

**QUAIL VALLEY EAST
COMMUNITY ASSOCIATION, INC.**

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

**For the Year Ended
December 31, 2020**

NAGESH AND CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.

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INDEPENDENT AUDITORS' 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 the modified cash basis transactions as of December 31, 2020, and the related Statement of Assessments, Revenues and Expenses, and Changes in Fund Balances as well as the Statement of Cash Flows arising from the modified cash basis transactions 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 determining that the modified cash basis of accounting is an acceptable basis for the preparation of the 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.

Auditors' 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 auditors' 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 auditors consider 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, liabilities, and fund balances of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC. (the "Association"), as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with the modified cash basis of accounting described in Note 3.

Basis of Accounting

We draw attention to Note 3 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 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the information on future major repairs and replacements on common property, that modified cash basis accounting which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America require to be presented to supplement the basic financial statements such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Report on Summarized Comparative Information

We have previously audited the QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.'s December 31, 2019, financial statements, and our report dated May 4, 2020, 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, 2019, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

Nagesh & Carter, PLLC

Houston, Texas

May 27, 2021

NAGESH AND CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
STATEMENTS OF ASSETS AND LIABILITIES AND FUND BALANCES

Prepared on Modified Cash Basis

As of December 31, 2020

With Summarized Comparative Information as of December 31, 2019

				Summarized
	Operating Fund	Replacement Fund	Totals 31-Dec-20	Totals 31-Dec-19
<u>ASSETS</u>				
Cash and cash equivalents	\$248,131	\$41,801	\$289,932	\$284,410
Transfer fees	725	-	725	225
Total assets	\$248,856	\$41,801	\$290,657	\$284,635
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Clubhouse deposit	\$250	-	\$250	\$250
Total liabilities	250	-	250	250
Fund balance	248,606	\$41,801	290,407	284,385
Total liabilities and fund balance	\$248,856	\$41,801	\$290,657	\$284,635
	-	-	-	-

*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

Prepared on Modified Cash Basis

For the Year Ended December 31, 2020

With Summarized Comparative Information for the Year Ended December 31, 2019

				Summarized
	Operating Fund	Replacement Fund	Totals 31-Dec-20	Totals 31-Dec-19
Assessments and revenues				
Assessments	\$106,666	-	\$106,666	\$106,797
Special assessments	51,991	-	51,991	62,367
Voluntary contributions	11,863	-	11,863	9,771
Transfer fees	1,475	-	1,475	1,325
Legal and collection fees, recovery	9,239	-	9,239	9,528
Amenity rental income	6,416	-	6,416	9,158
Interest income	78	\$366	444	1,078
Other income	1,946	35	1,981	3,648
Total revenues	189,674	401	190,075	203,672
Expenses				
Administrative expenses	56,722	-	56,722	59,635
Contract services	26,325	-	26,325	34,352
Utilities	16,645	-	16,645	17,770
Maintenance and repairs	5,645	-	5,645	7,550
Committee expenses	275	-	275	564
Capital improvements and replacements	78,441	-	78,441	48,978
Total expenses	184,053	-	184,053	168,849
Revenue over (under) expenses	5,621	401	6,022	34,823
Fund balance, beginning of the year	242,985	41,400	284,385	249,562
Fund balance, end of the year	\$248,606	\$41,801	\$290,407	\$284,385
	-	-	-	-

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

Prepared on Modified Cash Basis

For the Year Ended December 31, 2020

With Summarized Comparative Information for the Year Ended December 31, 2019

	Operating	Replacement	Totals	Summarized
	Fund	Fund	31-Dec-20	Totals
				31-Dec-19
Cash flow from (to) operations				
Assessments and revenues				
over (under) expenses	\$5,621	\$401	\$6,022	\$34,823
Adjustments to reconcile assessments				
and revenues over (under) expenses to				
cash flow from operations				
Transfer fees	(500)	-	(500)	225
Total cash flow from (to) operations	5,121	401	5,522	35,048
Increase (decrease) in cash	5,121	401	5,522	35,048
Cash and cash equivalents, beginning of the year	243,010	41,400	284,410	249,362
Cash and cash equivalents, end of the year	\$248,131	\$41,801	\$289,932	\$284,410
	-	-	-	-

*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, 2020

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 organized for the purposes of providing for maintenance, preservation of and architectural control of the residences and common properties within the Quail Valley East subdivision, a community of 1049 single-family residences in Fort Bend County, Texas.

2. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 27, 2021, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

The Association is a not-for-profit organization, which 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.

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.

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.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEMBER ASSESSMENTS

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

Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. Any excess assessments at year end are retained by the Association for use in the succeeding year or transferred to the replacement fund at the discretion of the Board.

The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. The Association did not have any assessments for the replacement fund during the years ended December 31, 2020, and 2019.

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, 2020

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future, nor has the Board developed a plan to fund those needs.

Although the Association governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements, the Board, in its discretion, has chosen to establish a fund for this purpose. As of December 31, 2020, and 2019, the Association had \$41,801 and \$41,400, respectively, accumulated for future major repairs and replacements, and these funds are held in a separate account and are generally not available for operating expenses.

When funds are required for major repairs and replacements, if the funds accumulated by the Association are not adequate, the Association has to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

5. FEDERAL INCOME TAXES

Homeowners associations may be taxed either as homeowners associations under Section 528 of the Internal Revenue Code (the "IRC") or a regular corporation as a membership organizations under Section 277 of the IRC.

As a homeowners association, under Section 528 of the IRC, exempt function income, which consists primarily of amounts received from its members, are not taxable. The non-exempt income (income received from other than members such as interest earnings), net of any applicable deductions in excess of \$100, are taxed at a flat rate of 30%.

As a membership organization under Section 277, a homeowners association is taxed as a regular corporation on both membership income and non-membership income at regular federal corporate income tax rates of 21%. Net membership income can be deferred by electing under the provisions of Revenue Ruling 70-604.

The Association elected to file its tax return under Section 528 as a homeowners association for the year ended December 31, 2020.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

5. FEDERAL INCOME TAXES (Continued)

The modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting, requires management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service (the "IRS"). Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2020, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2020, 2019, and 2018 remain open to examination by the IRS; state franchise tax returns for 2021, 2020, and 2019 are open to examination.

6. ASSESSMENT REVENUES

The Association reports assessment revenues on a modified cash basis. Generally accepted accounting principles require that revenues should be reported on an accrual basis. The following is a reconciliation of assessments billed during the year (accrual basis revenues) to assessments reported on a cash basis.

	Assessments
Assessments billed during the current year	\$100,704
2020 Assessments collected during the year	(65,139)
2020 Assessments collected from prior year	(33,395)
2020 Assessments receivable, end of the year	(2,245)
Adjustments and write-offs during the year	\$(75)

7. 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 basis of accounting other than accounting principles generally accepted in the United States of America. 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.

SUPPLEMENTAL SCHEDULES

NAGESH AND CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES, AND EXPENSES
AS A PERCENTAGE OF ASSESSMENTS
Prepared on Modified Cash Basis
For the Year Ended December 31, 2020

	Amount	Percentage of Assessments
Assessments and revenues		
Assessments	\$106,666	100.00%
Special assessments	51,991	48.74%
Voluntary contributions	11,863	11.12%
Transfer fees	1,475	1.38%
Legal and collection fees, recovery	9,239	8.66%
Amenity rental income	6,416	6.02%
Interest income	444	0.42%
Other income	1,981	1.86%
Total assessments and revenues	190,075	178.20%
Administrative expenses		
Management fees	23,464	22.00%
Legal fees	6,773	6.35%
Professional fees - audit	1,400	1.31%
Administrative expenses	10,928	10.25%
Insurance	14,157	13.27%
Total administrative expenses	56,722	53.18%
Contract services		
Pool contract	18,585	17.42%
Landscape contract	7,740	7.26%
Total contract services	26,325	24.68%
Utilities		
Electricity	9,750	9.14%
Water and sewer	4,456	4.18%
Telephone	2,439	2.29%
Total utilities	16,645	15.60%
Maintenance and repairs	5,645	5.29%
Committee expenses	275	0.26%
Capital improvements and replacements	78,441	73.54%
Total expenses	184,053	172.55%
Net assessments and revenues over expenses	\$6,022	5.65%

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES, AND EXPENSES
Prepared on Modified Cash Basis
For the Years Ended December 31, 2020, and 2019

	31-Dec-20	31-Dec-19
Assessments and revenues		
Assessments	\$106,666	\$106,797
Special assessments	51,991	62,367
Voluntary contributions	11,863	9,771
Transfer fees	1,475	1,325
Legal and collection fees, recovery	9,239	9,528
Amenity rental income	6,416	9,158
Interest income	444	1,078
Other income	1,981	3,648
Total assessments and revenues	190,075	203,672
Administrative expenses		
Management fees	23,464	23,914
Legal fees	6,773	7,178
Professional fees - audit	1,400	1,300
Administrative expenses	10,928	13,371
Insurance	14,157	13,872
Total administrative expenses	56,722	59,635
Contract services		
Pool contract	18,585	26,102
Landscape contract	7,740	8,250
Total contract services	26,325	34,352
Utilities		
Electricity	9,750	11,173
Water and sewer	4,456	4,074
Telephone	2,439	2,523
Total utilities	16,645	17,770
Maintenance and repairs	5,645	7,550
Committee expenses	275	564
Capital improvements and replacements	78,441	48,978
Total expenses	184,053	168,849
Net assessments and revenues over expenses	\$6,022	\$34,823

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
ANALYSIS OF CAPITAL IMPROVEMENTS AND REPLACEMENT EXPENSES
Prepared on Modified Cash Basis
For the Years Ended December 31, 2020, and 2019

Capital Reserve Component	31-Dec-20	31-Dec-19
Clubhouse maintenance	\$119	\$4,950
Swimming pool repairs	72,840	1,200
Tennis courts	920	8,390
Parking	-	33,638
Other maintenance	4,562	800
Total expenses	\$78,441	\$48,978

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