

CROWN COLONY

HOMEOWNERS ASSOCIATION

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October 14, 2021

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 2020/2021 fiscal year, is enclosed. Our overall financial picture looks very good. You may also look at both the 2020/2021 Audit and the 2021/2022 Reserve Schedule by clicking on the Documents tab of Crown Colony's website at: www.crowncolonyhoa.com.

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.

Sincerely yours,



Rick Crump, President
Crown Colony Homeowners Association

RC/rn

Copies: All Owners of Record as of October 11, 2021

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

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2021

Takemoto & Co.

CROWN COLONY HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

June 30, 2021

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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, 2021, 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, 2021, 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 8 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 7, 2021
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, 2021

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 242,203	\$ 795,452	\$ 1,037,655
Certificate of deposits		1,245,000	1,245,000
Assessment receivable, net of allowance for doubtful accounts of \$8,801	11,760		11,760
Prepaid expense	119,903		119,903
Property and equipment	30,695		30,695
Refundable income taxes		22,083	22,083
 TOTAL ASSETS	 <u>\$ 404,561</u>	 <u>\$ 2,062,535</u>	 <u>\$ 2,467,096</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 132,075	\$ 3,071	\$ 135,146
Assessments paid in advance	101,956		101,956
Deposits	56,269		56,269
Finance lease liability	33,075		33,075
Contract liabilities		2,059,464	2,059,464
 TOTAL LIABILITIES	 323,375	 2,062,535	 2,385,910
 FUND BALANCES	 <u>81,186</u>	 <u>-</u>	 <u>81,186</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 404,561</u>	 <u>\$ 2,062,535</u>	 <u>\$ 2,467,096</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, 2021

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Membership assessments	\$ 3,088,254	\$ 1,198,764	\$ 4,287,018
Vending income	216,801		216,801
Interest revenues	-	7,130	7,130
Other revenues	65,192	-	65,192
TOTAL REVENUES	3,370,247	1,205,894	4,576,141
<u>EXPENSES</u>			
Utilities	1,043,625		1,043,625
Salaries	364,347		364,347
Insurance	426,416		426,416
Security	511,996		511,996
Custodial	182,400		182,400
Landscaping	124,843		124,843
Elevator maintenance	40,430		40,430
Pool and spa	35,537		35,537
Repairs and maintenance	231,549		231,549
Clubhouse fire damage repairs	724		724
Management and accounting	255,768		255,768
Professional services	12,599		12,599
Depreciation	12,701		12,701
Administrative	72,752		72,752
Recreational expense	1,003		1,003
Replacement expenditures		990,799	990,799
Reconstruction expense		212,682	212,682
Income taxes		2,413	2,413
TOTAL EXPENSES	3,316,690	1,205,894	4,522,584
Excess (deficit) of revenues over expenses	53,557	-	53,557
FUND BALANCES, Beginning of year	27,629	-	27,629
FUND BALANCES End of year	\$ 81,186	\$ -	\$ 81,186

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2021

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ 53,557	\$ -	\$ 53,557
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	12,701		12,701
(Increase) decrease in:			
Assessments receivable	13,846		13,846
Prepaid expenses	(662)		(662)
Refundable income taxes		2,413	2,413
Increase (decrease) in:			
Accounts payable	(6,359)	3,071	(3,288)
Assessments paid in advance	33,302		33,302
Deposits	275		275
Contract liabilities		252,465	252,465
Net cash provided (used) by operating activities	106,660	257,949	364,609
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchased certificate of deposits		(1,745,000)	(1,745,000)
Redeemed certificate of deposits		1,745,000	1,745,000
Net cash provided (used) by investing activities	-	-	-
CASH FLOW FROM FINANCING ACTIVITIES:			
Repayment of lease liability	(12,343)		(12,343)
Net cash provided (used) by financing activities	(12,343)	-	(12,343)
Net increase (decrease) in cash	94,317	257,949	352,266
Cash at beginning of year	147,886	537,503	685,389
Cash at end of year	<u>\$ 242,203</u>	<u>\$ 795,452</u>	<u>\$ 1,037,655</u>
Supplemental disclosure:			
Income taxes paid			<u>\$ -</u>
Interest paid			<u>\$ 2,398</u>

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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 7, 2021, 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.

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

Membership Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating expense 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 is satisfied over time on a daily pro-rata basis using the input method. The performance obligation related to the Replacement Fund assessments are satisfied when these funds are expended for their designated purpose. Assessment receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty day or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association had delinquent assessments and allowance for doubtful accounts as follows:

Assessment receivables	\$ 20,561
Allowance for doubtful accounts	(8,801)
Net assessment receivables	<u>\$ 11,760</u>

It is the opinion of the Board of Directors that the Association will ultimately prevail against homeowners with delinquent assessment. Bad debt expense for the year ended June 30, 2021 amounted to \$0.

Property and equipment - 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. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

Contract liabilities - The Association recognizes revenue from members as the related performance obligations are satisfied. Contract liabilities are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserves assessments. The balances of contract liabilities as of the beginning and end of the year \$1,806,999 and \$2,059,464 respectively.

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.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability in the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of June 30, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax period in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 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 \$1,245,000 at June 30, 2021.

NOTE 3 - PROPERTY AND EQUIPMENT

As of June 30, 2021, 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
	<u>124,928</u>
Less: accumulated depreciation	94,233
	<u>\$ 30,695</u>

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, 2021 are as follows:

2021-2022	\$ 14,741
2022-2023	14,741
2023-2024	6,141
Total	<u>\$ 35,623</u>

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$2,059,464 and are presented on the accompanying balance sheet as a contract liabilities at June 30, 2021, are held in separate accounts and are generally not available for operating purposes.

The Association had a reserve study prepared by the John D. Beatty & Company in 2021, 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 \$1,446,141 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 \$3,607,573. Actual balance in the Replacement Fund contract liabilities is \$2,059,464 at June 30, 2021. Therefore, amounts accumulated in the Replacement Fund contract liabilities 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, 2021 was as follows:

Federal	\$ 1,448
California	965
	<u>\$ 2,413</u>

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended June 30, 2021, no interest or penalties were paid or accrued.

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. Union Bank has provided a \$375,000 surety bond from Liberty Mutual for excess coverage over the FDIC limit at year end. The aggregate coverage of the FDIC and surety bond amounted to \$625,000 at year end. As of June 30, 2021 the Association's cash holding at Union Bank comprised of an aggregate balance of \$995,594.

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.

NOTE 10 - CONTINGENCIES

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization has characterized COVID-19 as a pandemic. The membership of the Association has been affected by the stay-at-home orders issued by San Mateo County in March 2020. The extent of the impact of COVID-19 on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the length of the stay-at home orders, all of which are highly uncertain and cannot be predicted at this time.

CROWN COLONY HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND REPLACEMENTS
June 30, 2021

(See Independent Auditors' Report)

The Association had a reserve study prepared by the John D. Beatty & Company in 2021, to estimate the replacement cost and the remaining useful lives of the components of common property in the Association. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacements 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 reserve study and presents significant information about the components of common property:

Components:	Remaining Useful Life (Years)	Estimated Current Replacement Cost	Contract Liabilities June 30, 2021
Commuter services	1 to 3	\$ 98,050	
Elevator	2 to 29	477,643	
Fencing	1	22,333	
Landscaping	1 to 3	282,234	
Lighting	1 to 36	351,613	
Mechanical systems	1 to 14	87,880	
Paved surfaces	1 to 5	306,354	
Painting	1 to 5	1,205,321	
Recreation center	1 to 19	228,339	
Retaining walls	4 to 9	31,093	
Roofing	1 to 15	2,353,382	
Security systems	1	3,716	
Sewer line/water valves	1 to 7	52,170	
Spa & pools	1 to 8	103,645	
Automatic systems	2	15,069	
Other	1 to 39	1,154,817	
Building exteriors	1 to 28	1,385,717	
		<u>\$ 8,159,376</u>	<u>\$ 2,059,464</u>

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