Padre Isles Property Owners Association, Inc.

Audited Financial Statements

December 31, 2020

PARK FOWLER & CO.

Certified Public Accountants & Management Consultants
A Professional Limited Liability Company

PARK FOWLER & CO.

Certified Public Accountants & Management Consultants
A Professional Limited Liability Company

MANAGING PARTNER:
Ronald H. Park, CPA

IN-OFFICE COUNCIL:
Daniel T.A. Cotts, JD, LLM

ASSOCIATES:
Clara A. Moreno, CPA
Marc D. Kennedy, CPA
P. Andrew Hall,CPA
Pamela De La Pena, CPA

REPORT OF INDEPENDENT AUDITORS

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, 2020, 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, 2020, 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.

Members of American Institute of CPA's & Texas Society of CPA's
4639 Corona Drive, Suite 100 • Corpus Christi, Texas 78411 • tel. 361.854.4688 • fax 361.854.2295
www.parkcpas.com

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, 2021

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2020

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 256,870
Member common area maintenance fees receivables, net of allowance	92,140
Prepaid expenses	14,768
TOTAL CURRENT ASSETS	363,778
PROPERTY AND EQUIPMENT, NET	4,708
OTHER ASSETS	
Non-current member common area maintenance fees receivables, net of allowance	127,573
Investments	11,626,050
TOTAL OTHER ASSETS	11,753,623
TOTAL ASSETS	$ 12,122,109
LIABILITIES AND FUND BALANCES	
CURRENT LIABILITIES	
Accounts payable	$ 57,772
Prepaid member common area maintenance fees	18,480
TOTAL CURRENT LIABILITIES	76,252
TOTAL LIABILITIES	76,252
FUND BALANCES	12,045,857
TOTAL LIABILITIES AND FUND BALANCES	$ 12,122,109

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, 2020

REVENUES	
Operating Revenues:	
Member common area maintenance fees	$ 1,932,286
Architectural control committee fees	457,181
HPO class action suit settlement	21,348
TOTAL OPERATING REVENUES	2,410,815
EXPENSES	
General and administrative	711,722
Bulkhead maintenance	378,465
Common area maintenance	298,864
Billish Park construction & maintenance	84,184
Canal maintenance	13,273
Member common area maintenance fee refunds	38,682
Builder fee refunds	1,040
CAM fee write-offs	49,486
Investment expenses	5,020
TOTAL OPERATING EXPENSES	1,580,736
NET INCOME FROM OPERATIONS	830,079
Non-Operating Revenues:	
Prepaid member common area maintenance fees	29,400
Investment income	280,784
Unrealized gain on securities	301,892
Interest on member common area maintenance in arrears	42,723
Other income	2,678
TOTAL NON-OPERATING REVENUES	657,477
EXCESS OF REVENUES OVER EXPENSES	1,487,556
Fund balances - beginning of year	10,558,301
FUND BALANCES - END OF YEAR	$ 12,045,857

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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of revenues over expenses	$ 1,487,556
Adjustment to reconcile excess of revenues over expenses to net cash used by operating activities:	
Depreciation	1,038
(Increase) Decrease in:	
Member common area maintenance fees receivable	(27,208)
Prepaid expenses	10,092
Non-current receivables	(6,524)
Increase (Decrease) in:	
Accounts payable	(30,737)
Builder deposits	(52,185)
Accrued Payroll and Payroll Taxes	(601)
Prepaid member common area maintenance fees	7,555
Unrealized gains from investments	(301,892)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,087,094
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments	5,055,000
Purchase of investments	(6,282,727)
NET CASH USED BY INVESTING ACTIVITIES	(1,227,727)
DECREASE IN CASH	(140,633)
Cash at beginning of year	397,503
CASH AT END OF YEAR	$ 256,870
SUPPLEMENTAL DISCLOSURES	
Interest paid during year	$
Income taxes paid during year	$

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

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 comprised 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, bulkheads, and boat ramps.

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. This fund accumulates common area maintenance fees to cover operating expenses, as well as any major repairs and replacements.

Member Common Area Maintenance Fees: Association members are subject to annual common area maintenance fees to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Common area maintenance fees 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, 2020 was $99,166.

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.

Property and Equipment: 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. Depreciation for the year ended December 31, 2020 was $1,038.

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, 2020.

Insurance: The Association maintains various insurance policies which are paid by the Association yearly and funded by CAM fees.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Income Taxes: The Association qualifies as a tax-exempt property owners' association under Internal Revenue Code Section 528 for the year ended December 31, 2020. 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 sources unrelated to its exempt purpose, is taxed at the appropriate rate by the federal government. For the year ended December 31, 2020, the Association did not have federal income tax expense.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2017, 2018, 2019 and 2020 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, 2021, the date that the financial statements were available to be issued.

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.

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.

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures. At December 31, 2020, all investments were valued using Level 1 inputs.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fair Value Measurements and Investment Securities-Continued: 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, bonds and fixed income securities, including certificates of deposit, allocated between target asset allocations to provide diversification in the investment portfolios. The asset allocation target is 25% for equity securities (target range of 20% to 30%) and 75% for bond and fixed income securities (target range of 70% to 80%).

The Association's investments are concentrated primarily in certificates of deposit and, to a lesser extent, 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, 2020, management believes no payments were made 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.

Recent Accounting Pronouncements:

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.

NOTE 3—CONCENTRATION OF CREDIT RISK

The Association maintains cash balances at two 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 (SPIC) 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, 2020, there were no cash deposits in excess of federally insured limits.

NOTE 4—INVESTMENTS

Investments are recorded at fair value. The fair value at December 31, 2020 is as follows:

Description	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value	Total
Long-term certificates of deposit	$ 8,539,814	$	$	$ 8,539,814
Mutual funds	3,086,236			3,086,236
Total	$ 11,626,050	$	$	$ 11,626,050

The changes in net unrealized gain on investments for the year ended December 31, 2020 are as follows:

Description	Unrealized Gains as of January 1, 2020	Change in Unrealized Gains	Unrealized Gains as of December 31, 2020
Long-term certificates of deposit	$ 55,404	$ 49,410	$ 104,814
Mutual funds	363,869	252,482	616,351
Total	$ 419,273	$ 301,892	$ 721,165

NOTE 5— MEMBER COMMON AREA MAINTENANCE FEES RECEIVABLE

The Association has amounts due from owners related to various past due common area maintenance fees and, where applicable, incurred late charges. In the aggregate, the total amount of cumulative (over a number of years), delinquent common area maintenance fees and related late charges are approximately 17% of annual revenues. Historically, because individual member delinquencies are generally small and the legal costs associated with collecting on individual accounts are considered high, the Association, in the past, has elected not to pursue legal action. Based on the history of collections, the Association believes these amounts will eventually be collected when individual properties are sold, and delinquent funds are collected from selling owners as part of a normal closing process.

However, due to the uncertainties discussed in Notes 8 and 9, the Association has established an allowance for doubtful accounts. The allowance for doubtful accounts is based on, among other things, management's assessment of collectability of specific accounts, the existing economic conditions, and the age of the receivable. Accounts are expensed to operations when they are deemed uncollectible, usually in the instance of a bankruptcy, short sale, or foreclosure.

The total amount of common area maintenance fees and related late charges due at the balance sheet date was $418,879. Since numerous accounts are over one year old as of December 31, 2020, and because the Association is unsure if older accounts will be collected during the next year, the Association has designated a portion of these amounts as non-current receivables. As such, on the balance sheet receivables are categorized, separated, and presented as current and non-current assets.

NOTE 5— MEMBER COMMON AREA MAINTENANCE FEES RECEIVABLE-Continued

Member common area maintenance fees receivable, net of allowance, represents current year common area maintenance fees and late charges due from unit owners as of December 31, 2020. At December 31, 2020, the current member common area maintenance fees receivable, net of allowance, was $92,140, consisting of $191,306 in current common area maintenance fees and late charges less $99,166 in allowance for doubtful accounts. Non-current receivables, net of allowance, represent past years' common area maintenance fees and late charges due from unit owners as of December 31, 2020. At December 31, 2020, the non-current receivables, net of allowance was $127,573, consisting of $227,573 in non-current common area maintenance fees and late charges less $100,000 in allowance for doubtful accounts.

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Office building	$	102,167
Furniture and equipment		46,544
		148,711
Less: accumulated depreciation		(144,003)
Net property and equipment at December 31, 2020	$	4,708

NOTE 7—GENERAL AND ADMINISTRATIVE EXPENSES

Accounting/auditing	$	47,386
Balloting, newsletters and postage		28,024
Banking and credit card fees		21,647
Board/annual meeting		8,031
Computer/IT		49,529
Contract labor		50,225
Depreciation		1,038
Insurance		77,686
Legal fees		52,768
Memberships		630
Mileage		161
Miscellaneous and other		721
Office expenses		20,123
Office machine rentals		9,896
Payroll taxes		4,375
POA building maintenance		1,516
Property taxes		6,205
Salaries		314,371
Security alarm		5,356
Subscriptions		211
Telephone and utilities		9,823
Website		2,000
Total general and administrative expenses	$	711,722

NOTE 8—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. As discussed in Note 9 below, if additional funds were needed, the Association has no authority to unilaterally increase annual maintenance assessment rates ("rates"), nor to impose a special assessment. If, in the short term, additional funds are needed the Association may be required to curtail its activities to include reducing common property maintenance and/or repair and replacement of Association assets until funding becomes available. In the long run, the Association could call for a vote of the membership to amend its restrictive covenants, specific to each subdivision, and raise the maximum annual rates to provide necessary funding or amend the covenants to allow for a special assessment. However, there are no assurances that such amendments would receive an affirmative vote.

Acknowledging this uncertainty, the Association has partially mitigated this risk by carrying a relatively large reserve fund. As of December 31, 2020, the Association's reserve fund held $11,626,050 in cash, certificates of deposit and mutual funds. This fund could be depleted if repairs to, or failures of, the island's bulkhead system were to escalate, a major weather event were to occur, or another type of large natural disaster were to impact the island.

NOTE 9—LEGAL MATTERS

In addition to the development noted in Note 1, within the Association's boundaries are undeveloped subdivisions that contain approximately 3,000 platted lots. These subdivisions are currently owned by corporate entities and were acquired from developers. For the most part, these subdivisions contain no residential infrastructure, such as roads, electrical power, natural gas, water, sewer, or storm drainage.

Historically, the Association did not maintain any common areas within these undeveloped subdivisions. In 2020, the Association sent a statement to these entities for unpaid maintenance fees. Shortly thereafter, one owner amended their covenants naming themselves as trustee, thus removing and relieving the Association from its duties as trustee. Notably, after the covenant amendment, the Association can no longer collect or receive maintenance fees for these subdivisions. Furthermore, on March 3, 2020, the owner of the subdivisions where the covenants were amended disputed the 2020 billing and took legal action against the Association.

Under the covenants, relieving the Association as trustee did not relieve the Association of its obligation to maintain common areas within these subdivisions should these areas be developed in the future. Moreover, should these areas be developed, there can be no assurance that these subdivisions will remain a part of the Association.