

QUAIL VALLEY EAST
COMMUNITY ASSOCIATION, INC

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

For The Year Ended
December 31, 2017

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 December 31, 2017 and 2016	3
3	Statements of Assessments, Revenues and Expenses, and Changes in Fund Balances – Modified Cash Basis Years Ended December 31, 2017 and 2016	4
4	Statements of Cash Flows – Modified Cash Basis Years Ended December 31, 2017 and 2016	5
5	Notes to Financial Statements	6
6	Supplemental Schedules	
a	Analysis of Assessments, Revenues and Expenses per Average Homeowner and as a Percentage of Total Assessments – Modified Cash Basis Year Ended December 31, 2017	10
b	Comparison of Actual to Budgeted Assessments, Revenues and Expenses – Modified Cash Basis Year Ended December 31, 2017	11
c	Comparative Analysis of Assessments, Revenues and Expenses – Modified Cash Basis Years Ended December 31, 2017 to 2015	12
d	Analysis of Capital Improvements and Replacement Expenses – Modified Cash Basis Years Ended December 31, 2017 to 2015	13
e	Summary of Board of Directors – Reserve Study	14



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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 Statements of assets and Liabilities and Fund Balances arising from the modified cash basis transactions as of December 31, 2017 and 2016 and the related Statements of revenues collected and expenses paid, and Changes in Fund Balances as well as the Statements of Cash Flows arising from the modified cash basis transactions for the years 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 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from the modified cash basis transactions of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC, as of December 31, 2017 and 2016 and its revenues collected and expenses paid during the years then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter

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 10 through 13 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.

Disclaimer of Opinion on Required Supplementary Information

The modified cash basis of accounting described in Note 2 require that the information on future major repairs and replacements on page 14 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.

Nagesh & Carter, PLLC

Nagesh & Carter, PLLC
Houston, Texas
May 21, 2018

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
STATEMENTS OF ASSETS AND LIABILITIES AND FUND BALANCES
Modified Cash Basis
As of December 31, 2017 and 2016

	Operating Fund	Replacement Fund	Totals 31-Dec-17	Memo Totals 31-Dec-16
<u>ASSETS</u>				
Cash and cash equivalents	\$207,332	\$36,333	\$243,665	\$235,071
Accounts receivable	1,453	-	1,453	1,253
Total assets	\$208,785	\$36,333	\$245,118	\$236,324
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Clubhouse deposit	\$250	-	\$250	\$250
Total liabilities	250	-	250	250
Fund balance	208,535	\$36,333	244,868	236,074
Total liabilities and fund balance	\$208,785	\$36,333	\$245,118	\$236,324

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 Years Ended December 31, 2017 and 2016

	Operating Fund	Replacement Fund	Totals 31-Dec-17	Memo Totals 31-Dec-16
Assessments and revenues				
Maintenance fees	\$103,359	-	\$103,359	\$99,315
Special assessments	559	-	559	2,318
Voluntary contributions	13,697	-	13,697	11,400
Late fees, penalties and other assessments	197	-	197	2,132
Legal and collection fees, recovery	7,680	-	7,680	9,471
Amenity rental income	11,088	-	11,088	9,019
Interest income	89	\$178	267	169
Other income	6,263	-	6,263	3,770
Transfer to replacement fund	(3,856)	3,856	-	-
Total revenues	139,076	4,034	143,110	137,594
Operating expenses				
Administrative expenses	58,151	-	58,151	57,545
Contract services	34,854	-	34,854	35,640
Utilities	20,286	-	20,286	17,924
Maintenance and repairs	7,612	-	7,612	3,497
Committee expenses	391	-	391	760
Capital improvements and replacements	13,022	-	13,022	21,131
Total expenses	134,316	-	134,316	136,497
Revenue over (under) expenses	4,760	4,034	8,794	1,097
Fund balance, beginning of the year	203,775	32,299	236,074	234,977
Fund balance, end of the year	\$208,535	\$36,333	\$244,868	\$236,074
	-	-	-	-

***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 Years Ended December 31, 2017 and 2016

	Operating	Replacement	Totals	Memo
	Fund	Fund	31-Dec-17	Totals
				31-Dec-16
Cash flow from (to) operations				
Assessments and revenues				
over (under) expenses	\$4,760	\$4,034	\$8,794	\$1,097
Adjustments to reconcile assessments				
and revenues over (under) expenses to				
cash flow from operations				
Accounts receivable	(200)	-	(200)	171
Increase (decrease) in cash	4,560	4,034	8,594	1,268
Cash and cash equivalents, beginning of the year	202,772	32,299	235,071	233,803
Cash and cash equivalents, end of the year	\$207,332	\$36,333	\$243,665	\$235,071
	-	-	-	-

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

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.

The affairs of the Association are managed and controlled by its Board of Directors. These Directors are empowered to exercise, on behalf of the Association, all of the powers, duties, and authorities vested or delegated to it by virtue of the Association's By-Laws, Articles of Incorporation, Declarations and/or Covenants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

The accounting records are maintained and these statements are presented, on the modified cash basis method of accounting. Under this method only income collected, costs and expenses actually paid, and assets, liabilities and equity arising as a result of cash transactions are recognized.

Use of cash basis method means that accrued income and expenses and the related assets and liabilities are not reflected. Therefore, the financial statements are not intended to present the financial position and results of operations in conformity with generally accepted accounting principles.

The Association is a not-for-profit organization, which employs the fund method of accounting on a cash basis in order to properly account for restrictions on the expenditures resulting from actions of the Board or the homeowners. These financial statements segregate the accounting for such funds into operating and capital reserve or replacement funds.

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association. The disbursements from the operating fund are generally at the discretion of the Board and property managers and are used for operating expenses.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. The disbursements from the capital reserve or replacement fund generally may only be utilized in accordance with the purposes established.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OWNERS ASSESSMENTS

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The assessments or maintenance fees assessed are based on an annual budget as adopted by the Board pursuant to the governing documents of the Association.

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 balance sheet. The Association has interest bearing deposits in financial institutions that maintained FDIC insurance in full for all accounts and limited coverage up to \$250,000 per financial institution. The portion of deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Association. At times, balances held at each financial institution may exceed \$250,000 which represents a credit risk to the Association.

CAPITALIZATION POLICY

The replacements and improvements to the real property and common areas are expensed in the year incurred.

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.

DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 21, 2018, the date that the financial statements were available to be issued.

MEMO CAPTIONS

The "Memo" captions, when used on the columns of the combined statements, means totals are presented as an overview and for informational purposes only.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

3. ACCOUNTS RECEIVABLE

The Association's accounts receivable represents payments due from delinquent homeowners. The balances are from a few homeowners, some of whom are seriously delinquent. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these homeowners. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the homeowner's association such as mortgage lien holders, delinquent property tax liens, and/or bankruptcies by the homeowners.

When the assessments are deemed not collectible, as result of foreclosure, bankruptcy, etc., the Association writes off the account as bad debts. Generally accepted accounting principles require that the management estimate the accounts that may have to be written off and provide an allowance for doubtful accounts and include that as bad debts expense each year.

As of December 31, 2017, and 2016 the Association had assessments receivable of \$13,694 and \$13,895, respectively. It is the opinion of the management that the Association will prevail against the homeowners whose assessments are delinquent and that the net uncollectible assessments from any one year is insignificant, and, accordingly no allowance for uncollectible accounts is deemed necessary.

4. REPLACEMENT FUNDING PROGRAM

The Association's common property consists of swimming pools, a tennis court, recreation area, exteriors and common area landscape. The Association is responsible for repairs and replacement of the common property, and the support provided by owners should include amounts to provide for funding of common area expenses. The support provided by the owners for these future expenses are segregated and accounted for as capital reserve or replacement funds, and are generally not used for normal operating expenses.

An independent study to determine the funding program for the replacement of the Association's common areas was published in August 2010. For more analysis please refer to the supplemental page 14 (as copied from the Fisher-Smoucha Consulting report) within this document.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

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. The Corporate tax rates are graduated based on income levels from a minimum of 15% to a maximum rate of 39%.

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 years ended December 31, 2017 and 2016.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2017, 2016, and 2015 remain open to examination by the Internal Revenue Service; state franchise returns for 2018, 2017 and 2016 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.

SUPPLEMENTAL SCHEDULES

NAGESH & CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
PER AVERAGE HOMEOWNER AND AS PERCENTAGE OF TOTAL ASSESSMENTS
Modified Cash Basis
For The Year Ended December 31, 2017

	Amount	Average Per Year	%age of Fees
Assessments and revenues			
Maintenance fees	\$103,359	\$98.53	72.22%
Special assessments	559	0.53	0.39%
Voluntary contributions	13,697	13.06	9.57%
Late fees, penalties and other assessments	197	0.19	0.14%
Legal and collection fees, recovery	7,680	7.32	5.37%
Amenity rental income	11,088	10.57	7.75%
Interest income	267	0.25	0.19%
Other income	6,263	5.97	4.38%
Total assessments and revenues	143,110	136.43	100.00%
Administrative expenses			
Management fees	22,964	21.89	16.05%
Legal fees	5,545	5.29	3.87%
Professional fees - audit	1,300	1.24	0.91%
Administrative expenses	11,178	10.66	7.81%
Insurance	17,164	16.36	11.99%
Total administrative expenses	58,151	55.43	40.63%
Contract services			
Pool contract	27,162	25.89	18.98%
Landscape contract	7,692	7.33	5.37%
Total contract services	34,854	33.23	24.35%
Utilities			
Electricity	11,340	10.81	7.92%
Water and sewer	5,896	5.62	4.12%
Telephone	3,050	2.91	2.13%
Total utilities	20,286	8.53	14.18%
Maintenance and repairs	7,612	7.26	5.32%
Committee expenses	391	0.37	0.27%
Capital improvements and replacements	13,022	12.41	9.10%
Total expenses	134,316	128.04	93.86%
Net assessments and revenues over expenses	\$8,794	\$8.38	6.14%

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC
COMPARISON OF ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
Modified Cash Basis
For The Year Ended December 31, 2017

	Actual	Budget	Variance F (UF)
Assessments and revenues			
Maintenance fees	\$103,359	\$93,434	\$9,925
Special assessments	559	575	(16)
Voluntary contributions	13,697	5,350	8,347
Late fees, penalties and other assessments	197	-	197
Legal and collection fees, recovery	7,680	4,000	3,680
Amenity rental income	11,088	5,500	5,588
Interest income	267	120	147
Other income	6,263	4,355	1,908
Total assessments and revenues	143,110	113,334	29,776
Administrative expenses			
Management fees	22,964	22,464	(500)
Legal fees	5,545	7,000	1,455
Professional fees - audit	1,300	1,400	100
Administrative expenses	11,178	9,211	(1,967)
Insurance	17,164	15,500	(1,664)
Total administrative expenses	58,151	55,575	(2,576)
Contract services			
Pool contract	27,162	26,398	(764)
Landscape contract	7,692	10,500	2,808
Total contract services	34,854	36,898	2,044
Utilities			
Electricity	11,340	10,000	(1,340)
Water and sewer	5,896	4,500	(1,396)
Telephone	3,050	2,800	(250)
Total utilities	20,286	17,300	(2,986)
Maintenance and repairs	7,612	6,450	(1,162)
Committee expenses	391	1,070	679
Capital improvements and replacements	13,022	5,000	(8,022)
Total expenses	134,316	122,293	(12,023)
Net assessments and revenues over expenses	\$8,794	(\$8,959)	\$17,753

*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, 2017 to 2015

	31-Dec-17	Memo 31-Dec-16	Memo 31-Dec-15
Assessments and revenues			
Maintenance fees	\$103,359	\$99,315	\$102,966
Special assessments	559	2,318	52,906
Voluntary contributions	13,697	11,400	11,182
Late fees, penalties and other assessments	197	2,132	1,757
Legal and collection fees, recovery	7,680	9,471	10,101
Amenity rental income	11,088	9,019	9,889
Interest income	267	169	257
Other income	6,263	3,770	2,782
Total assessments and revenues	143,110	137,594	191,840
Administrative expenses			
Management fees	22,964	22,464	22,464
Legal fees	5,545	6,500	6,918
Professional fees - audit	1,300	1,250	1,250
Administrative expenses	11,178	11,620	10,910
Insurance	17,164	15,711	16,974
Total administrative expenses	58,151	57,545	58,516
Contract services			
Pool contract	27,162	26,840	26,912
Landscape contract	7,692	8,800	8,037
Total contract services	34,854	35,640	34,949
Utilities			
Electricity	11,340	9,652	10,875
Water and sewer	5,896	5,111	7,457
Telephone	3,050	3,161	2,917
Total utilities	20,286	17,924	21,249
Maintenance and repairs	7,612	3,497	2,232
Committee expenses	391	760	1,088
Capital improvements and replacements	13,022	21,131	53,805
Total expenses	134,316	136,497	171,839
Net assessments and revenues over expenses	\$8,794	\$1,097	\$20,001

*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, 2017 to 2015

Capital Reserve Component	31-Dec-17	Memo 31-Dec-16	Memo 31-Dec-15
Clubhouse	\$11,213	\$7,936	\$10,318
Irrigation	-	250	806
Landscape	-	1,893	6,225
Pool	1,409	9,384	27,512
Tennis courts	400	-	8,944
Other repairs	-	1,668	-
Totals for the year	\$13,022	\$21,131	\$53,805

*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