

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
HABITAT 1, SECTION A  
December 31, 2014

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# **Strauss & Associates, P.A.**

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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, 2014 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 at December 31, 2014 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 13 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.

*Spencer + Nocenti P.A.*

February 11, 2015

HABITAT 1, SECTION A

BALANCE SHEET

December 31, 2014

ASSETS

	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 108,572	\$ 779,561	\$ 888,133
Assessments receivable (net of allowance for doubtful accounts of \$80,613)	20,248	-	20,248
Prepaid expenses	2,086	-	2,086
Due from replacement fund	42,965	-	42,965
<b>Total current assets</b>	<u>\$ 173,871</u>	<u>\$ 779,561</u>	<u>\$ 953,432</u>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 10,987	\$ -	\$ 10,987
Prepaid assessments	10,763	-	10,763
Due to operating fund	-	42,965	42,965
<b>Total current liabilities</b>	21,750	42,965	64,715
<b>FUND BALANCES</b>	<u>152,121</u>	<u>736,596</u>	<u>888,717</u>
<b>Total liabilities and fund balances</b>	<u>\$ 173,871</u>	<u>\$ 779,561</u>	<u>\$ 953,432</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, 2014

	Operating fund	Replacement fund	Total
<b>REVENUES</b>			
Assessments	\$ 254,127	\$ 70,500	\$ 324,627
Bad debt recovery	1,728	-	1,728
Interest income	9	2,415	2,424
Late fee income	3,959	-	3,959
Other income	727	-	727
	<u>260,550</u>	<u>72,915</u>	<u>333,465</u>
<b>EXPENSES</b>			
Contingency	25,530	-	25,530
Electricity	8,788	-	8,788
Exterminating	4,100	-	4,100
Grounds	25,440	-	25,440
Insurance	18,967	-	18,967
Management fees	40,414	-	40,414
Office expenses	8,732	-	8,732
Professional fees	8,951	-	8,951
Repairs and maintenance	48,725	-	48,725
Snow removal	8,631	-	8,631
Water and sewer	40,467	-	40,467
	<u>238,745</u>	<u>--</u>	<u>238,745</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	21,805	72,915	94,720
<b>FUND BALANCES</b>			
- beginning of year	<u>130,316</u>	<u>663,681</u>	<u>793,997</u>
<b>FUND BALANCES</b> - end of year	<u>\$ 152,121</u>	<u>\$ 736,596</u>	<u>\$ 888,717</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, 2014

	Operating fund	Replacement fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 21,805	\$ 72,915	\$ 94,720
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	20,399	-	20,399
Prepaid expenses	(9)	-	(9)
Income taxes recoverable	160	-	160
Increase (decrease) in:			
Accounts payable	(4,136)	-	(4,136)
Prepaid assessments	3,520	-	3,520
Allowance for doubtful accounts	(6,741)	-	(6,741)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>34,998</u>	<u>72,915</u>	<u>107,913</u>
<b>NET INCREASE IN CASH</b>	34,998	72,915	107,913
<b>CASH AT BEGINNING OF YEAR</b>	<u>73,574</u>	<u>706,646</u>	<u>780,220</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 108,572</u>	<u>\$ 779,561</u>	<u>\$ 888,133</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, 2014

**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 - DATE OF MANAGEMENT'S REVIEW**

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 11, 2015, 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.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

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, 2014, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earned, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2014, 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. 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. Member assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel to help in the collection of unit owners whose assessments are delinquent. An allowance for doubtful accounts has been set up as an estimate for those accounts which may not be collectible.

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

NOTE D - CASH

As of December 31, 2014, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type of account</u>	<u>Cash</u>
M&T Bank	Checking	\$ 108,572
Severn Savings Bank	Money Market	29,380
SunTrust	Money Market	281,281
Arundel Federal Savings Bank (2)	Certificates of Deposit	73,676
Bank of America	Certificate of Deposit	62,361
Essex Bank	Certificate of Deposit	66,077
First Mariner Bank	Certificate of Deposit	64,367
SunTrust	Certificate of Deposit	90,180
Severn Savings Bank	Certificate of Deposit	85,238
Wells Fargo	Certificate of Deposit	27,001
		<u>\$ 888,133</u>

HABITAT 1, SECTION A

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2014

NOTE E - 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.

NOTE F - 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 estimates were obtained from licensed contractors who inspected the 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.

**SUPPLEMENTARY INFORMATION**

HABITAT 1, SECTION A

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS

December 31, 2014

(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 estimates were obtained from licensed contractors who inspected the 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>