

CROWN COLONY

HOMEOWNERS ASSOCIATION

379 Imperial Way, Daly City, CA 94015-2503 • (650)756-8220 • Fax: (650)756-4323

e-mail: cchoa@crowncolonyhoa.com

October 10, 2019

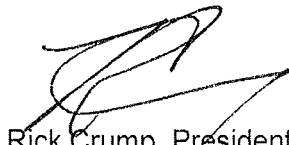
Dear Crown Colony Homeowner:

The Board has again engaged Takemoto & Co. to complete the annual audit. A copy of the audit, stating the Association's financial position for the 2018/2019 fiscal year, is enclosed. Our overall financial picture looks very good. You may also look at both the 2018/2019 Audit and the 2019/2020 Reserve Schedule by clicking on the Documents tab of Crown Colony's website at: www.crowncolonyhoa.com. Also enclosed is a Request for Delivery of Association Documents by E-mail. If you would like disclosures and documents sent to you electronically, please fill out this form and follow the instructions of how to submit it to the HOA office.

Your Board is charged with maintaining, protecting and enhancing the assets of Crown Colony. We know our owners are our biggest asset and the Board always welcomes their input. Let us hear from you. Send your suggestions and comments to the Association Office, e-mail us at cchoa@crowncolonyhoa.com or call our staff at (650) 756-8220.

We are very fortunate to have volunteers willing to serve on Crown's committees. We always have room for additional volunteers. If you are interested in serving and want more information, please either call the Homeowners' Office or look at the Committee's page on Crown's website.

Sincerely yours,



Rick Crump, President
Crown Colony Homeowners Association

RC/rn

Copies: All Owners of Record as of October 7, 2019

CROWN COLONY HOMEOWNERS ASSOCIATION

(A California Nonprofit Mutual Benefit Corporation)

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2019

Takemoto & Co.

CROWN COLONY HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2019

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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, 2019, 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, 2019, 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 4, 2019
Redwood City, California

303 Twin Dolphin Drive, 6th Floor, Redwood City, CA 94065
650-585-2200 650-249-0216 (Fax) info@takemoto-co.com

CROWN COLONY HOMEOWNERS ASSOCIATION
BALANCE SHEET
June 30, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 502,767	\$ 797,684	\$ 1,300,451
Certificate of deposits		745,000	745,000
Assessment receivable, net of allowance for doubtful accounts of \$8,801	13,831		13,831
Prepaid expense	106,946		106,946
Property and equipment	56,097		56,097
TOTAL ASSETS	<u>\$ 679,641</u>	<u>\$ 1,542,684</u>	<u>\$ 2,222,325</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 287,954	\$ 108,113	\$ 396,067
Assessments paid in advance	68,466		68,466
Deposits	55,519		55,519
Deferred revenue - Fire damage	186,013		186,013
Finance lease liability	57,041		57,041
Income taxes payables		26,516	26,516
TOTAL LIABILITIES	654,993	134,629	789,622
FUND BALANCES	<u>24,648</u>	<u>1,408,055</u>	<u>1,432,703</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 679,641</u>	<u>\$ 1,542,684</u>	<u>\$ 2,222,325</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, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Membership assessments	\$ 2,775,751	\$ 1,442,000	\$ 4,217,751
Vending income	192,014		192,014
Cable revenues	92,000		92,000
Interest revenues	-	18,693	18,693
Insurance settlement - Fire damage	829,687		829,687
Other revenues	45,981	60,353	106,334
TOTAL REVENUES	3,935,433	1,521,046	5,456,479
<u>EXPENSES</u>			
Utilities	918,400		918,400
Salaries	341,249		341,249
Insurance	302,674		302,674
Security	465,290		465,290
Custodial	167,400		167,400
Landscaping	123,054		123,054
Elevator maintenance	50,185		50,185
Pool and spa	32,789		32,789
Repairs and maintenance	479,115		479,115
Clubhouse fire damage repairs	829,687		829,687
Management and accounting	249,276		249,276
Professional services	9,479		9,479
Depreciation	7,409		7,409
Administrative	71,544		71,544
Recreational expense	524		524
Replacement expenditures		1,194,005	1,194,005
Reconstruction expense		317,607	317,607
Income taxes		30,266	30,266
TOTAL EXPENSES	4,048,075	1,541,878	5,589,953
Excess (deficit) of revenues over expenses	(112,642)	(20,832)	(133,474)
FUND BALANCES, Beginning of year	137,290	1,428,887	1,566,177
FUND BALANCES End of year	\$ 24,648	\$ 1,408,055	\$ 1,432,703

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ (112,642)	\$ (20,832)	\$ (133,474)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	7,409		7,409
(Increase) decrease in:			
Assessments receivable	(1,629)		(1,629)
Prepaid expenses	(12,182)		(12,182)
Refundable income taxes		1,521	1,521
Increase (decrease) in:			
Accounts payable	163,325	101,637	264,962
Assessments paid in advance	2,025		2,025
Deposits	500		500
Deferred revenue - Fire damage	(56,789)		(56,789)
Income taxes payables		26,516	26,516
Net cash provided (used) by operating activities	(9,983)	108,842	98,859
CASH FLOW FROM INVESTING ACTIVITIES:			
Net change in fixed assets	(63,506)		(63,506)
Purchased certificate of deposits		(1,245,000)	(1,245,000)
Redeemed certificate of deposits		1,745,000	1,745,000
Net cash provided (used) by investing activities	(63,506)	500,000	436,494
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from lease liability	63,506		63,506
Repayment of lease liability	(6,465)		(6,465)
Net cash provided (used) by financing activities	57,041	-	57,041
Net increase (decrease) in cash	(16,448)	608,842	592,394
Cash at beginning of year	519,215	188,842	708,057
Cash at end of year	\$ 502,767	\$ 797,684	\$ 1,300,451
Supplemental disclosure:			
Income taxes paid			\$ 2,229
Interest paid			\$ 2,134

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

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 4, 2019, 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, 2019, 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, 2019, delinquent dues assessments and late charges amounted to the following:

Assessment receivables	\$ 22,632
Allowance for doubtful accounts	(8,801)
Net assessment receivables	\$ 13,831

Bad debt expense for the year ended June 30, 2019 amounted to \$0. Association considers all net assessment receivable balances at June 30, 2019 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.

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 \$745,000 at June 30, 2019.

CROWN COLONY HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019

NOTE 3 - PROPERTY AND EQUIPMENT

As of June 30, 2019, property and equipment consisted of the following:

Equipment	\$ 48,875
Furniture and fixtures	4,383
Right of use asset	63,506
Office furniture and fixtures	8,164
	124,928
Less: accumulated depreciation	68,831
	\$ 56,097

NOTE 4 - FINANCE LEASE LIABILITY

The Association leased a new shuttle bus in 2018 for a five year period. The Association is making monthly lease payments in the amount of \$1,228.38. The lease conveys no ownership at the end of the lease term, however it does contain an option to purchase the equipment at fair market value. The lease is classified as a finance lease. The Association has capitalized the asset as a right of use asset and is depreciating it on a straight line basis over the lease term. Future minimum lease payments under the finance lease as of June 30, 2019 are as follows:

2019-2020	\$ 14,740
2020-2021	14,740
2021-2022	14,740
2022-2023	14,740
2023-2024	6,144
Total	\$ 65,104

NOTE 5 - 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	\$ 1,428,887
Net contributions	1,521,046
Replacement expenditures	(1,541,878)
Ending balance	\$ 1,408,055

The Association had a reserve study prepared by the John D. Beatty & Company in 2019, 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 \$1,417,421 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 fully funded balance in the Replacement Fund at year end is \$3,141,901. Actual balance in the Replacement Fund is \$1,408,055 at June 30, 2019. 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 6 - MANAGEMENT AND ACCOUNTING AGREEMENT

The Association employs the services of an outside property management and accounting companies. The combined fee is approximately \$23 per unit, per month.

NOTE 7 - INCOME TAXES

The provision for income taxes as June 30, 2019 was as follows:

Federal	\$ 20,141
California	10,125
	\$ 30,266

At June 30, 2019 the tax years that remain subject to examination by taxing authorities begin with the 2014 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 8 - 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, 2019 the Association's cash holding at Union Bank comprised of an aggregate balance of \$1,268,534.

NOTE 9 - PARKING STRUCTURE

The Board of Directors is considering putting to vote of membership the construction of a parking structure 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, 2019

(See Independent Auditors' Report)

The Association had a reserve study prepared by the John D. Beatty & Company in 2019, 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, 2019
Commuter services	1 to 5	\$ 96,188	
Elevator	1 to 13	439,070	
Fencing	1	16,895	
Landscaping	1 to 3	254,652	
Lighting	1 to 38	291,255	
Mechanical systems	1 to 16	66,711	
Paved surfaces	1 to 7	298,423	
Painting	1 to 6	1,128,264	
Recreation center	1 to 20	217,607	
Retaining walls	1	29,595	
Roofing	1 to 17	2,320,291	
Security systems	1	3,537	
Sewer line/water valves	1 to 9	27,176	
Spa & pools	1 to 7	94,417	
Automatic systems	2 to 4	14,267	
Other	1 to 40	1,068,666	
Building exteriors	1 to 30	1,325,081	
		<u>\$ 7,692,095</u>	<u>\$ 1,408,055</u>

The reserve study estimates funding requirements for the year ending June 30, 2010, to be membership contributions of \$1,250,000 and after tax investments earnings of \$7,571 and inflated expenditures of \$1,332,851.

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

CROWN COLONY HOMEOWNERS ASSOCIATION

Request for Delivery of Association Documents by E-mail

The undersigned hereby certify/certifies that he/she/they is/are the record owner(s) (if one, or more than one, collectively the "Owner") of the unit identified below located within the Crown Colony Homeowners Association. Owner hereby requests that the Crown Colony Homeowners Association distribute to Owner via electronic transmission all Association documents to the extent permitted under the law then in effect including but not limited to any of the following Association documents (collectively, "Association Documents"):

- Operating Budget and Reserve Funding Schedule;
- Assessment and Reserve Funding Disclosure Summary;
- Budget Disclosures and Important Information
- Insurance Coverage Summary prepared by Risk Strategies Company;
- Policy Statements and Important Information
- Alternative Dispute Resolution Summary (Civil Code Section 5920-5965), Alternative Dispute Resolution Statutes for Community Associations and Meet and Confer Program Summary (Civil Code Section 5905) prepared by Crown Colony's legal counsel Berding & Weil
- Association Assessment Collection Policy;
- Notice of Collection Rights and Obligations;
- Association's Fine Policy;
- How to Pay My Assessment Notice
- Architectural Do's and Don'ts and Improvement Application
- Secondary Address Notification Request
- FHA & VA Certification Disclosures
- Annual Audit
- Newsletters & Surveys

The Owner(s) request that the Association transmit the Association Documents to the following email address(es). If there is more than one record owner for any lot, all such record owners consent to the Association's transmission of all Association Documents to the email address(es) listed below and acknowledge and agree that such transmission(s) shall be adequate and satisfactory electronic transmission(s) of all Association Documents to all record owners for such lot. Only one email address per recorded Owner is allowed.

1st Owner of Record (please print): _____

Email Address: _____ Address: _____

Signature: _____ Date: _____

Phone Number: _____

2nd Owner of Record (please print): _____

Email Address: _____ Address: _____

Signature: _____ Date: _____

Phone Number _____

Please see the instructions and further information **on the back side of this page**. Those instructions and further information are specifically incorporated into this request by this reference. If you have already submitted this form to the HOA Office, please disregard.

CROWN COLONY
HOMEOWNERS ASSOCIATION

**Instructions and Further Information for Delivery of
Association Documents by Email**

- Where there is more than one record owner, each record owner should complete and sign this Request.
- If fewer than all record owners complete this Request, the Association will deem this re-request incomplete.
- Upon written request to the Association, Owner shall have the right to "hard copies" of any Association Documents that are delivered via-email.
- This request shall be forwarded to Crown Colony Homeowners Association in one of the following manners: (i) by mail or personal delivery to Crown Colony Homeowners Association at 379 Imperial Way, Daly City CA 94015 (ii) by facsimile transmission to 650-756-4323, or (iii) as an attachment to an e-mail transmitted to the HOA at cchoa@crowncolonyhoa.com.
- **CHANGE OF E-MAIL ADDRESS:** Owner is responsible for notifying the Association of any change in e-mail address. Owner may change the e-mail address for delivery of Association Documents by sending a written notice of change of address, signed by all record owners, to the Association. Such notice shall also identify the unit/lot address, and be forwarded to the Association in one of the following manners: (i) by mail or personal delivery to Crown Colony Homeowners Association at 379 Imperial Way, Daly City, CA 94015 (ii) by facsimile transmission to 650 756-4323, or (iii) as an attachment to an e-mail transmitted to the HOA at cchoa@crowncolonyhoa.com.
- **REVOCAION BY OWNER:** Owner has the right to revoke this request and receive "hard copies" of the Association Documents via personal or mail delivery by sending a written revocation, signed by the Owner, to the Association. Such revocation shall also identify the unit/lot address, and be forwarded to the Association in one of the following manners: (i) by mail or personal delivery to Crown Colony Homeowners Association at 379 Imperial Way, Daly City, CA 94015 (ii) by facsimile transmission to 650 756-4323, or (iii) as an attachment to an e-mail transmitted to the HOA at cchoa@crowncolonyhoa.com. Revocation by one record owner shall be considered as revocation for all record owners of that lot.
- **AUTOMATIC TERMINATION:** This request will automatically terminate and Association Documents will cease to be transmitted to the e-mail address listed above upon receipt by the Association of information from any source deemed reputable by the Association that Owner is no longer the record owner of the unit/lot identified above.