

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS
Modified Cash Basis**

**For the Year Ended
December 31, 2018**

NAGESH & CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC

TABLE OF CONTENTS

		Page
1	Independent Auditor's Report	1
2	Statements of Assets and Liabilities and Fund Balances – Modified Cash Basis As of December 31, 2018 With Summarized Comparative Information as of December 31, 2017	4
3	Statements of Assessments, Revenues and Expenses, and Changes in Fund Balances – Modified Cash Basis For the Year Ended December 31, 2018 With Summarized Comparative Information for the Year Ended December 31, 2017	5
4	Statements of Cash Flows – Modified Cash Basis For the Year Ended December 31, 2018 With Summarized Comparative Information for the Year Ended December 31, 2017	6
5	Notes to Financial Statements	7
6	Supplemental Schedules	
a	Analysis of Assessments, Revenues and Expenses as a Percentage of Assessments – Modified Cash Basis For the Year Ended December 31, 2018	11
b	Comparative Analysis of Assessments, Revenues and Expenses – Modified Cash Basis For the Years Ended December 31, 2018 and 2017	12
c	Analysis of Capital Improvements and Replacement Expenses – Modified Cash Basis For the Years Ended December 31, 2018 and 2017	13
d	Reserve Study by Board of Directors (Unaudited)	14



11757 Katy Freeway, Suite 580, Houston, TX 77079
Telephone (281) 584-9922, Fax (281) 584-9933



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the
QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC

Report on the Financial Statements

We have audited the accompanying financial statements of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC, which comprise the Statement of Assets and Liabilities and Fund Balances arising from modified cash basis transactions as of December 31, 2018, and the related Statement of Assessments, Revenues, Expenses, and Changes in Fund Balances and the Statement of 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 the modified cash basis of accounting described in Note 3; 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards as generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

As described in Note 3, these financial statements were prepared on modified cash basis transactions, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from modified cash basis transactions of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC, as of December 31, 2018, and the results of its operations and its cash flows arising from modified cash basis transactions for the year then ended in conformity with the basis of accounting described in Note 3.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 11 through 13, as identified in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Required Supplementary Information about Future Major Repairs and Replacements

The modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 14 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Report on Summarized Comparative Information

We have previously audited the QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC's December 31, 2017 financial statements, and our report dated May 21, 2018 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

Nagesh & Carter, PLLC

Houston, Texas

July 3, 2019

NAGESH & CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
STATEMENTS OF ASSETS AND LIABILITIES AND FUND BALANCES
Modified Cash Basis
As of December 31, 2018
With Summarized Comparative Information as of December 31, 2017

			Summarized	
	Operating Fund	Replacement Fund	Totals 31-Dec-18	Totals 31-Dec-17
<u>ASSETS</u>				
Cash and cash equivalents	\$208,972	\$40,390	\$249,362	\$243,665
Transfer fees	450	-	450	1,453
Total assets	\$209,422	\$40,390	\$249,812	\$245,118
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Clubhouse deposit	\$250	-	\$250	\$250
Total liabilities	250	-	250	250
Fund balance	209,172	\$40,390	249,562	244,868
Total liabilities and fund balance	\$209,422	\$40,390	\$249,812	\$245,118

The accompanying notes are an integral part of these financial statements.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES

Modified Cash Basis

For the Year Ended December 31, 2018

With Summarized Comparative Information for the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Totals 31-Dec-18	Summarized Totals 31-Dec-17
Assessments and revenues				
Assessments	\$92,848	-	\$92,848	\$103,359
Special assessments	13,787	-	13,787	559
Voluntary contributions	11,645	-	11,645	13,697
Transfer fees	1,250	-	1,250	1,675
Legal and collection fees, recovery	7,962	-	7,962	7,680
Amenity rental income	9,636	-	9,636	11,088
Interest income	57	\$642	699	267
Other income	3,146	-	3,146	4,785
Total revenues	140,331	642	140,973	143,110
Operating expenses				
Administrative expenses	58,892	-	58,892	58,151
Contract services	33,967	-	33,967	34,854
Utilities	20,082	-	20,082	20,286
Maintenance and repairs	7,609	-	7,609	7,612
Committee expenses	826	-	826	391
Capital improvements and replacements	14,903	-	14,903	13,022
Total expenses	136,279	-	136,279	134,316
Revenue over (under) expenses	4,052	642	4,694	8,794
Fund balance, beginning of the year	208,535	36,333	244,868	236,074
Transfer to replacement fund	(3,415)	3,415	-	-
Fund balance, end of the year	\$209,172	\$40,390	\$249,562	\$244,868

*The accompanying notes are an integral
part of these financial statements.*

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC

STATEMENTS OF CASH FLOWS

Modified Cash Basis

For the Year Ended December 31, 2018

With Summarized Comparative Information for the Year Ended December 31, 2017

	Operating	Replacement	Totals	Summarized
	Fund	Fund	31-Dec-18	Totals
				31-Dec-17
Cash flow from (to) operations				
Assessments and revenues				
over (under) expenses	\$4,052	\$642	\$4,694	\$8,794
Adjustments to reconcile assessments				
and revenues over (under) expenses to				
cash flow from operations				
Transfer fees	1,003	-	1,003	(200)
Interfund transfers	(3,415)	3,415	-	-
Increase (decrease) in cash	1,640	4,057	5,697	8,594
Cash and cash equivalents, beginning of the year	207,332	36,333	243,665	235,071
Cash and cash equivalents, end of the year	\$208,972	\$40,390	\$249,362	\$243,665

The accompanying notes are an integral part of these financial statements.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

1. NATURE OF ORGANIZATION

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on April 24, 1972.

The Association is the governing body for the homeowners of Quail Valley East, a 1049 single-family residential, in Ft Bend County, Texas. The purpose for which this non-profit Association is formed is to maintain and improve the common areas.

2. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 3, 2019, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

The Association employs the fund method of accounting on a modified cash basis. Under the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, owner assessments for the current and prior years as well as other revenues are recognized when received rather than when they are billed to homeowners and expenditures are recognized when paid rather than when incurred.

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is Board-designated to accumulate financial resources for future major repairs and replacements.

OWNERS ASSESSMENTS

Association members are subject to annual assessments and special assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

For the purposes of reporting cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less as cash and cash equivalents in the accompanying Statement of Assets and Liabilities and Fund Balances.

CAPITALIZATION POLICY

In accordance with industry standards, real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements. The Association capitalizes personal property at cost and depreciates it using the straight-line method over its estimated useful life.

ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting 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.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

4. MAJOR REPAIRS AND REPLACEMENT FUNDING PROGRAM

The Association's common property consists of swimming pools, tennis courts, recreation area, exteriors and common area landscape. The Association is responsible for repairs and replacement of the common property. The Association governing documents require funds to be accumulated for future major repairs and replacements. As of December 31, 2018, the Association had \$40,390 accumulated for future major repairs and replacements, and these funds are held in a separate account and are generally not available for operating expenses.

An independent study was conducted in August 2010 to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that will be required in the future. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of replacement costs, considering amounts previously accumulated in the replacements 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, the Association has the authority to increase regular assessments, levy a special assessment, to borrow funds, or delay major repairs and replacements until funds are available. See page 14 for a summary of this study.

5. FEDERAL INCOME TAXES

Homeowners' Associations may be taxed either as Homeowners' Associations under Section 528 of the Internal Revenue Code or regular Corporations as a membership organization under Section 277 of the Internal Revenue Code.

As a regular Corporation, membership income is exempt from taxation if the required elections are made (such as returning to homeowners' excess funds or reducing future assessments). Then the Association is taxed only on its non-membership income (such as interest earnings) at regular federal corporate income tax rates.

As a Homeowners' Association, the Association is taxed on its non-exempt function income (such as interest earnings) in excess of \$100 at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, are not taxable.

The Association elected to file its tax return as a Homeowners' Association for the year ended December 31, 2018.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

5. FEDERAL INCOME TAXES (continued)

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2018, 2017, and 2016 remain open to examination by the Internal Revenue Service; state franchise returns for 2019, 2018 and 2017 are open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

6. SUMMARIZED COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31 of the prior year, from which the summarized information was derived.

7. FAIR VALUE MEASUREMENTS

The carrying amounts reported in the accompanying Statement of Assets and Liabilities and Fund Balances for cash approximate fair values because of the immediate or short-term maturities of these financial instruments.

SUPPLEMENTAL SCHEDULES

NAGESH & CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
AS A PERCENTAGE OF ASSESSMENTS
Modified Cash Basis
For the Year Ended December 31, 2018

	Amount	%age of Assessments
Assessments and revenues		
Assessments	\$92,848	100.00%
Special assessments	13,787	14.85%
Voluntary contributions	11,645	12.54%
Transfer fees	1,250	1.35%
Legal and collection fees, recovery	7,962	8.58%
Amenity rental income	9,636	10.38%
Interest income	699	0.75%
Other income	3,146	3.39%
Total assessments and revenues	140,973	151.83%
Administrative expenses		
Management fees	24,464	26.35%
Legal fees	7,300	7.86%
Professional fees - audit	1,300	1.40%
Administrative expenses	11,378	12.25%
Insurance	14,450	15.56%
Total administrative expenses	58,892	63.43%
Contract services		
Pool contract	26,757	28.82%
Landscape contract	7,210	7.77%
Total contract services	33,967	36.58%
Utilities		
Electricity	13,353	14.38%
Water and sewer	4,434	4.78%
Telephone	2,295	2.47%
Total utilities	20,082	21.63%
Maintenance and repairs	7,609	8.20%
Committee expenses	826	0.89%
Capital improvements and replacements	14,903	16.05%
Total expenses	136,279	146.78%
Net assessments and revenues over expenses	\$4,694	5.06%

The foregoing notes are an integral part of these financial statements.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
Modified Cash Basis
For the Years Ended December 31, 2018 and 2017

	31-Dec-18	31-Dec-17
Assessments and revenues		
Assessments	\$92,848	\$103,359
Special assessments	13,787	559
Voluntary contributions	11,645	13,697
Transfer fees	1,250	1,675
Legal and collection fees, recovery	7,962	7,680
Amenity rental income	9,636	11,088
Interest income	699	267
Other income	3,146	4,785
Total assessments and revenues	140,973	143,110
Administrative expenses		
Management fees	24,464	22,964
Legal fees	7,300	5,545
Professional fees - audit	1,300	1,300
Administrative expenses	11,378	11,178
Insurance	14,450	17,164
Total administrative expenses	58,892	58,151
Contract services		
Pool contract	26,757	27,162
Landscape contract	7,210	7,692
Total contract services	33,967	34,854
Utilities		
Electricity	13,353	11,340
Water and sewer	4,434	5,896
Telephone	2,295	3,050
Total utilities	20,082	20,286
Maintenance and repairs	7,609	7,612
Committee expenses	826	391
Capital improvements and replacements	14,903	13,022
Total expenses	136,279	134,316
Net assessments and revenues over expenses	\$4,694	\$8,794

The foregoing notes are an integral part of these financial statements.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
ANALYSIS OF CAPITAL IMPROVEMENTS AND REPLACEMENT EXPENSES
Modified Cash Basis
For the Years Ended December 31, 2018 and 2017

Capital Reserve Component	31-Dec-18	31-Dec-17
Clubhouse maintenance	\$5,828	\$11,213
Swimming pool repairs	9,075	1,409
Tennis courts	-	400
Total expenses	\$14,903	\$13,022

*The foregoing notes are an integral
part of these financial statements.*

NAGESH & CARTER, PLLC

**Quail Valley East Community Association, Inc
Board of Directors - Reserve Study
August 2010**

Projected Yr of Need>>	2011	2012	2013	2014	2015	2016	2017	2018 TOTALS		
Pool 1								70,000	70,000	
Pool 2								70,000	70,000	
Average Year's "Capital Improvement" Needs (defer 2 yrs if necessary)	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 8,995	\$ 80,954
Items not in 2004 Study (Irrigation,espland& lighting, tennis court fencing, locks, AC)	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 44,000

TOTALS

Pools (estimated ; in study)
Other than Pools (estimated; in study)
All other items not in study (9 yrs est total)

\$ 140,000
\$ 80,954
\$ 49,500

GRAND TOTAL "CAPITAL IMPROVEMENT" NEEDS EVERY 8 -10 YEARS
AVERAGE "CAPITAL IMPRVMT" PER YEAR (APPROX BASED ON 9 YR SCHED.)
NON CAPITAL ITEMS (BEAUTIFICATION, LANDSCAPING, CLEANING, MAINTCE)
ADJUST FOR INFLATION EVERY 2 YEARS (CPI INDEX OR BASED ON LOCAL
CONDITIONS SUCH AS UTILITY RATES AND CONTRACTOR INCREASES;
WOULD RECOMMEND LATTER TAKING INTO ACCT POOL UPGRADES >\$70K)

\$ 270,454
\$ 30,050
\$ 9,000
xx%

\$ 37 PER YEAR per household + \$96 =
\$ 133 PLUS INFLATION
\$ 140.00 <MINIMUM STARTING AMOUNT REQUIRED to build
funds since amenities already aging