
Snow removal	1,975	-	1,975
Water and sewer	39,332	-	39,332
	239,243	63,942	303,185
EXCESS OF REVENUES OVER EXPENSES	26,773	20,722	47,495
FUND BALANCES - beginning of year	172,793	991,710	1,164,503
FUND BALANCES - end of year	$ 199,566	$ 1,012,432	$ 1,211,998

See accompanying notes to financial statements.

HABITAT 1, SECTION A

STATEMENT OF CASH FLOWS

Year ended December 31, 2019

	Operating fund	Replacement fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	$ 26,773	$ 20,722	$ 47,495
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
(Increase) decrease in:			
Assessments receivable	(2,829)	-	(2,829)
Due from Brodie Management, Inc.	(91)	-	(91)
Prepaid expenses	(572)	-	(572)
Due from operating fund	-	25,762	25,762
Due from replacement fund	(38,557)	-	(38,557)
Increase (decrease) in:			
Accounts payable	181	-	181
Assessments received in advance	5,349	-	5,349
Income taxes payable	(778)	-	(778)
Due to replacement fund	(25,762)	-	(25,762)
Due to operating fund	-	38,557	38,557
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(36,286)	85,041	48,755
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	-	(462,078)	(462,078)
NET CASH USED BY INVESTING ACTIVITIES	-	(462,078)	(462,078)
NET DECREASE IN CASH	(36,286)	(377,037)	(413,323)
CASH AT BEGINNING OF YEAR	210,349	965,948	1,176,297
CASH AT END OF YEAR	$ 174,063	$ 588,911	$ 762,974
<u>SUPPLEMENTAL DISCLOSURE</u>			
Income taxes paid	$ 3,783	$ -	$ 3,783

See accompanying notes to financial statements.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

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 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 - DATE OF MANAGEMENT’S REVIEW

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 6, 2020, the date the financial statements were available to be issued.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Method of accounting

   The financial statements are presented on the accrual method of accounting, in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

2. 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.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Income taxes

Condominium associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2019, 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 21% by the federal government and 8.25% by the State of Maryland.

The Association’s policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2019, the Association incurred no penalties and interest related to income taxes. Tax returns are subject to examination by the Internal Revenue Service and State of Maryland for three years after they are filed.

4. Member assessments

Association members are subject to monthly assessments to provide funds for the Association’s operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association’s performance obligations related to its operating assessments are satisfied over time on a pro-rata basis. The performance obligations related to the replacement fund assessments are also satisfied over time on a pro-rata basis. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding fees from unit owners. The Association’s policy is to retain legal counsel to help in the collection of unit owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. An allowance for doubtful accounts has been set up as an estimate for those accounts which may not be collectible.

The Association treats uncollectible fees as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association’s control. The balances of assessments receivable as of the beginning and end of the year are $67,606 and $60,277, respectively.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Common property

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

6. 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 D - CASH

As of December 31, 2019, the Association maintained its funds in the following manner:

Institution	Type of account	Cash
Wells Fargo	Checking	$ 174,063
Severn Savings Bank	Money Market	300,416
Truist Bank	Money Market	37,658
Synchrony Bank	Certificate of Deposit	250,837
		$ 762,974

NOTE E - UNINSURED CASH BALANCES

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

NOTE F – INVESTMENTS

The Association holds Treasury Bills in an account with Edward Jones that are recognized as held-to-maturity investments in the financial statements and are recorded at cost. The cost basis of these investments is $462,078 as of December 31, 2019.

NOTE G - FUTURE MAJOR REPAIRS AND REPLACEMENTS

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 Association levied assessments of $70,500 during the year ended December 31, 2019 for estimated future major repairs and replacements.

An outside consulting firm conducted a study in November 2017 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.

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 H - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services. The new guidance is effective for all periods that begin subsequent to December 15, 2018.

SUPPLEMENTARY INFORMATION

HABITAT 1, SECTION A

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2019

(Unaudited)

An outside consulting firm conducted a study in November 2017 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.

COMPONENTS	ESTIMATED REMAINING USEFUL LIFE	ESTIMATED CURRENT REPLACEMENT COST
Site components	0-10	$ 182,509
Building exteriors	10-38	2,630,124
Building systems	10	7,500
TOTAL		$ 2,820,133