

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 5, 2009

Dear Crown Colony Homeowner:

The Board has again engaged the Timothy Collins Accountancy Corporation to complete the annual audit. A copy of the audit for the 2008/2009 fiscal year, concisely stating the Association's financial position, is enclosed. Our overall financial picture looks very good. The 6 pages of Supplemental Information, which includes the 2009/2010 Reserve Schedule, has been omitted since it was included with the 2009/2010 budget mailing. However, if you wish to obtain a copy, please contact the Association Office. You may also look at both the 2008/2009 Audit and the 2009/2010 Reserve Schedule by clicking on the Documents page link of Crown Colony's website: 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.

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 2, 2009

CROWN COLONY HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS,
INDEPENDENT AUDITORS' REPORT
AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2009 AND 2008

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
BALANCE SHEETS	2
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 to 8
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS	9 to 14

Timothy Collins & Co.

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the CROWN COLONY HOMEOWNERS ASSOCIATION (a California Nonprofit Mutual Benefit Corporation) as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Pages 10 through 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



August 18, 2009
San Mateo, California

CROWN COLONY HOMEOWNERS ASSOCIATION
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	2009			2008
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
ASSETS				
Cash and cash equivalents	\$216,444	\$1,453,180	\$1,669,624	\$1,687,418
Assessments receivable, net of allowance for doubtful accounts of \$75,000 in 2009 and 2008	69,716		69,716	56,095
Prepaid expense	76,763	4,377	81,140	95,146
Other assets	18,089		18,089	15,803
TOTAL ASSETS	\$381,012	\$1,457,557	\$1,838,569	\$1,854,462
LIABILITIES				
Accounts payable	\$144,043	\$141,548	\$285,591	\$218,823
Refundable deposits	56,769		56,769	57,094
Assessments paid in advance	36,622		36,622	19,128
Income taxes payable			0	6,129
TOTAL LIABILITIES	237,434	141,548	378,982	301,174
FUND BALANCES	143,578	1,316,009	1,459,587	1,553,288
TOTAL LIABILITIES AND FUND BALANCES	\$381,012	\$1,457,557	\$1,838,569	\$1,854,462

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

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the years ended June 30, 2009 and 2008

	2009		2008	
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
REVENUES				
Membership assessments	\$2,795,194	\$957,456	\$3,752,650	\$3,690,255
Interest revenue	115	21,402	21,517	45,722
Laundry revenue	138,624		138,624	138,624
Other revenue	41,582	16,554	58,136	69,819
TOTAL REVENUES	2,975,515	995,412	3,970,927	3,944,420
EXPENSES				
Accounting	40,700		40,700	44,750
Legal and audit	29,432		29,432	51,165
Insurance	337,539		337,539	344,930
Management	174,000		174,000	179,472
Administration	55,195		55,195	45,625
Operating contracts	123,305		123,305	108,012
Bad debts	45,481		45,481	122,251
Landscaping	108,055		108,055	95,692
Custodial and grounds	223,589		223,589	214,651
Maintenance	240,030		240,030	229,312
Property attendants	334,822		334,822	337,682
Recreation	72,640		72,640	66,663
Maintenance and repairs	188,321		188,321	220,432
Utilities	998,185		998,185	1,018,970
Income taxes		2,130	2,130	6,535
Replacement expenditures		610,182	610,182	561,408
Construction expenditures		481,022	481,022	163,644
TOTAL EXPENSES	2,971,294	1,093,334	4,064,628	3,811,194
Excess (deficit) of revenues over expenses	4,221	(97,922)	(93,701)	133,226
FUND BALANCES, Beginning of year	139,357	1,413,931	1,553,288	1,420,062
FUND BALANCES, End of year	\$143,578	\$1,316,009	\$1,459,587	\$1,553,288

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

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2009 and 2008

	2009			2008
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess (deficit) of revenues over expenses	\$4,221	(\$97,922)	(\$93,701)	\$133,226
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Assessments receivable	(13,621)		(13,621)	313
Prepaid expense	18,383	(4,377)	14,006	(24,044)
Other assets	(2,286)		(2,286)	(3,687)
Increase (decrease) in:				
Accounts payable	31,370	35,398	66,768	102,318
Assessments paid in advance	17,494		17,494	1,472
Refundable deposits	(325)		(325)	(3,750)
Income taxes payable		(6,129)	(6,129)	4,898
Net cash provided (used) by operating activities	55,236	(73,030)	(17,794)	210,746
Cash at beginning of year	161,208	1,526,210	1,687,418	1,476,672
Cash at end of year	<u>\$216,444</u>	<u>\$1,453,180</u>	<u>\$1,669,624</u>	<u>\$1,687,418</u>
Supplemental disclosure:				
Income taxes paid			<u>\$12,636</u>	<u>\$6,535</u>

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

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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

Crown Colony Homeowners Association, incorporated on April 18, 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 units in the Association.

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.

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.

Membership Assessments

A portion of the monthly membership assessments is designated as reserved for future replacement, repairs, and improvements to common area properties. Such replacement, repairs, and improvements, when incurred, are accounted for as reduction to the Replacement Fund.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009 and 2008, delinquent dues assessments and late charges amounted to \$144,716 and \$131,095, 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.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their useful lives of five and fifteen years using the straight-line method.

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.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 - FIXED ASSETS

As of June 30, 2009 and 2008, fixed assets consisted of the following:

	2009	2008
Furniture and fixtures	\$ 4,383	\$ 4,383
Equipment	48,875	48,875
Office furniture and fixtures	5,111	5,111
Vehicles	58,758	58,758
	117,125	117,125
Less: accumulated depreciation	(117,125)	(117,125)
	\$ 0	\$ 0

Depreciation expenses amounted to \$0 for the year ended June 30, 2009, and for the year ended June 30, 2008.

NOTE 3 - 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:

	2009	2008
Beginning balance	\$ 1,413,931	\$ 777,567
Assessments and interest	995,412	925,258
Interfund transfers	0	442,693
Expenditures	(1,093,334)	(731,587)
Ending balance	\$ 1,316,009	\$ 1,413,931

To conform with California law, an independent study was prepared to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 3 - REPLACEMENT FUND FOR FUTURE REPLACEMENTS (Continued)

lives of the components based on the study's estimates of current replacements costs, considering amounts previously accumulated in the Replacement Fund. Actual expenditures, however, 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 future needs. If additional funds are needed, however, the Association has the right to increase regular assessments, levy special assessments, subject to member approval, or it may delay major repairs and replacements until funds are available.

NOTE 4 - MANAGEMENT AGREEMENT

The Association employs the services of an outside property management company. The fee is approximately \$15.75 per unit, per month.

NOTE 5 - MONTHLY ACCOUNTING SERVICE

The Association employs the services of an outside accounting firm to record the monthly activities and compile the monthly financial statements. The accounting fee was approximately \$3.70 per unit, per month.

NOTE 6 - INCOME TAXES

The provision for income taxes as June 30, 2009 and 2008, was as follows:

	2009	2008
Federal	\$ 656	\$ 4,105
California	1,474	2,430
	\$ 2,130	\$ 6,535

The Association incurred a net membership loss in 1997. The Association has elected to carry forward the net membership losses for Federal tax purposes in the amount of:

Prior years	\$ 284,906
-------------	------------