

CROWN COLONY HOMEOWNERS ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2018

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

We have audited the accompanying financial statements of CROWN COLONY HOMEOWNERS ASSOCIATION, which comprise the balance sheet as of June 30, 2018, 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, 2018, 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 10, 2018
Redwood City, California

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CROWN COLONY HOMEOWNERS ASSOCIATION
BALANCE SHEET
June 30, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 519,215	\$ 188,842	\$ 708,057
Certificate of deposits		1,245,000	1,245,000
Assessment receivable, net of allowance for doubtful accounts of \$8,801	12,202		12,202
Prepaid expense	94,764		94,764
Refundable income taxes		1,521	1,521
TOTAL ASSETS	<u>\$ 626,181</u>	<u>\$ 1,435,363</u>	<u>\$ 2,061,544</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 124,629	\$ 6,476	\$ 131,105
Assessments paid in advance	66,441		66,441
Deposits	55,019		55,019
Deferred revenue - Fire damage	242,802		242,802
TOTAL LIABILITIES	488,891	6,476	495,367
FUND BALANCES	<u>137,290</u>	<u>1,428,887</u>	<u>1,566,177</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 626,181</u>	<u>\$ 1,435,363</u>	<u>\$ 2,061,544</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, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Membership assessments	\$ 2,761,981	\$ 1,250,004	\$ 4,011,985
Vending income	151,010		151,010
Interest revenues	-	12,680	12,680
Insurance settlement - Fire damage	379,443		379,443
Other revenues	53,591		53,591
TOTAL REVENUES	3,346,025	1,262,684	4,608,709
<u>EXPENSES</u>			
Utilities	843,811		843,811
Salaries	325,282		325,282
Insurance	279,130		279,130
Security	441,937		441,937
Custodial	165,400		165,400
Landscaping	120,229		120,229
Elevator maintenance	51,165		51,165
Pool and spa	28,010		28,010
Repairs and maintenance	318,676		318,676
Clubhouse fire damage repairs	379,443		379,443
Management and accounting	244,368		244,368
Professional services	9,726		9,726
Administrative	112,636		112,636
Recreational expense	2,231		2,231
Replacement expenditures		918,306	918,306
Reconstruction expense		441,442	441,442
Income taxes		3,748	3,748
TOTAL EXPENSES	3,322,044	1,363,496	4,685,540
Excess (deficit) of revenues over expenses	23,981	(100,812)	(76,831)
FUND BALANCES, Beginning of year	113,309	1,529,699	1,643,008
FUND BALANCES End of year	\$ 137,290	\$ 1,428,887	\$ 1,566,177

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM			
OPERATING ACTIVITIES:			
Excess (deficit) of revenues	\$ 23,981	\$ (100,812)	\$ (76,831)
over expenses			
Adjustments to reconcile excess			
of revenues over expenses to net cash			
provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	(4,300)		(4,300)
Prepaid expenses	(1,860)		(1,860)
Refundable income taxes		3,748	3,748
Increase (decrease) in:			
Accounts payable	20,645	(2,519)	18,126
Assessments paid in advance	(9,104)		(9,104)
Deposits	(250)		(250)
Deferred revenue	242,802		242,802
Net cash provided (used) by			
operating activities	271,914	(99,583)	172,331
CASH FLOW FROM			
INVESTING ACTIVITIES:			
Purchased certificate of deposits		(2,245,000)	(2,245,000)
Redeemed certificate of deposits		2,249,000	2,249,000
Net cash provided (used) by			
investing activities	-	4,000	4,000
Net increase (decrease) in cash	271,914	(95,583)	176,331
Cash at beginning of year	247,301	284,425	531,726
Cash at end of year	\$ 519,215	\$ 188,842	\$ 708,057
Supplemental disclosure:			
Income taxes paid			\$ -

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 10, 2018, 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, 2018, 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, 2018, delinquent dues assessments and late charges amounted to the following:

Assessment receivables	\$ 21,003
Allowance for doubtful accounts	<u>(8,801)</u>
Net assessment receivables	<u>\$ 12,202</u>

Bad debt expense for the years ended June 30, 2018 amounted to \$0. Association considers all net assessment receivable balances at June 30, 2018 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, 2018

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 \$1,245,000 at June 30, 2018.

NOTE 3 - PROPERTY AND EQUIPMENT

As of June 30, 2018, 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	\$ 1,529,699
Net contributions	1,262,684
Replacement expenditures	(1,363,496)
Ending balance	\$ 1,428,887

The Association had a reserve study prepared by the John D. Beatty & Company in 2018, 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 \$1,473,746 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 \$3,016,199. Actual balance in the Replacement Fund is \$1,428,887 at June 30, 2018. 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 \$22 per unit, per month.

NOTE 6 - INCOME TAXES

The provision for income taxes as June 30, 2018 was as follows:

Federal	\$ 2,218
California	1,530
	\$ 3,748

At June 30, 2018 the tax years that remain subject to examination by taxing authorities begin with the 2013 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, 2018 the Association's cash holding at Union Bank comprised of an aggregate balance of \$681,305.

NOTE 8 - PARKING STRUCTURE

In 2018 the Board of Directors is considering 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, 2018

(See Independent Auditors' Report)

The Association had a reserve study prepared by the John D. Beatty & Company in 2018, 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%.

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, 2018
Commuter services	1 to 6	\$ 93,842	
Elevator	1 to 14	428,362	
Fencing	1	16,482	
Landscaping	1 to 40	231,796	
Lighting	1 to 39	284,148	
Mechanical systems	1 to 17	65,083	
Paved surfaces	1 to 8	291,623	
Painting	1 to 7	1,092,515	
Recreation center	1	212,298	
Retaining walls	2	28,873	
Roofing	1 to 18	2,264,762	
Security systems	2	3,451	
Sewer line/water valves	1 to 10	26,514	
Spa & pools	1 to 8	93,165	
Automatic systems	1 to 5	13,992	
Other	1 to 29	881,524	
Building exteriors	1 to 31	1,151,843	
Unscheduled	1	63,633	
		<u>\$ 7,243,906</u>	<u>\$ 1,428,887</u>

The reserve study estimates funding requirements for the year ending June 30, 2019, to be membership contributions of \$1,350,000 and after tax investments earnings of \$18,312 and inflated expenditures of \$1,451,062.

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