

Padre Isles Property Owners Association, Inc.

Audited Financial Statements

December 31, 2019



PARK FOWLER & CO.

*Certified Public Accountants & Management Consultants
A Professional Limited Liability Company*

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

Audited Financial Statements and
Supplementary Information

December 31, 2019

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MANAGING PARTNER:

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REPORT OF INDEPENDENT AUDITOR'S

To the Board of Directors
Padre Isles Property Owners Association, Inc.
Corpus Christi, Texas

We have audited the accompanying financial statements of Padre Isles Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and changes in fund balances and 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 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Padre Isles Property Owners Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the required supplemental information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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 this missing information.

Park Fowler & Co., PLLC

Corpus Christi, Texas

August 10, 2020

Members of American Institute of CPA's & Texas Society of CPA's

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PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	397,503
Assessment receivable, net of allowance		64,932
Prepaid expenses		<u>24,860</u>

TOTAL CURRENT ASSETS 487,295

PROPERTY AND EQUIPMENT

Office building	102,167
Furniture and equipment	46,544
Less: accumulated depreciation	<u>(142,966)</u>

NET PROPERTY AND EQUIPMENT 5,745

OTHER ASSETS

Non-current receivables	121,049
Investments	<u>10,096,432</u>

TOTAL OTHER ASSETS 10,217,481

TOTAL ASSETS \$ 10,710,521

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

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET -- Continued

DECEMBER 31, 2019

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES

Accounts payable	\$	88,509
Builder deposits		52,185
Prepaid owner assessments		10,925
Payroll taxes payable		<u>601</u>

TOTAL CURRENT LIABILITIES 152,220

TOTAL LIABILITIES 152,220

FUND BALANCES

10,558,301

TOTAL LIABILITIES AND FUND BALANCES \$ 10,710,521

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

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

For The Year Ended December 31, 2019

REVENUES

Operating Revenues:

Member assessments	\$ 1,878,121
Architectural control committee fees	91,969
Interest on assessments in arrears	392
Other income	<u>2,417</u>

TOTAL OPERATING REVENUES 1,972,899

EXPENSES

General and administrative	747,100
Bulkhead maintenance	339,360
Common area maintenance	308,821
Billish Park construction & maintenance	197,861
Canal maintenance	5,764
Architectural control committee compliance	2,851
Investment expenses	<u>3,395</u>

TOTAL OPERATING EXPENSES 1,605,152

NET INCOME FROM OPERATIONS 367,747

Non-Operating Revenues:

Investment income	254,619
Unrealized gain on securities	<u>256,999</u>

TOTAL NON-OPERATING REVENUES 511,618

EXCESS OF REVENUES OVER EXPENSES 879,365

Fund balance - beginning of year 9,678,936

FUND BALANCE - END OF YEAR \$ 10,558,301

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

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For The Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income from operations	\$ 367,747
Adjustment to reconcile deficiency of revenues to net cash used by operating activities:	
Depreciation	1,148
(Increase) Decrease in:	
Assessments receivable	151,518
Prepaid expenses	(12,110)
Non-current receivables	(121,049)
Increase (Decrease) in:	
Accounts payable	82,143
Builder deposits	(33,900)
Prepaid owners' assessments	<u>10,925</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>446,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Realized gains from investments	254,619
Unrealized gains from investments	(256,999)
Increase in investments	<u>(1,943,016)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,945,396)</u>
DECREASE IN CASH	(1,498,974)
Cash at beginning of year	<u>1,896,477</u>
CASH AT END OF YEAR	<u>\$ 397,503</u>
SUPPLEMENTAL DISCLOSURES	
Interest paid during year	<u>\$ -0-</u>
Income taxes paid during year	<u>\$ -0-</u>

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

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1—NATURE OF ORGANIZATION

Nature of Organization: Padre Isles Property Owners Association, Inc. (the "Association") is a non-profit membership association incorporated in the state of Texas on March 1, 1976 organized for the promotion of social welfare for residents of Padre Island-Corpus Christi subdivisions located in Nueces County, Texas. The Association is responsible for the operation and maintenance of the common property of Padre Island-Corpus Christi development which consists of approximately 5,193 total lots consisting of approximately 4,430 residential units, 723 multi-family units, 17 seawall units, and 23 commercial units. Common property consists primarily of the association office, canals, certain bulkheads, boat ramps, and canal ends.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements of the Association have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting: The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts in accordance with the principles of fund accounting. The Association has only one fund, which includes both Operating funds and Replacement Reserve funds.

Member Assessments: Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments Receivable at the balance sheet date represents fees, if any, due from unit owners. The allowance for doubtful accounts is based on management's assessment of collectability of specific accounts, the existing economic conditions, the age of the receivable, and the financial stability of the members. Accounts are expensed to operations when they are deemed uncollectible. The allowance for doubtful accounts for the year ended December 31, 2019 was \$199,166.

Cash and Cash Equivalents: For purposes of the statement of cashflows, the Association considers all highly liquid operating (undesignated) instruments with maturities of three months or less to be cash equivalents.

Fixed Assets: The real and personal common property acquired by the original owners from the developer and related improvements to such property are not recognized on the Association's financial statements. These properties are owned by the individual unit owners in common, not by the Association, and its use and disposition by the Association's Board of Directors is restricted. The Association is responsible for the preservation and maintenance of the common property. The Association capitalizes other personal property, to which it has title, acquired with Association funds at cost and depreciates them using the straight-line method over their estimated useful lives, which is generally 5 to 39 years.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Advertising Costs: Advertising costs are expensed as incurred and were not significant for the year ended December 31, 2019.

Income Taxes: The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2019. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government. For the year ended December 31, 2019, the Association did not have federal income tax expense.

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS-Continued

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Income Taxes-Continued: The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2016, 2017, 2018 and 2019 remain open to examination by the Internal Revenue Service. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

Date of Management's Review: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 10, 2020, the date that the financial statements were available to be issued.

Insurance: The Association maintains various insurance policies which are paid by the Association yearly. Owners reimburse the Association as part of the assessments.

Contributed Services: A significant portion of the Association's functions are conducted by unpaid officers, board members and volunteers. The value of this contributed time is not reflected in the accompanying statements since the volunteers' time does not meet the criteria necessary for recognition under FASB ASC 958 (formerly SFAS No. 116). Contributions of services shall be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures. The implementation date of this pronouncement has been delayed for further evaluation.

Fair Value Measurements and Investment Securities: The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") section 820, "Fair Value Measurement," defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based upon assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). In accordance with ASC 820, the following summarizes the fair value hierarchy:

Level 1 Inputs - Unadjusted quoted market prices for identical assets and liabilities in an active market that the Association has the ability to access.

Level 2 Inputs - Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs - Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS-Continued

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fair Value Measurements and Investment Securities-Continued: The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. At December 31, 2019, all investments were valued using Level 1 inputs.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Cash and cash equivalents, accounts receivable, prepaid expenses, and accounts payable approximate their fair values due to the short-term nature of these financial instruments.

Investments in marketable equity securities with readily determinable fair values are valued at their fair values on the balance sheet. Unrealized gains and losses are included in the statement of operations. The securities are held in custodial investment brokerage accounts. Investments are made according to the investment objectives and policies adopted by the Association's Board. These guidelines provide for investment in equities and bond and fixed income securities allocated between target asset allocations to provide diversification in the investment portfolios. The asset allocation target is 40% for equity securities (target range of 35% to 45%) and 60% for bond and fixed income securities (target range of 55% to 65%).

The Association's investments are concentrated primarily in publicly traded equity and fixed income securities. Consequently, the value of the investment portfolio is subject to fluctuations resulting from market volatility. The Association has partially mitigated this risk by monitoring the asset allocation targets and diversification among the investments.

Related Party Transactions: During the year ended December 31, 2019, the Association paid no payments to related party individuals or entities. While others may have also been paid for the same type of work or products, due to the relationship with the Association, a disclosure is required if any such related party transactions exist.

NOTE 3—CONCENTRATION OF CREDIT RISK

The Association maintains cash balances at four financial institutions located in south Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Furthermore, investment accounts are covered by Securities Investor Protection Corporation (SIPC) and/or by third party insurance companies.

From time to time, the Association may maintain deposits in excess of federally insured limits of \$250,000. Accounting Standards identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions. At December 31, 2019, there were no deposits in excess of federally insured limits.

NOTE 4—PROPERTY AND EQUIPMENT

Fixed assets consist of the following:

Office building	\$ 102,167
Furniture and equipment	<u>46,544</u>
	148,711
Less accumulated depreciation	<u>(142,966)</u>
Net fixed assets	<u>\$ 5,745</u>

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS-Continued

NOTE 5--INVESTMENTS

Investments are recorded at fair value; all investments were valued using Level 1 inputs. The historical cost and fair value at December 31, 2019 are as follows:

Description	Level 1 Fair Value	Unrealized Gain	Cost
Long-term certificates of deposit	\$ 7,226,113	\$ 55,404	\$ 7,170,709
Mutual funds	2,870,319	363,869	2,506,450
Total investments	<u>\$ 10,096,432</u>	<u>\$ 419,273</u>	<u>\$ 9,677,159</u>

The beginning of the year unrealized gain (loss) on investments totaled \$162,274. The change in net unrealized gain (loss) on investments reported on the statement of operations for the year ended December 31, 2019 was \$256,999.

NOTE 6—GENERAL AND ADMINISTRATIVE EXPENSES

GENERAL AND ADMINISTRATIVE

Accounting/auditing	\$ 81,357
Balloting, newsletters and postage	22,898
Banking and credit card fees	12,687
Board/annual meeting	5,009
Computer/IT	19,374
Contract labor	43,105
Depreciation	1,148
Insurance	52,760
Legal fees	60,273
Mileage	5,588
Miscellaneous and other	2,112
Office expenses	10,199
Office machine rentals	12,371
Payroll taxes	27,168
POA building maintenance	16,020
Property taxes	6,723
Salaries	351,525
Security alarm	952
Subscriptions	4,335
Telephone and utilities	10,766
Website	730
TOTAL GENERAL AND ADMINISTRATIVE	<u>\$ 747,100</u>

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS-Continued

NOTE 7—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. The Association has not conducted a study to determine major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the major components of common property and to estimate the costs of major repairs and replacements that may be required in the future. When additional funds are needed, the Association may increase maintenance assessments, or it may delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE 8—NON-CURRENT RECEIVABLES

The Association has amounts due from owners related to various past due assessments and other activities. Because these amounts are usually small, and the legal costs associated with collecting on the accounts are considered high, the Association has elected not to pursue legal action to collect. However, the Association believes these amounts will eventually become collectible as the properties are sold in the future. Because these amounts have been due for more than one year, they are classified as long-term receivables. As of December 31, 2019, the amount designated as a non-current receivable is \$121,049.

NOTE 9—LEGAL MATTERS

From time to time, the Association, and the Architectural Control Committee (ACC) may be involved in various legal proceedings and claims in the ordinary course of business.

In March of 2018, the Association filed a lawsuit in the Nueces County Court against Grande Communications, regarding Grande committing damage to a PIPOA bulkhead. As of December 31, 2019, and through the date of the audit report, the ultimate resolution of this case is unknown.

In November of 2019, an owner filed a lawsuit against the Association, the ACC, and others, related to alleged covenant violations. As of December 31, 2019, and through the date of the audit report, the ultimate resolution of this case is unknown.

In July of 2020, an owner filed a lawsuit against the Association, the ACC, and others, related to alleged covenant violations. As of December 31, 2019, and through the date of the audit report, the ultimate resolution of this case is unknown.