

Takemoto & Co.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of CROWN COLONY HOMEOWNERS ASSOCIATION (a California Nonprofit Mutual Benefit Corporation) as of June 30, 2011 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year 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 in United States of America. 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, 2011 and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

As described in Note 4 to the financial statements, the current replacement reserve funding program may not be adequate to meet future replacement needs. Accordingly, the Association has the right to increase assessments, pass special assessments, or delay replacement activity until funds are available.

The supplementary information about future repairs and replacements on page 7 is not a required part of the basic financial statements of CROWN COLONY HOMEOWNERS ASSOCIATION but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Takemoto & Co.

September 06, 2011
Redwood City, California

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CROWN COLONY HOMEOWNERS ASSOCIATION
BALANCE SHEET
June 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 102,197	\$ 9,709	\$ 111,906
Certificate of deposits		1,495,122	1,495,122
Assessment receivable, net of allowance for doubtful accounts of \$126,000	124,071		124,071
Prepaid expense	121,592		121,592
Refundable income taxes		2,100	2,100
Due from Replacement Fund	36,988		36,988
TOTAL ASSETS	<u>\$ 384,848</u>	<u>\$ 1,506,931</u>	<u>\$ 1,891,779</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 97,338	\$ 48,006	\$ 145,344
Assessments paid in advance	40,045		40,045
Deposits	56,194		56,194
Income taxes payables		1,319	1,319
Due to Operating Fund		36,988	36,988
TOTAL LIABILITIES	193,577	86,313	279,890
FUND BALANCES	<u>191,271</u>	<u>1,420,618</u>	<u>1,611,889</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 384,848</u>	<u>\$ 1,506,931</u>	<u>\$ 1,891,779</u>

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
 For the year ended June 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Membership assessments	\$ 2,697,721	\$ 1,051,584	\$ 3,749,305
Vending income	138,624		138,624
Interest revenues	-	11,091	11,091
Other revenues	73,588		73,588
TOTAL REVENUES	2,909,933	1,062,675	3,972,608
<u>EXPENSES</u>			
Utilities	893,578		893,578
Salaries	397,011		397,011
Insurance	280,432		280,432
Security	318,182		318,182
Custodial	148,800		148,800
Landscaping	98,726		98,726
Elevator maintenance	40,830		40,830
Pool and spa	19,291		19,291
Repairs and maintenance	235,701		235,701
Management and accounting	220,872		220,872
Professional services	22,674		22,674
Administrative	58,698		58,698
Recreational expense	3,094		3,094
Bad debt	118,434		118,434
Replacement expenditures		883,237	883,237
Reconstruction expense		368,215	368,215
Income taxes		2,899	2,899
TOTAL EXPENSES	2,856,323	1,254,351	4,110,674
Excess (deficit) of revenues over expenses	53,610	(191,676)	(138,066)
FUND BALANCES, Beginning of year	137,661	1,612,294	1,749,955
FUND BALANCES End of year	\$ 191,271	\$ 1,420,618	\$ 1,611,889

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
For the year ended June 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ 53,610	\$ (191,676)	\$ (138,066)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Bad debt expense	118,434		118,434
(Increase) decrease in:			
Assessments receivable	(133,482)		(133,482)
Prepaid expenses	(4,156)		(4,156)
Refundable income taxes		(774)	(774)
Increase (decrease) in:			
Accounts payable	(7,074)	48,006	40,932
Assessments paid in advance	(18,822)		(18,822)
Income taxes payables		1,221	1,221
Deposits	(1,475)		(1,475)
Net cash provided (used) by operating activities	7,035	(143,223)	(136,188)
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchased certificate of deposits		(901,122)	(901,122)
Redeemed certificate of deposits		-	-
Net cash provided (used) by investing activities	-	(901,122)	(901,122)
CASH FLOW FROM FINANCING ACTIVITIES:			
Interfund borrowings	(36,988)	36,988	-
Net increase (decrease) in cash	(29,953)	(1,007,357)	(1,037,310)
Cash at beginning of year	132,150	1,017,066	1,149,216
Cash at end of year	\$ 102,197	\$ 9,709	\$ 111,906
Supplemental disclosure:			
Income taxes paid			\$ 2,452

See accompanying notes to financial statements.

CROWN COLONY HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 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.

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, 2011, 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.

Common Area - 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.

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, 2011, delinquent dues assessments and late charges amounted to the following:

Assessment receivables	\$ 250,071
Allowance for doubtful accounts	<u>(126,000)</u>
Net assessment receivables	<u>\$ 124,071</u>

Bad debt expense for the years ended June 30, 2011 amounted to \$118,434.

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.

CROWN COLONY HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

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 \$1,495,122 at June 30, 2011.

NOTE 3 - PROPERTY AND EQUIPMENT

As of June 30, 2011, 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	\$ 1,612,294
Net contributions	1,062,675
Replacement expenditures	(1,254,351)
Ending balance	\$ 1,420,618

The Association had a reserve study prepared by the John D. Beatty & Company in 2011, 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 \$1,289,501 at year end. As disclosed in the reserve study, based on the method of calculation in paragraph (4) of subdivision (b) of Section 1365.2.5 of the Davis-Stirling Act, the required amount in the Replacement Fund at year end is \$3,190,522. Actual balance in the Replacement Fund is \$1,420,618 at June 30, 2011. 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 \$20 per unit, per month.

NOTE 6 - INCOME TAXES

The provision for income taxes as June 30, 2011 was as follows:

Federal	\$ 0
California	2,899
	\$ 2,899

CROWN COLONY HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS AND REPLACEMENTS
 June 30, 2011

(See Independent Auditors' Report)

The Association had a reserve study prepared by the John D. Beatty & Company in 2011, 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 2.50% and investment return of 1.50%.

The following table is based on the analysis 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, 2011
Commuter services	1 to 13	\$ 77,446	
Elevator	1 to 21	362,681	
Fencing	1	15,046	
Landscaping	1 to 4	208,224	
Lighting	1 to 47	242,328	
Mechanical systems	1 to 24	51,331	
Paved surfaces	1 to 9	244,460	
Painting	1 to 12	1,017,815	
Recreation center	1 to 12	189,087	
Retaining walls	4 to 9	24,290	
Roofing	2 to 8	2,077,292	
Security systems	1	1,615	
Sewer line/water valves	1 to 17	40,982	
Spa & pools	1 to 9	71,220	
Tennis/Basketball courts	2 to 8	113,117	
Traffic systems	1	9,247	
Other	1 to 37	752,736	
Building exteriors	1 to 39	1,251,853	
Unscheduled	1	47,873	
		<u>\$ 6,798,643</u>	<u>\$ 1,420,618</u>

The reserve study estimates funding requirements for the year ending June 30, 2012, to be membership contributions of \$1,110,467 and after tax investments earnings of \$17,511 and inflated expenditures of \$1,354,609.

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