


CROSSWOODS

HOMEOWNERS ASSOCIATION
The Jewel of Citrus Heights

April 24, 2014

To: All Crosswoods Homeowners

From: The Board of Directors

Subject: Annual Audit Review

The Board of Directors is pleased to present you with Annual Audit of our books and financial records for the years 2012-2013.

Propp, Christensen & Caniglia LLP conducted the review and presented the completed documents to the Board of Directors and the Finance and Insurance Committee. Their comments were informative and no irregularities were found. Enclosed is your copy of the audit which was approved on April 23, 2014 during the Regular Session Board meeting.

If you have any questions in regards to the audit, please give us a call or come into the office to address your concerns.

Sincerely,



Bernida Childers
Board President of Crosswoods Homeowners Association

**CROSSWOODS HOMEOWNERS ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2013 and 2012

CROSSWOODS HOMEOWNERS ASSOCIATION

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members
Crosswoods Homeowners Association

We have reviewed the accompanying balance sheets of Crosswoods Homeowners Association, a California nonprofit mutual benefit corporation, as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in fund balances and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the accompanying statements include estimated amounts for the future replacement and major repairs of common areas. The Association's plans to fund for these expenses are also discussed in Note 4. The final resolution of actual amounts, however, which may be more or less than the amounts provided, as well as timing and funding of payments, are dependent upon future events, the outcome of which are not fully determinable at the present time. We have not applied procedures to determine whether these funds are adequate to meet the future costs, as that is not a requirement of a review engagement.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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 compiled the required supplementary information without audit or review, and, accordingly, we do not express an opinion or provide any assurance on it.

Our reviews were made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information in the Schedule of Operating Fund Revenues and Expenses - Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information (except for the budget information, which was not subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements but was compiled from information that is the representation of management, on which we do not express an opinion or provide any assurance) has been subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Propp Christensen Caniglia LLP

April 21, 2014

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CROSSWOODS HOMEOWNERS ASSOCIATION

BALANCE SHEETS
December 31, 2013 and 2012

	2013			2012		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
<u>Assets</u>						
Cash, including						
interest bearing deposits	\$ 80,650	\$ 200,010	\$ 280,660	\$ 57,035	\$ 300,640	\$ 357,675
Certificates of deposit		642,054	642,054		433,700	433,700
Dues and assessments						
receivable, net	13,294		13,294	17,270		17,270
Prepaid expenses	102,226		102,226	91,087		91,087
Total assets	<u>\$ 196,170</u>	<u>\$ 842,064</u>	<u>\$ 1,038,234</u>	<u>\$ 165,392</u>	<u>\$ 734,340</u>	<u>\$ 899,732</u>
<u>Liabilities</u>						
Accounts payable	\$ 15,701	\$ 5,754	\$ 21,455	\$ 18,177	\$ 10,105	\$ 28,282
Assessments received in advance	35,278		35,278	32,749		32,749
Comcast deferred revenue	22,851		22,851	30,067		30,067
Vacation payable	22,240		22,240	15,733		15,733
Refundable deposits	21,582		21,582	20,882		20,882
Income taxes payable				8,515		8,515
Unfunded replacement reserves	8,818	(8,818)		7,033	(7,033)	
Total liabilities	126,470	(3,064)	123,406	133,156	3,072	136,228
Fund balances	69,700	845,128	914,828	32,236	731,268	763,504
Total liabilities and fund balances	<u>\$ 196,170</u>	<u>\$ 842,064</u>	<u>\$ 1,038,234</u>	<u>\$ 165,392</u>	<u>\$ 734,340</u>	<u>\$ 899,732</u>

See accompanying notes and independent accountants' review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
<u>Revenues</u>						
Member assessments	\$ 1,481,961	\$ 509,655	\$ 1,991,616	\$ 1,481,961	\$ 455,535	\$ 1,937,496
Violation fees				100		100
Comcast incentive revenue	7,216		7,216	6,013		6,013
Insurance assessments	132,594		132,594	112,750		112,750
Interest income	9,294		9,294	3,408		3,408
RV lot rental	16,169		16,169	13,362		13,362
Litigation proceeds		35,000	35,000		35,000	35,000
Transfer fees	10,750		10,750	7,000		7,000
Bad debt recovery	2,700		2,700	4,698		4,698
Late charges and other income	11,566		11,566	10,930		10,930
Total revenues	<u>1,672,250</u>	<u>544,655</u>	<u>2,216,905</u>	<u>1,640,222</u>	<u>490,535</u>	<u>2,130,757</u>
<u>Expenses</u>						
Landscape salaries and maintenance	503,530		503,530	504,978		504,978
Facilities salaries and maintenance	355,395		355,395	424,979		424,979
Administration expense	251,383		251,383	239,535		239,535
RV lot expense	5,141		5,141	6,192		6,192
Utilities	191,724		191,724	176,056		176,056
Cable TV	182,919		182,919	174,463		174,463
Accounting	8,000		8,000	9,000		9,000
Bad debts	7,837		7,837	24,056		24,056
Legal	13,439		13,439	4,617		4,617
Insurance	113,218		113,218	124,567		124,567
Reserve study	2,200		2,200	400		400
Income taxes				8,975		8,975
Repairs and replacements		430,795	430,795		418,462	418,462
Total expenses	<u>1,634,786</u>	<u>430,795</u>	<u>2,065,581</u>	<u>1,697,818</u>	<u>418,462</u>	<u>2,116,280</u>
Excess (deficit) of revenues over expenses	37,464	113,860	151,324	(57,596)	72,073	14,477
Beginning fund balances	<u>32,236</u>	<u>731,268</u>	<u>763,504</u>	<u>89,832</u>	<u>659,195</u>	<u>749,027</u>
Ending fund balances	<u>\$ 69,700</u>	<u>\$ 845,128</u>	<u>\$ 914,828</u>	<u>\$ 32,236</u>	<u>\$ 731,268</u>	<u>\$ 763,504</u>

See accompanying notes and independent accountants' review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:						
Excess (deficit) of revenues over expenses	\$ 37,464	\$ 113,860	\$ 151,324	\$ (57,596)	\$ 72,073	\$ 14,477
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:						
Bad debts	7,837		7,837	24,056		24,056
Increase in:						
Dues and assessments receivable	(3,861)		(3,861)	(17,921)		(17,921)
Prepaid expenses	(11,139)		(11,139)	(7,715)		(7,715)
Increase (decrease) in:						
Accounts payable	(2,476)	(4,351)	(6,827)	13,053	6,068	19,121
Assessments received in advance	2,529		2,529	1,278		1,278
Comcast deferred revenue	(7,216)		(7,216)	30,067		30,067
Vacation payable	6,507		6,507	1,727		1,727
Refundable deposits	700		700	950		950
Income taxes payable	(8,515)		(8,515)	8,515		8,515
Net cash provided by (used in) operating activities	21,830	109,509	131,339	(3,586)	78,141	74,555
Cash flows from investing activities:						
Net change in certificates of deposit		(208,354)	(208,354)		(233,022)	(233,022)
Cash flows from financing activities:						
Change in funding of replacement reserves	1,785	(1,785)		10,070	(10,070)	
Net increase (decrease) in cash	23,615	(100,630)	(77,015)	6,484	(164,951)	(158,467)
Cash, beginning of year	57,035	300,640	357,675	50,551	465,591	516,142
Cash, end of year	\$ 80,650	\$ 200,010	\$ 280,660	\$ 57,035	\$ 300,640	\$ 357,675
Supplemental disclosure:						
Income taxes paid	\$ 8,515		\$ 8,515			

See accompanying notes and independent accountants' review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 1: NATURE OF ORGANIZATION

Crosswoods Homeowners Association was incorporated in December 1971 under the Nonprofit Mutual Benefit Corporation Law of the State of California. The specific and primary purpose for which the organization was formed is to provide for the management, administration, operation, maintenance, protection, preservation and architectural control of the common areas within the development to the extent described in the Declaration of Covenants, Conditions and Restrictions for the Association, enforce the rules and regulations adopted by the Board of Directors from time to time, and discharge such other lawful duties and responsibilities required pursuant to the Corporation's Bylaws and the Declaration of Covenants, Conditions and Restrictions. The organization is supported by monthly assessments to its 451 residential units located in Citrus Heights, California.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are prepared using the accrual basis of accounting.

Use of 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents are classified with cash in the balance sheet.

Capitalization Policy and Depreciation

Common area property donated by the developer is not capitalized on the Association's financial statements.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent.

Dues and Assessments Receivable

At December 31, 2013 and 2012, dues and assessments receivable is net of an allowance for uncollectible accounts of \$10,000 for each of the years then ended. It is the opinion of management and the Board of Directors that the remaining balances will be collected by the Association.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2013 and 2012, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings. Exempt function income, which consists primarily of member assessments, is not taxable.

There were no federal or state income taxes for the year ended December 31, 2013. For the year ended December 31, 2012, federal and state income taxes were \$6,783 and \$2,192, respectively.

After they are filed, the Association's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

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 using fund 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 repairs and replacements.

Interest Income

Interest income earned on operating and replacement funds is allocated to the operating fund.

Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through April 21, 2014, the date that the financial statements were available to be issued.

NOTE 3: CERTIFICATES OF DEPOSIT

The Association's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. At December 31, 2013 and 2012, the Association's certificates of deposit consist of the following:

	<u>2013</u>	<u>2012</u>
GE Capital	\$ 202,500	\$
Compass Bank	189,958	187,613
Compass Bank	42,751	42,211
Safe Credit Union	<u>206,845</u>	<u>203,876</u>
	<u>\$ 642,054</u>	<u>\$ 433,700</u>

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is required by its governing documents to set aside funds for future major repairs and replacements. The annual provision to the fund as determined by the Board of Directors is reported as a provision of \$544,655 and \$490,535 for the years ended December 31, 2013 and 2012, respectively. The Association provides for future major repairs and replacements by allocating a fixed amount of the monthly homeowners' assessment dues to an accrued replacement fund. The adequacy of the accrued replacement fund is dependent upon increasing the balance of this fund to a level sufficient to meet future required expenditures.

The amounts set aside as replacement fund balance represent estimates, determined by the Board of Directors, of future major repair and replacement expenditures. 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, subject to its governing documents, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

Replacement fund balance as of December 31, 2011	\$ 659,195
Provisions for year ended December 31, 2012	490,535
Charges for year ended December 31, 2012	<u>(418,462)</u>
Replacement fund balance as of December 31, 2012	731,268
Provisions for year ended December 31, 2013	544,655
Charges for year ended December 31, 2013	<u>(430,795)</u>
Replacement fund balance as of December 31, 2013	<u>\$ 845,128</u>

Charges to reserves for the years ended December 31, 2013 and 2012 consist of the following:

<u>2013</u>		<u>2012</u>	
Roofs	\$ 98,001	Roofs	\$ 118,683
Pool and spa	1,461	Pool and spa	6,363
Decks	36,375	Decks	30,949
Gutters	4,316	Gutters	14,578
Transportation	14,437	Transportation	11,127
Equipment	12,160	Equipment	11,605
Fencing	29,316	Fencing	22,547
Office equipment	317	Office equipment	6,897
Paving and sealing	1,478	Paving and sealing	29,017
Concrete driveway	62,007	Concrete driveway	3,650
Ramada	12,840	Ramada	10,735
RV lot	519	RV lot	5,743
Underground utilities	60,794	Underground utilities	42,188
Siding and painting	<u>96,774</u>	Siding and painting	<u>104,380</u>
	<u>\$ 430,795</u>		<u>\$ 418,462</u>

An independent consultant updated a reserve study in 2013 to determine the adequacy of funding for replacements. The report of the study is shown on page 8.

NOTE 5: LITIGATION

Phases 1-6 Settlement

Litigation related to Phases 1-6 was settled in a prior year. The settlement agreement requires payments to the Association in the amount of \$35,000 per year for 30 years. As of December 31, 2013 and 2012, the remaining portion of the settlement proceeds to be received by the Association was \$210,000 and \$245,000, respectively.

NOTE 6: COMCAST COMPENSATION AGREEMENT

The Association entered into a five year compensation agreement with Comcast of Sacramento I, LLC, for granting Comcast the right to provide its services to the Association's premises. Comcast will provide broadband communications services to the Association's premises, including multi-channel video, internet and voice services. Under the terms of the agreement, Comcast paid the Association a one-time per unit fee of \$80 for a total of \$36,080 for the year ended December 31, 2012. The Association will defer the income and amortize it over the five years of the agreement. During 2013 and 2012, \$7,216 and \$6,013, respectively, was recognized as income and \$22,851 and \$30,067, was deferred at December 31, 2013 and 2012, respectively.

SUPPLEMENTARY INFORMATION

CROSSWOODS HOMEOWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (COMPILED)

December 31, 2013

An independent consultant updated a study in 2013 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement 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 information is based on the study and presents significant information about the components of common property.

Component	Estimated Current Replacement Costs	Estimated Remaining Life in Years	2013 Fully Funded Balance	Replacement Fund Balance
General				
Paving	\$ 639,337	1 to 23	\$ 290,467	
Concrete	205,936	0 to 5	142,724	
Painting - exterior	43,814	0 to 1	31,314	
Structural repairs	592,576	0 to 24	399,234	
Decking/balconies	960,376	0 to 24	525,013	
Roofing	3,520,278	0 to 29	1,358,918	
Rehab	15,300	4 to 6	10,517	
Gate equipment	9,275	0 to 1	7,957	
Pool	65,453	0 to 8	49,588	
Landscaping	146,599	0 to 18	49,283	
Fencing	88,282	0 to 22	64,880	
Retaining wall	51,119	0 to 17	36,056	
Lighting	48,022	0 to 19	35,653	
Office equipment	15,387	1 to 3	9,148	
Mechanical equipment	8,561	3 to 12	4,447	
Furnishings	1,080	3 to 3	617	
Flooring	2,548	1 to 2	1,973	
Miscellaneous	393,046	0 to 22	259,998	
Reserve study	4,400		4,400	
General total	<u>6,811,389</u>		<u>3,282,187</u>	
RV Lot				
Paving	93,834	2 to 7	66,164	
Gate equipment	14,065	1 to 7	4,741	
Fencing	20,874	6 to 6	16,699	
Lighting	4,704	1 to 1	4,390	
RV Lot total	<u>133,477</u>		<u>91,994</u>	
Association Totals	<u>\$ 6,944,866</u>		<u>\$ 3,374,181</u>	<u>\$ 845,128</u>

See independent accountants' review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES -
BUDGET AND ACTUAL

For the Years Ended December 31, 2013 and 2012

	2013		2012	
	Budget (Compiled)	Actual	Budget (Compiled)	Actual
<u>Revenues</u>				
Member assessments	\$ 1,991,616	\$ 1,991,616	\$ 1,937,496	\$ 1,937,496
Violation fees				100
Comcast incentive revenue		7,216		6,013
Insurance assessments	124,025	132,594	124,025	112,750
Interest income	4,500	9,294	5,127	3,408
RV lot rental	14,400	16,169	14,400	13,362
Litigation proceeds	35,000	35,000	35,000	35,000
Transfer fees		10,750		7,000
Bad debt recovery		2,700		4,698
Late charges and other income	13,225	11,566	10,000	10,930
Total revenues	2,182,766	2,216,905	2,126,048	2,130,757
<u>Expenses</u>				
Landscape salaries and maintenance	515,832	503,530	532,300	504,978
Facilities salaries and maintenance	406,450	355,395	413,111	424,979
Administration expense	227,450	251,383	218,755	239,535
RV lot expense	4,172	5,141	4,172	6,192
Utilities	147,100	191,724	135,900	176,056
Cable TV	183,750	182,919	177,000	174,463
Accounting	9,000	8,000	9,000	9,000
Bad debts	10,000	7,837	10,000	24,056
Legal	6,000	13,439	10,000	4,617
Insurance	123,957	113,218	124,025	124,567
Reserve study	4,400	2,200	500	400
Income taxes			750	8,975
Total expenses	1,638,111	1,634,786	1,635,513	1,697,818
Excess of revenues over expenses from operations	544,655	582,119	490,535	432,939
Replacement provision	544,655	544,655	490,535	490,535
Excess (deficit) of revenues over expenses	\$ -	\$ 37,464	\$ -	\$ (57,596)

See independent accountants' review report.