

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**

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

**For the Year Ended  
December 31, 2019**

NAGESH AND CARTER, PLLC

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**

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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 Statement of Assets and Liabilities and Fund Balances arising from modified cash basis transactions as of December 31, 2019, and the related Statement of Assessments, Revenues, Expenses, and Changes in Fund Balances and the Statement of Cash Flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 3; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards as generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from modified cash basis transactions of QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC, as of December 31, 2019, and the results of its operations and its cash flows arising from modified cash basis transactions for the year then ended in conformity with the basis of accounting described in Note 3.

### **Report on Supplementary Information**

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

### **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, 2018 financial statements, and our report dated July 3, 2019 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, 2018, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

*Nagesh & Carter, PLLC*

Houston, Texas

May 4, 2020

NAGESH AND CARTER, PLLC

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**STATEMENTS OF ASSETS AND LIABILITIES AND FUND BALANCES**  
**Modified Cash Basis**

**As of December 31, 2019**

**With Summarized Comparative Information as of December 31, 2018**

			<b>Summarized</b>	
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Totals 31-Dec-19</b>	<b>Totals 31-Dec-18</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$243,010	\$41,400	\$284,410	\$249,362
Transfer fees	225	-	225	450
<b>Total assets</b>	<b>\$243,235</b>	<b>\$41,400</b>	<b>\$284,635</b>	<b>\$249,812</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>Liabilities</b>				
Clubhouse deposit	\$250	-	\$250	\$250
<b>Total liabilities</b>	250	-	250	250
<b>Fund balance</b>	242,985	\$41,400	284,385	249,562
<b>Total liabilities and fund balance</b>	<b>\$243,235</b>	<b>\$41,400</b>	<b>\$284,635</b>	<b>\$249,812</b>
	-	-	-	-
<b><i>The accompanying notes are an integral part of these financial statements.</i></b>				

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

**Modified Cash Basis**

**For the Year Ended December 31, 2019**

**With Summarized Comparative Information for the Year Ended December 31, 2018**

			Summarized	
	Operating Fund	Replacement Fund	Totals 31-Dec-19	Totals 31-Dec-18
<b>Assessments and revenues</b>				
Assessments	\$106,797	-	\$106,797	\$92,848
Special assessments	62,367	-	62,367	13,787
Voluntary contributions	9,771	-	9,771	11,645
Transfer fees	1,325	-	1,325	1,250
Legal and collection fees, recovery	9,528	-	9,528	7,962
Amenity rental income	9,158	-	9,158	9,636
Interest income	68	\$1,010	1,078	699
Other income	3,648	-	3,648	3,146
<b>Total revenues</b>	<b>202,662</b>	<b>1,010</b>	<b>203,672</b>	<b>140,973</b>
<b>Operating expenses</b>				
Administrative expenses	59,635	-	59,635	58,892
Contract services	34,352	-	34,352	33,967
Utilities	17,770	-	17,770	20,082
Maintenance and repairs	7,550	-	7,550	7,609
Committee expenses	564	-	564	826
Capital improvements and replacements	48,978	-	48,978	14,903
<b>Total expenses</b>	<b>168,849</b>	<b>-</b>	<b>168,849</b>	<b>136,279</b>
<b>Revenue over (under) expenses</b>	<b>33,813</b>	<b>1,010</b>	<b>34,823</b>	<b>4,694</b>
Fund balance, beginning of the year	209,172	40,390	249,562	244,868
<b>Fund balance, end of the year</b>	<b>\$242,985</b>	<b>\$41,400</b>	<b>\$284,385</b>	<b>\$249,562</b>
	-	-	-	-

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

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**STATEMENTS OF CASH FLOWS**  
**Modified Cash Basis**  
**For the Year Ended December 31, 2019**  
**With Summarized Comparative Information for the Year Ended December 31, 2018**

			Summarized	
	Operating Fund	Replacement Fund	Totals 31-Dec-19	Totals 31-Dec-18
<b>Cash flow from (to) operations</b>				
Assessments and revenues over (under) expenses	\$33,813	\$1,010	\$34,823	\$4,694
<b><i>Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations</i></b>				
Transfer fees	225	-	225	1,003
<b>Total cash flow from (to) operations</b>	<b>34,038</b>	<b>1,010</b>	<b>35,048</b>	<b>5,697</b>
<b>Increase (decrease) in cash</b>	<b>34,038</b>	<b>1,010</b>	<b>35,048</b>	<b>5,697</b>
Cash and cash equivalents, beginning of the year	208,972	40,390	249,362	243,665
<b>Cash and cash equivalents, end of the year</b>	<b>\$243,010</b>	<b>\$41,400</b>	<b>\$284,410</b>	<b>\$249,362</b>

***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, 2019**

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**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 4, 2020 the date that the financial statements were available to be issued.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**METHOD OF ACCOUNTING**

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

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

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

**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, 2019**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**OWNERS 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 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 is 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 of Directors.

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, 2019 and 2018.

Assessments receivable at the Statement of Assets and Liabilities and Fund Balances date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. At December 31, 2019 and 2018, the Association had delinquent assessments of \$15,321 and \$11,981, respectively.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control.

**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.

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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.

**4. 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, 2019, and 2018, the Association did not have any contract liabilities for assessments received in advance.

**5. MAJOR REPAIRS AND REPLACEMENT FUNDING PROGRAM**

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 of directors 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 Association's Board, in its discretion, has chosen to establish a fund for this purpose. As of December 31, 2019, and 2018, the Association had \$41,400 and \$40,390, 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.

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2019**

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**6. 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 Homeowners' Association, under Section 528 of the Internal Revenue Code, 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, the 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, 2019.

Modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting require 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 not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, 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 2019, 2018, and 2017 remain open to examination by the Internal Revenue Service; state franchise returns for 2020, 2019 and 2018 are open to examination.

**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 comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31 of the prior year, from which the summarized information was derived.

**SUPPLEMENTAL SCHEDULES**

NAGESH AND CARTER, PLLC

**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**AS A PERCENTAGE OF ASSESSMENTS**  
**Modified Cash Basis**  
**For the Year Ended December 31, 2019**

	<b>Amount</b>	<b>%age of Assessments</b>
<b>Assessments and revenues</b>		
Assessments	\$106,797	100.00%
Special assessments	62,367	58.40%
Voluntary contributions	9,771	9.15%
Transfer fees	1,325	1.24%
Legal and collection fees, recovery	9,528	8.92%
Amenity rental income	9,158	8.58%
Interest income	1,078	1.01%
Other income	3,648	3.42%
<b>Total assessments and revenues</b>	<b>203,672</b>	<b>190.71%</b>
<b>Administrative expenses</b>		
Management fees	23,914	22.39%
Legal fees	7,178	6.72%
Professional fees - audit	1,300	1.22%
Administrative expenses	13,371	12.52%
Insurance	13,872	12.99%
<b>Total administrative expenses</b>	<b>59,635</b>	<b>55.84%</b>
<b>Contract services</b>		
Pool contract	26,102	24.44%
Landscape contract	8,250	7.72%
<b>Total contract services</b>	<b>34,352</b>	<b>32.17%</b>
<b>Utilities</b>		
Electricity	11,173	10.46%
Water and sewer	4,074	3.81%
Telephone	2,523	2.36%
<b>Total utilities</b>	<b>17,770</b>	<b>16.64%</b>
<b>Maintenance and repairs</b>	<b>7,550</b>	<b>7.07%</b>
<b>Committee expenses</b>	<b>564</b>	<b>0.53%</b>
<b>Capital improvements and replacements</b>	<b>48,978</b>	<b>45.86%</b>
<b>Total expenses</b>	<b>168,849</b>	<b>158.10%</b>
<b>Net assessments and revenues over expenses</b>	<b>\$34,823</b>	<b>32.61%</b>

*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, 2019 and 2018**

	<b>31-Dec-19</b>	<b>31-Dec-18</b>
<b>Assessments and revenues</b>		
Assessments	\$106,797	\$92,848
Special assessments	62,367	13,787
Voluntary contributions	9,771	11,645
Transfer fees	1,325	1,250
Legal and collection fees, recovery	9,528	7,962
Amenity rental income	9,158	9,636
Interest income	1,078	699
Other income	3,648	3,146
<b>Total assessments and revenues</b>	<b>203,672</b>	<b>140,973</b>
<b>Administrative expenses</b>		
Management fees	23,914	24,464
Legal fees	7,178	7,300
Professional fees - audit	1,300	1,300
Administrative expenses	13,371	11,378
Insurance	13,872	14,450
<b>Total administrative expenses</b>	<b>59,635</b>	<b>58,892</b>
<b>Contract services</b>		
Pool contract	26,102	26,757
Landscape contract	8,250	7,210
<b>Total contract services</b>	<b>34,352</b>	<b>33,967</b>
<b>Utilities</b>		
Electricity	11,173	13,353
Water and sewer	4,074	4,434
Telephone	2,523	2,295
<b>Total utilities</b>	<b>17,770</b>	<b>20,082</b>
<b>Maintenance and repairs</b>	<b>7,550</b>	<b>7,609</b>
<b>Committee expenses</b>	<b>564</b>	<b>826</b>
<b>Capital improvements and replacements</b>	<b>48,978</b>	<b>14,903</b>
<b>Total expenses</b>	<b>168,849</b>	<b>136,279</b>
<b>Net assessments and revenues over expenses</b>	<b>\$34,823</b>	<b>\$4,694</b>

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

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**QUAIL VALLEY EAST COMMUNITY ASSOCIATION, INC**  
**ANALYSIS OF CAPITAL IMPROVEMENTS AND REPLACEMENT EXPENSES**  
**Modified Cash Basis**  
**For the Years Ended December 31, 2019 and 2018**

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<b>Capital Reserve Component</b>	<b>31-Dec-19</b>	<b>31-Dec-18</b>
Clubhouse maintenance	\$4,950	\$5,828
Swimming pool repairs	1,200	9,075
Tennis courts	8,390	-
Parking	33,638	-
Other maintenance	800	-
<b>Total expenses</b>	<b>\$48,978</b>	<b>\$14,903</b>

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

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