

CROWN COLONY HOMEOWNERS ASSOCIATION

(A California Nonprofit Mutual Benefit Corporation)

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2016

Takemoto & Co.

CROWN COLONY HOMEOWNERS ASSOCIATION

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INDEPENDENT AUDITORS' REPORT
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Takemoto & Co.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
CROWN COLONY HOMEOWNERS ASSOCIATION
Daly City, California

Report on the Financial Statements

We have audited the accompanying financial statements of CROWN COLONY HOMEOWNERS ASSOCIATION, which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenses, and changes in fund balance 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 CROWN COLONY HOMEOWNERS ASSOCIATION as of June 30, 2016, and the results of its operations and its 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 supplementary information about future repairs and replacements on page 7 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.

Takemoto & Co.

September 06, 2016
Redwood City, California

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CROWN COLONY HOMEOWNERS ASSOCIATION
BALANCE SHEET
June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 391,483	\$ 510,870	\$ 902,353
Certificate of deposits		749,000	749,000
Assessment receivable, net of allowance for doubtful accounts of \$8,801	13,652		13,652
Prepaid expense	75,827		75,827
Refundable income taxes		6,906	6,906
	<u>\$ 480,962</u>	<u>\$ 1,266,776</u>	<u>\$ 1,747,738</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 111,605	\$ 12,882	\$ 124,487
Assessments paid in advance	66,783		66,783
Deposits	54,679		54,679
	<u>233,067</u>	<u>12,882</u>	<u>245,949</u>
TOTAL LIABILITIES			
FUND BALANCES	<u>247,895</u>	<u>1,253,894</u>	<u>1,501,789</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 480,962</u>	<u>\$ 1,266,776</u>	<u>\$ 1,747,738</u>

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the year ended June 30, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Membership assessments	\$ 2,844,371	\$ 1,272,648	\$ 4,117,019
Vending income	138,304		138,304
Interest revenues	-	3,017	3,017
Other revenues	46,108		46,108
TOTAL REVENUES	3,028,783	1,275,665	4,304,448
<u>EXPENSES</u>			
Utilities	881,051		881,051
Salaries	406,941		406,941
Insurance	273,681		273,681
Security	371,455		371,455
Custodial	161,280		161,280
Landscaping	90,360		90,360
Elevator maintenance	50,060		50,060
Pool and spa	25,067		25,067
Repairs and maintenance	280,236		280,236
Management and accounting	234,492		234,492
Professional services	24,612		24,612
Administrative	79,118		79,118
Recreational expense	2,313		2,313
Replacement expenditures		913,110	913,110
Reconstruction expense		46,723	46,723
Income taxes		1,024	1,024
TOTAL EXPENSES	2,880,666	960,857	3,841,523
Excess (deficit) of revenues over expenses	148,117	314,808	462,925
FUND BALANCES, Beginning of year	99,778	939,086	1,038,864
FUND BALANCES End of year	\$ 247,895	\$ 1,253,894	\$ 1,501,789

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ 148,117	\$ 314,808	\$ 462,925
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	8,977		8,977
Prepaid expenses	33,021		33,021
Refundable income taxes		(6,906)	(6,906)
Increase (decrease) in:			
Accounts payable	(23,262)	(50,362)	(73,624)
Assessments paid in advance	12,837		12,837
Deposits	(125)		(125)
Income taxes payables		(25,747)	(25,747)
Net cash provided (used) by operating activities	179,565	231,793	411,358
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchased certificate of deposits		(1,249,000)	(1,249,000)
Redeemed certificate of deposits		749,000	749,000
Net cash provided (used) by investing activities	-	(500,000)	(500,000)
Net increase (decrease) in cash	179,565	(268,207)	(88,642)
Cash at beginning of year	211,918	779,077	990,995
Cash at end of year	\$ 391,483	\$ 510,870	\$ 902,353
Supplemental disclosure:			
Income taxes paid			\$ 33,917

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CROWN COLONY HOMEOWNERS ASSOCIATION, incorporated on April 16, 1980, is a California Nonprofit Mutual Benefit Corporation. Its primary purpose is to provide for the maintenance, preservation and architectural control of the grounds and common areas of the 920 residences located on approximately 24 acres in Daly City, California.

Membership in the Association is mandatory for the homeowners. Voting members of the Association consist of all owners, who are entitled to one vote for each unit owned. Each member is obligated to pay annual assessments to the Association on each unit owned for amounts to be expended for the benefit of residents, and the maintenance of the common areas. Annual assessments are payable to the Association in monthly installments, and may be secured by a lien upon the property against which the assessment is made. In addition to the annual assessment, special assessments may be levied by the Association.

Date of Management's Review - In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 06, 2016, the date that the financial statements were available to be issued.

Accounting Method and Basis - The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts, prepares its financial statements, and files its Federal and state income tax returns using fund accounting and accrual basis of accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repair and replacements.

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.

Property and equipment - The Association capitalizes all property and equipment to which it has title or other evidence of ownership with exception of real property directly associated with the units. At June 30, 2016, property not capitalized consists of common areas that consist of roofs, parking, sidewalks, landscaping, fencing, lighting, elevators, recreational facilities, and other common area assets. Not capitalizing common area real property is common practice among homeowners associations, since all beneficial rights of ownership belong to the homeowners and not to the Association. According to the Association's governing documents, two thirds of all unit owners must approve disposition of any common area real property.

Interest Income - It is the Association's policy that interest earned on Replacement Fund savings is restricted and remains in the Replacement Fund.

Collection Process - The Association's collection process for past due membership dues and assessments includes the levy of late charges, mailing delinquent dues reminder notices and sending itemized warning letters noting costs of collection and intent to process foreclosure. The judicial foreclosure process culminates with the sale of the property and a deficient dues judgment against the property owner for the amount of delinquent dues and all related costs of collection. At June 30, 2016, delinquent dues assessments and late charges amounted to the following:

Assessment receivables	\$ 22,453
Allowance for doubtful accounts	(8,801)
Net assessment receivables	<u>\$ 13,652</u>

Bad debt expense for the years ended June 30, 2016 amounted to \$0. Association considers all net assessment receivable balances at June 30, 2016 fully collectible.

Statement of Cash Flows - For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with stated maturity of three months or less to be cash equivalents.

Income Taxes - Income taxes are provided for in accordance with current regulations and case law pertaining to homeowners associations. Under Section 528 of the Internal Revenue Code and California Revenue and Taxation Act Section 23701t, qualified homeowners association may elect to be treated as tax-exempt organizations. The Association has elected to be taxed only on income from investments and business with nonmembers. For Federal tax purposes, the election may be made or waived each year. Under Federal tax-exempt status, nonexempt income (such as interest) is subject to tax after deducting directly related expenses. For California tax purposes, the election is usually permanent and must be made prior to the year in which tax exempt status is to become effective. Under California tax-exempt status, nonexempt income is subject to tax after deducting a specific homeowner deduction. The Association is currently in the process of applying for exempt status with the State of California.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - INVESTMENTS

The Association invested in FDIC insured Certificates of Deposit with intent to hold them until maturity. The Association carries Certificates of Deposits at cost, which amounted to \$749,000 at June 30, 2016.

NOTE 3 - PROPERTY AND EQUIPMENT

As of June 30, 2016, property and equipment consisted of the following:

Equipment	\$ 48,875
Furniture and fixtures	4,383
Vehicles	55,703
Office furniture and fixtures	8,164
	117,125
Less: accumulated depreciation	117,125
	\$ 0

NOTE 4 - REPLACEMENT FUND FOR FUTURE REPLACEMENTS

The Replacement Fund for future replacements represents funds set aside for long-term maintenance within the development. Changes in the Replacement Fund are as follows:

Beginning balance	\$ 939,086
Net contributions	1,275,665
Replacement expenditures	(960,857)
Ending balance	\$ 1,253,894

The Association had a reserve study prepared by the John D. Beatty & Company in 2016, to estimate the replacement cost and the remaining useful lives of the components of common property in the Association. The reserve study projected the Replacement Fund having a balance of \$713,012 at year end. As disclosed in the reserve study, based on the method of calculation in paragraph (4) of subdivision (b) of Section 5570 of the California Civil Code, the estimated required amount in the Replacement Fund at year end is \$2,340,747. Actual balance in the Replacement Fund is \$1,253,894 at June 30, 2016. Therefore, amounts accumulated in the Replacement Fund may not be sufficient to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments, pass special assessments, or to may delay major repairs and replacements until funds are available.

NOTE 5 - MANAGEMENT AND ACCOUNTING AGREEMENT

The Association employs the services of an outside property management and accounting companies. The combined fee is approximately \$21 per unit, per month.

NOTE 6 - INCOME TAXES

The provision for income taxes as June 30, 2016 was as follows:

Federal	\$ 461
California	563
	\$ 1,024

At June 30, 2016 the tax years that remain subject to examination by taxing authorities begin with the 2011 tax year. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

NOTE 7 - INSURED CASH BALANCES

The Association maintains the majority its cash balances at Union Bank located in Los Angeles, California. Union Bank accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016 the Association's cash holding at Union Bank comprised of an aggregate balance of \$883,856.

NOTE 8 - PARKING STRUCTURE

In 2017 the Board of Directors are considering on putting to vote of membership the construction of a multi-level parking structure (180 spaces) where the tennis courts are currently located. To finance the parking structure project, the Board of Directors is considering increasing assessments, obtaining a bank loan and/or a special assessment. A bank loan or a special assessment will need to be approved by a vote of membership.

CROWN COLONY HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND REPLACEMENTS
 June 30, 2016

(See Independent Auditors' Report)

The Association had a reserve study prepared by the John D. Beatty & Company in 2016, to estimate the replacement cost and the remaining useful lives of the components of common property in the Association. Estimates in the study are based on an inflation rate of 2.5% and investment return of 1.4%.

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

Components:	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance at June 30, 2016
Commuter services	1 to 8	\$ 87,624	
Elevator	2 to 16	407,720	
Fencing	1	15,688	
Landscaping	1 to 5	214,964	
Lighting	1 to 41	270,460	
Mechanical systems	1 to 19	51,560	
Paved surfaces	1 to 10	278,231	
Painting	1 to 9	1,151,562	
Recreation center	1 to 13	202,065	
Retaining walls	4	27,482	
Roofing	1 to 20	2,162,939	
Security systems	2	3,285	
Sewer line/water valves	1 to 12	46,654	
Spa & pools	1 to 10	78,941	
Tennis/Basketball courts	3 to 5	127,981	
Automatic systems	1 to 7	13,463	
Other	1 to 31	839,313	
Building exteriors	1 to 33	1,050,531	
Unscheduled	1	68,032	
		<u>\$ 7,098,495</u>	<u>\$ 1,253,894</u>

The reserve study estimates funding requirements for the year ending June 30, 2017, to be membership contributions of \$1,272,653 and after tax investments earnings of \$12,425 and inflated expenditures of \$1,120,070.

The accompanying notes are an integral part of this financial statement.