

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

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

**For the Year Ended
December 31, 2021**

NAGESH AND CARTER, PLLC

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.

TABLE OF CONTENTS

		Page
1	Independent Auditors' Report	1
2	Statements of Assets and Liabilities and Fund Balances Prepared on Modified Cash Basis As of December 31, 2021 With Summarized Comparative Information as of December 31, 2020	4
3	Statements of Assessments, Revenues and Expenses, and Changes in Fund Balances Prepared on Modified Cash Basis For the Year Ended December 31, 2021 With Summarized Comparative Information as of December 31, 2020	5
4	Statements of Cash Flows Prepared on Modified Cash Basis For the Year Ended December 31, 2021 With Summarized Comparative Information as of December 31, 2020	6
5	Notes to Financial Statements	7
6	Supplemental Schedules	
a	Analysis of Assessments, Revenues, and Expenses Average per Home per Year and as a Percentage of Assessments Prepared on Modified Cash Basis For the Year Ended December 31, 2021, and 2020	11
b	Analysis of Assessments, Revenues, and Expenses Prepared on Modified Cash Basis For the Years Ended December 31, 2021, and 2020	12
c	Analysis of Capital Improvements and Replacement Expenses Prepared on Modified Cash Basis For the Years Ended December 31, 2021, and 2020	13



**NAGESH
& CARTER, PLLC**
757 N. Eldridge Parkway, Suite 610, Houston, TX 77079
Telephone (281) 584-9922, Fax (281) 584-9933



INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements arising from modified cash basis transactions of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC. (the "Association") which comprise the Statement of Assets and Liabilities and Fund Balances as of December 31, 2021, and the related Statement of Assessments, Revenues and Expenses, and Changes in Fund Balances and Statement of Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021, and the results of its operations and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 3.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2020, financial statements, and our report dated May 27, 2021, 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, 2020, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

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.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance of the Association regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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.

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, 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. Our opinion on the basic financial statements is not affected by the missing information.

Nagesh & Carter, PLLC

Nagesh & Carter, PLLC
Houston, Texas
August 25, 2022

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

Prepared on Modified Cash Basis

As of December 31, 2021

With Summarized Comparative Information as of December 31, 2020

			Summarized	
	Operating Fund	Replacement Fund	Totals 31-Dec-21	Totals 31-Dec-20
<u>ASSETS</u>				
Cash and cash equivalents	\$254,911	\$42,800	\$297,711	\$289,932
Transfer fees	629	-	629	725
Total assets	\$255,540	\$42,800	\$298,340	\$290,657
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Clubhouse deposits	\$250	-	\$250	\$250
Total liabilities	250	-	250	250
Fund balance	255,290	\$42,800	298,090	290,407
Total liabilities and fund balance	\$255,540	\$42,800	\$298,340	\$290,657
	-	-	-	-

*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, 2021

With Summarized Comparative Information for the Year Ended December 31, 2020

			Summarized	
	Operating Fund	Replacement Fund	Totals 31-Dec-21	Totals 31-Dec-20
Assessments and revenues				
Assessments	\$101,070	-	\$101,070	\$106,666
Special assessments - prior years	1,098	-	1,098	51,991
Voluntary contributions	12,457	-	12,457	11,863
Transfer fees	1,925	-	1,925	1,475
Legal and collection fees, recovery	7,714	-	7,714	9,239
Amenity rental income	8,319	-	8,319	6,416
Interest income	79	\$144	223	444
Other income	690	-	690	1,981
Total assessments and revenues	133,352	144	133,496	190,075
Expenses				
Administrative expenses	60,415	-	60,415	56,722
Contract services	24,809	-	24,809	26,325
Utilities	16,819	-	16,819	16,645
Maintenance and repairs	18,747	-	18,747	5,645
Committee expenses	623	-	623	275
Capital improvements and replacements	4,400	-	4,400	78,441
Total expenses	125,813	-	125,813	184,053
Assessments and revenues over (under) expenses	7,539	144	7,683	6,022
Fund balance, beginning of the year	248,606	41,801	290,407	284,385
Transfer to replacement fund	(855)	855	-	-
Fund balance, end of the year	\$255,290	\$42,800	\$298,090	\$290,407
	-	-	-	-

*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, 2021

With Summarized Comparative Information for the Year Ended December 31, 2020

	Operating	Replacement	Totals	Summarized
	Fund	Fund	31-Dec-21	Totals
				31-Dec-20
Cash flow from (to) operations				
Assessments and revenues				
over (under) expenses	\$7,539	\$144	\$7,683	\$6,022
Adjustments to reconcile assessments				
and revenues over (under) expenses to				
cash flow from operations				
Transfer fees	96	-	96	(500)
Total cash flow from (to) operations	7,635	144	7,779	5,522
Financing activities				
Interfund transfers	(855)	855	-	-
Total financing activities	(855)	855	-	-
Increase (decrease) in cash	6,780	999	7,779	5,522
Cash and cash equivalents, beginning of the year	248,131	41,801	289,932	284,410
Cash and cash equivalents, end of the year	\$254,911	\$42,800	\$297,711	\$289,932

*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, 2021

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, and architectural control of the residences and common properties within the Quail Valley East subdivision, a community of 1,049 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 August 25, 2022, 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.

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 for future major repairs and replacements.

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. Any excess assessments at year end are retained by the Association for use in the succeeding year or transferred to the replacement fund.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

CONTRACT LIABILITIES (ASSESSMENTS RECEIVED IN ADVANCE-REPLACEMENT FUND)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is (are) recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. As of December 31, 2021, and 2020, the Association did not have any contract liabilities for assessments received in advance.

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.

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, 2021

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.

Although the Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements, the Board has established a fund for this purpose. As of December 31, 2021, and 2020, the Association had \$42,800 and \$41,801, respectively, accumulated for future major repairs and replacements. 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, and 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 tax-exempt homeowners associations under Section 528 of the Internal Revenue Code (the "IRC") or as membership organizations under Section 277 of the IRC.

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

As a membership organization under Section 277 of the IRC, 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 tax-exempt homeowners association for the year ended December 31, 2021.

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2021

5. FEDERAL INCOME TAXES, (Continued)

The modified cash basis of 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 not 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, 2021, 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 2021, 2020, and 2019 remain open to examination by the IRS; state franchise tax returns for 2022, 2021, and 2020 are also open to examination.

6. ASSESSMENTS REVENUE

The Association reports assessment revenues on a modified cash basis. Generally accepted accounting principles require that revenues 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 modified cash basis.

	Assessments
Assessments billed during the current year	\$100,704
Assessments receivable, beginning of the year	5,839
Less: Assessments receivable, end of the year	(6,121)
Adjustments and write-offs during the year	648
Assessments collected during the year	\$101,070

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. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2020, 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
AVERAGE PER HOME PER YEAR AND AS A PERCENTAGE OF ASSESSMENTS

Prepared on Modified Cash Basis
For the Year Ended December 31, 2021

	Amount	Per Home Per Year	Percentage of Assessments
Assessments and revenues			
Assessments	\$101,070	\$96.35	100.00%
Special assessments - prior years	1,098	1.05	1.09%
Voluntary contributions	12,457	11.88	12.33%
Transfer fees	1,925	1.84	1.90%
Legal and collection fees, recovery	7,714	7.35	7.63%
Amenity rental income	8,319	7.93	8.23%
Interest income	223	0.21	0.22%
Other income	690	0.66	0.68%
Total assessments and revenues	133,496	127.26	132.08%
Administrative expenses			
Management fees	23,464	22.37	23.22%
Legal fees	7,565	7.21	7.48%
Professional fees - audit and tax	1,400	1.33	1.39%
Administrative expenses	13,271	12.65	13.13%
Insurance	14,715	14.03	14.56%
Total administrative expenses	60,415	57.59	59.78%
Contract services			
Pool contract	17,484	16.67	17.30%
Landscape contract	7,325	6.98	7.25%
Total contract services	24,809	23.65	24.55%
Utilities			
Electricity	9,386	8.95	9.29%
Water and sewer	4,821	4.60	4.77%
Telephone	2,612	2.49	2.58%
Total utilities	16,819	7.09	16.64%
Maintenance and repairs	18,747	17.87	18.55%
Committee expenses	623	0.59	0.62%
Capital improvements and replacements	4,400	4.19	4.35%
Total expenses	125,813	119.94	124.48%
Assessments and revenues over (under) expenses	\$7,683	\$7.32	7.60%

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

QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES, AND EXPENSES
Prepared on Modified Cash Basis
For the Years Ended December 31, 2021, and 2020

	31-Dec-21	31-Dec-20
Assessments and revenues		
Assessments	\$101,070	\$106,666
Special assessments - prior years	1,098	51,991
Voluntary contributions	12,457	11,863
Transfer fees	1,925	1,475
Legal and collection fees, recovery	7,714	9,239
Amenity rental income	8,319	6,416
Interest income	223	444
Other income	690	1,981
Total assessments and revenues	133,496	190,075
Administrative expenses		
Management fees	23,464	23,464
Legal fees	7,565	6,773
Professional fees - audit and tax	1,400	1,400
Administrative expenses	13,271	10,928
Insurance	14,715	14,157
Total administrative expenses	60,415	56,722
Contract services		
Pool contract	17,484	18,585
Landscape contract	7,325	7,740
Total contract services	24,809	26,325
Utilities		
Electricity	9,386	9,750
Water and sewer	4,821	4,456
Telephone	2,612	2,439
Total utilities	16,819	16,645
Maintenance and repairs	18,747	5,645
Committee expenses	623	275
Capital improvements and replacements	4,400	78,441
Total expenses	125,813	184,053
Assessments and revenues over (under) expenses	\$7,683	\$6,022

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, 2021, and 2020

Capital Reserve Component	31-Dec-21	31-Dec-20
Clubhouse maintenance	\$4,400	\$119
Swimming pool repairs	-	72,840
Tennis courts	-	920
Other maintenance	-	4,562
Total expenses	\$4,400	\$78,441

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