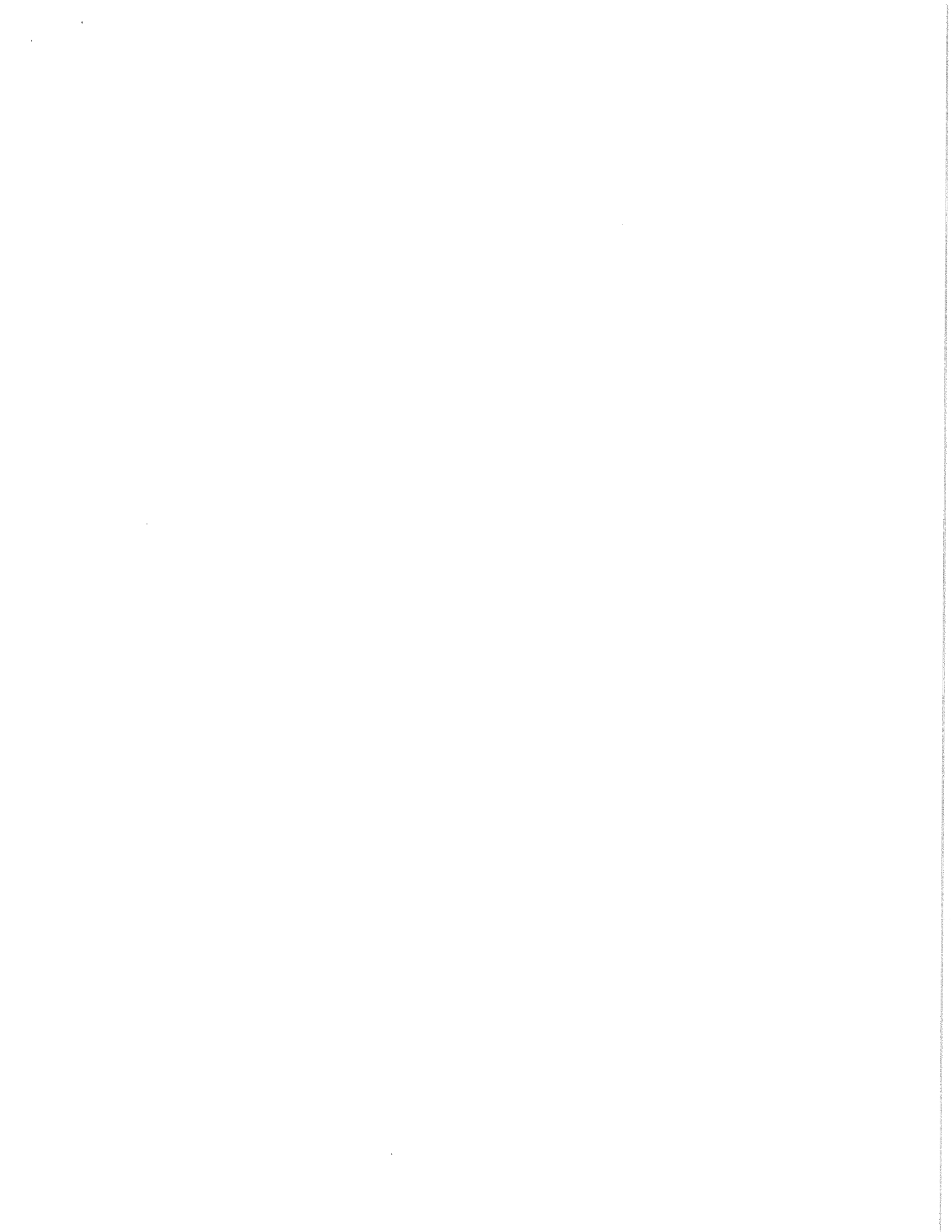


**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
**REVIEWED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JANUARY 31, 2018**

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# **BECK and COMPANY, CPAs**

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## **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors  
QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION

We have reviewed the accompanying financial statements of QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION, which comprise the balance sheet as of January 31, 2018, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. 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's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion on the Financial Statements**

Based on our review, 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.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on the last page 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, which 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 not audited, reviewed or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

## **BECK and COMPANY, CPAs**

Carlsbad, California  
April 24, 2018

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION  
BALANCE SHEET  
JANUARY 31, 2018**

|  | <b>2018</b>               |                             |                        |
|--|---------------------------|-----------------------------|------------------------|
|  | <b>Operating<br/>Fund</b> | <b>Replacement<br/>Fund</b> | <b>Total<br/>Funds</b> |
| <b>ASSETS:</b>                                 |                           |                             |                        |
| Cash including interest bearing deposits       | \$ 495,165                | \$ 922,859                  | \$ 1,418,024           |
| Investments                                    |                           | 800,000                     | 800,000                |
| Assessments Receivable                         | 180,795                   |                             | 180,795                |
| Allowance for Doubtful Accounts                | (150,339)                 |                             | (150,339)              |
| Accrued Interest Receivable                    |                           | 2,315                       | 2,315                  |
| Prepaid Income Taxes                           | 99                        |                             | 99                     |
| Prepaid Insurance                              | 6,152                     |                             | 6,152                  |
| <b>TOTAL ASSETS</b>                            | <b>\$ 531,872</b>         | <b>\$ 1,725,174</b>         | <b>\$ 2,257,046</b>    |
| <b>LIABILITIES:</b>                            |                           |                             |                        |
| Accounts Payable                               | \$ 65,862                 | \$ 83,542                   | \$ 149,404             |
| Income Taxes Payable                           | 3,233                     |                             | 3,233                  |
| Prepaid Assessments                            | 37,312                    |                             | 37,312                 |
| <b>TOTAL LIABILITIES</b>                       | <b>106,407</b>            | <b>83,542</b>               | <b>189,949</b>         |
| <b>FUND BALANCES</b>                           | <b>425,465</b>            | <b>1,641,632</b>            | <b>2,067,097</b>       |
| <b>TOTAL LIABILITIES AND<br/>FUND BALANCES</b> | <b>\$ 531,872</b>         | <b>\$ 1,725,174</b>         | <b>\$ 2,257,046</b>    |

See accompanying notes to financial statements  
(2)

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JANUARY 31, 2018**

|  | <b>2018</b>               |                             |                        |
|--|---------------------------|-----------------------------|------------------------|
|  | <b>Operating<br/>Fund</b> | <b>Replacement<br/>Fund</b> | <b>Total<br/>Funds</b> |
| <b>REVENUES:</b>   |                           |                             |                        |
| Member Assessments   | \$ 1,048,500              | \$ 453,996                  | \$ 1,502,496           |
| Interest Income  |                           | 14,259                      | 14,259                 |
| Insurance Claims   | 7,998                     |                             | 7,998                  |
| Recovery of Bad Debt Provision                                 | 59,043                    |                             | 59,043                 |
| Other Income   | 12,319                    |                             | 12,319                 |
| <b>TOTAL REVENUES</b>  | <b>1,127,860</b>          | <b>468,255</b>              | <b>1,596,115</b>       |
| <b>EXPENSES:</b>   |                           |                             |                        |
| <b>Maintenance</b>   |                           |                             |                        |
| Landscaping  | 116,088                   |                             | 116,088                |
| Tree Trimming  | 20,517                    |                             | 20,517                 |
| Common Area R & M  | 145,824                   |                             | 145,824                |
| Pool Maintenance   | 14,124                    |                             | 14,124                 |
| Pest Control   | 19,114                    |                             | 19,114                 |
| Janitorial   | 7,265                     |                             | 7,265                  |
| Monitoring   | 9,615                     |                             | 9,615                  |
| <b>Utilities</b>   |                           |                             |                        |
| Electricity & Gas  | 30,415                    |                             | 30,415                 |
| Water & Sewer  | 380,874                   |                             | 380,874                |
| Rubbish Removal  | 99,038                    |                             | 99,038                 |
| Telephone  | 3,959                     |                             | 3,959                  |
| Other City Charges   | 18,973                    |                             | 18,973                 |
| <b>Administrative</b>  |                           |                             |                        |
| Review/Tax Prep/Rsv Study                                      | 1,550                     |                             | 1,550                  |
| Insurance  | 69,627                    |                             | 69,627                 |
| Legal & Consulting   | 22,948                    |                             | 22,948                 |
| Management Fee   | 62,424                    |                             | 62,424                 |
| Office & Administrative  | 26,962                    |                             | 26,962                 |
| Taxes, Licenses & Permits                                      | 5,028                     |                             | 5,028                  |
| <b>Major Repairs and Replacements</b>                          |                           | <b>882,930</b>              | <b>882,930</b>         |
| <b>TOTAL EXPENSES</b>  | <b>1,054,344</b>          | <b>882,930</b>              | <b>1,937,274</b>       |
| Excess of Revenues over Expenses or<br>(Expenses over Revenue) | 73,516                    | (414,675)                   | (341,159)              |
| Beginning Fund Balances  | 387,853                   | 2,020,403                   | 2,408,256              |
| Net Interfund Transfers  | (35,904)                  | 35,904                      | (0)                    |
| <b>ENDING FUND BALANCES</b>                                    | <b>\$ 425,465</b>         | <b>\$ 1,641,632</b>         | <b>\$ 2,067,097</b>    |

See accompanying notes to financial statements

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED JANUARY 31, 2018**

|   | 2018              |                     |                     |
|---|-------------------|---------------------|---------------------|
|   | Operating<br>Fund | Replacement<br>Fund | Total<br>Funds      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                     |                     |
| Excess (deficiency) of revenues over expenses   | \$ 73,516         | \$ (414,675)        | \$ (341,159)        |
| Adjustments to reconcile excess (deficiency) of<br>revenues over expenses to net cash provided (used)<br>by operating activities: |                   |                     |                     |
| (Increase) decrease in:   |                   |                     |                     |
| Assessments Receivable  | 68,364            |                     | 68,364              |
| Allowance for Doubtful Accounts   | (93,661)          |                     | (93,661)            |
| Accrued Interest Receivable   |                   | 1,563               | 1,563               |
| Prepaid Insurance   | 2,257             |                     | 2,257               |
| Increase (decrease) in:   |                   |                     |                     |
| Accounts Payable  | (6,922)           | 50,100              | 43,178              |
| Prepaid Assessments   | 11,909            |                     | 11,909              |
| Income Taxes Payable  | 2,063             |                     | 2,063               |
| <b>NET CASH PROVIDED (USED) BY<br/>OPERATING ACTIVITIES</b>   | <b>57,427</b>     | <b>(363,012)</b>    | <b>(305,585)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                     |                     |
| Changes in CD's   |                   | 400,000             | 400,000             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                   |                     |                     |
| Interfund transfers   | (35,904)          | 35,904              | -                   |
| Sub Total   | 21,523            | 72,892              | 94,415              |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>103,056</b>    | <b>(8,641)</b>      | <b>94,415</b>       |
| <b>CASH AT BEGINNING OF YEAR</b>  | <b>392,109</b>    | <b>931,500</b>      | <b>1,323,609</b>    |
| <b>CASH AT END OF YEAR</b>  | <b>\$ 495,165</b> | <b>\$ 922,859</b>   | <b>\$ 1,418,024</b> |
| <b>SUPPLEMENTAL DISCLOSURE</b>  |                   |                     |                     |
| Income taxes paid   | \$ 6,399          | \$ -                | \$ 6,399            |

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2018

**NOTE 1 – ORGANIZATION**

QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION was incorporated on February 15, 1983 as a nonprofit mutual benefit corporation in the State of California. Its primary purpose is to act as “management body” for the preservation, maintenance and architectural control of the common areas within the project. There are 376 residential units located in Oceanside, California.

**NOTE 2 – DATE OF MANAGEMENT’S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of this report, which is the date that the financial statements were available to be issued.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY**

Fund Accounting

The Association’s accounting records are maintained on a modified accrual basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

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. The annual budget and assessments of owners are determined by the Board of Directors who are elected by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Association’s policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. The Association uses a guideline of 100% provision for Allowance for Doubtful Accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

Property and Equipment

Real property and common areas acquired from the developer and related improvements are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JANUARY 31, 2018**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)**

Cash/Cash Equivalents/Investments

Per the provisions of U.S. generally accepted accounting principles in regard to the "Statement of Cash Flows," cash equivalents consist primarily of certificates of deposits and other securities with original maturities of 90 days or less. Securities with original maturities over 90 days are generally classified as short-term investments. The Association considers all its CD/investment accounts to be short-term investments.

The Association's investments are classified as "held-to-maturity," therefore the investments are carried on the financial statements at amortized cost, and any gain or loss will be recorded at time of sale.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the report date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

**NOTE 4 – FAIR VALUE MEASUREMENTS**

Fair values are measured along the following criteria:

- Level 1 input: Quoted prices in active markets for identical assets
- Level 2 input: Significant observable inputs
- Level 3 input: Significant unobservable inputs

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Investment in Certificate of Deposit: The fair value of certificates of deposit is determined based on quoted market prices.

Fair values of the Association's financial instruments at January 31, 2018 are as follows, and all values are classified as Level 1 inputs:

|                         | Carrying<br>Amount | Fair<br>Value |
|-------------------------|--------------------|---------------|
| Certificates of Deposit | \$ 800,000         | \$ 795,886    |



**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
JANUARY 31, 2018

**NOTE 5 – INCOME TAXES**

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 and California Revenue and Taxation Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest. The applicable tax rate is 30% for the federal government and 8.84% for the Franchise Tax Board. Generally, the Association treats income tax expenses as an operating expense regardless of the fund through which the related taxable income was recognized.

The Association's income tax returns are subject to examination by the Internal Revenue Service generally for three years after they are filed, and by the Franchise Tax Board for four years after they are filed. In evaluating the Association's tax positions and accruals, the Association believes that the estimates are appropriate based on the current facts and circumstances.

**NOTE 6– FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate interest-bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in December of 2017 to estimate the remaining useful lives and the replacement costs of the common property components.

The Association should fund such major repairs and replacements over the estimated useful 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 materially from the estimates. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds turn out to be necessary, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$799,388 for major repairs and replacements as follows:

|                      |                   |
|----------------------|-------------------|
| Fence Replacement    | \$ 4,622          |
| Roof                 | 21,915            |
| Landscape            | 18,919            |
| Structures/Buildings | 743,915           |
| Contingency          | 10,017            |
|                      | <u>\$ 799,388</u> |

**NOTE 7 – CONCENTRATION OF CREDIT RISK**

The Federal Deposit Insurance Coverage (FDIC) standard amount is \$250,000 per depositor, per insured bank. As of January 31, 2018, the Association had deposits with US Bank that exceeded the FDIC coverage limit by approximately \$730,595. The Management Company and the Board of Directors are monitoring the cash balances closely.

**QUAIL RIDGE CONDOMINIUM HOMEOWNERS ASSOCIATION**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 JANUARY 31, 2018  
 (COMPILED)

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the common area replacement components during December of 2017.

The estimates were based on inspection by the independent consultant, and the information provided by the Board of Directors, property manager and others familiar with the development. Replacement costs were based on the estimated costs to repair or replace the common area replacement components at the time 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.

| Category                    | Estimated Remaining Useful Lives(Years) | Estimated Current Replacement Costs | Annual Funding Requirement | Fully Funded Reserve Requirement |
|-----------------------------|---|-------------------------------------|----------------------------|----------------------------------|
| Asphalt & Concrete Surfaces | 0-12                                    | \$ 694,000                          | \$ 55,259                  | \$ 532,928                       |
| Clubhouse                   | 0-11                                    | 60,032                              | 3,629                      | 33,315                           |
| Fencing, Gates & Rails      | 2-16                                    | 111,020                             | 14,938                     | 51,624                           |
| Landscaping                 | 0-1                                     | 51,250                              | 5,766                      | 48,688                           |
| Lighting                    | 1                                       | 46,000                              | 4,600                      | 41,400                           |
| Miscellaneous               | 0-24                                    | 455,554                             | 57,910                     | 208,543                          |
| Painting & Repairs          | 0-8                                     | 636,569                             | 101,468                    | 307,948                          |
| Pool & Spa-Lower            | 0-11                                    | 52,027                              | 4,597                      | 46,185                           |
| Pool & Spa-Upper            | 0-8                                     | 51,007                              | 4,625                      | 34,666                           |
| Roofing                     | 2-13                                    | 1,801,580                           | 68,159                     | 988,902                          |
| <b>Totals</b>               |   | <b>\$ 3,959,039</b>                 | <b>\$ 320,951</b>          | <b>\$ 2,294,199</b>              |

As of January 31, 2018, the annual budgeted allocation to replacements is \$453,996 and the cash/cash equivalent/investments in replacement funds as of January 31, 2018 total \$1,722,859.

California Civil Code requires a physical inspection every three years. The reserve study must be reviewed annually and updated as necessary. The report must be available to all owners. Although the code does not require adequate funding, disclosure must be made.