Padre Isles Property Owners Association, Inc.

Audited Financial Statements

December 31, 2021

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, 2021

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
Priyanka B. Desai, CPA

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the accompanying financial statements of Padre Isles Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2021, 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.

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, 2021, 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.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Padre Isles Property Owners Association, Inc. and to meet our 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.

Responsibilities of Management 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.

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 Padre Isles Property Owners Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued

Auditor's 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 auditor's 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 Padre Isles Property Owners Association, Inc.'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 Padre Isles Property Owners Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance 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.

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
May 14, 2022

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2021

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 208,875
Member common area maintenance fees receivables, net of allowance	183,617
Prepaid expenses	32,742
TOTAL CURRENT ASSETS	425,234
PROPERTY AND EQUIPMENT, NET	3,709
OTHER ASSETS	
Non-current member common area maintenance fees receivables, net of allowance	106,822
Investments	12,525,691
TOTAL OTHER ASSETS	12,632,513
TOTAL ASSETS	$ 13,061,456
LIABILITIES AND FUND BALANCES	
CURRENT LIABILITIES	
Accounts payable	$ 172,199
Builder deposits	1,700
Wages payable	10,860
Prepaid member common area maintenance fees	24,612
TOTAL CURRENT LIABILITIES	209,371
TOTAL LIABILITIES	209,371
FUND BALANCES	12,852,085
TOTAL LIABILITIES AND FUND BALANCES	$ 13,061,456

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, 2021

REVENUES	
Operating Revenues:	
Member common area maintenance fees	$ 1,971,896
Architectural control committee fees	100,296
TOTAL OPERATING REVENUES	2,072,192
EXPENSES	
General and administrative	721,224
Bulkhead maintenance	505,204
Common area maintenance	300,189
Billish Park construction & maintenance	60,798
Canal maintenance	11,974
Member common area maintenance fee refunds	(530)
Builder fee refunds	(1,000)
CAM fee write-offs	14,152
Investment expenses	10,108
TOTAL OPERATING EXPENSES	1,622,119
NET INCOME FROM OPERATIONS	450,073
Non-Operating Revenues:	
Prepaid member common area maintenance fees	14,700
Investment income	244,401
Unrealized gain on securities	30,287
Interest on member common area maintenance in arrears	27,491
Tax refunds	13,690
Legal cost recoupment	20,000
Other income	5,586
TOTAL NON-OPERATING REVENUES	356,155
EXCESS OF REVENUES OVER EXPENSES	806,228
Fund balances - beginning of year	12,045,857
FUND BALANCES - END OF YEAR	$ 12,852,085

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, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of revenues over expenses	$ 806,228
Adjustment to reconcile excess of revenues over expenses to net cash used by operating activities:	
Depreciation	999
(Increase) Decrease in:	
Member common area maintenance fees receivable	(14,127)
Prepaid expenses	(17,974)
Non-current receivables	(101,191)
Increase (Decrease) in:	
Accounts payable	159,018
Builder deposits	1,700
Wages payable	10,860
Prepaid member common area maintenance fees	6,132
Unrealized gains from investments	(30,287)
NET CASH PROVIDED BY OPERATING ACTIVITIES	821,358
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments	3,195,000
Purchase of investments	(4,064,353)
NET CASH USED BY INVESTING ACTIVITIES	(869,353)
DECREASE IN CASH	(47,995)
Cash at beginning of year	256,870
CASH AT END OF YEAR	$ 208,875
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, 2021 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, 2021 was $999.

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, 2021.

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, 2021. 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, 2021, 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 2018, 2019, 2020, and 2021 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 May 14, 2022, 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, 2021, 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, 2021, management believes no material 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 January 2017, the GASB issued Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and post-employment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting period beginning after June 15, 2021. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The statement establishes accounting and financial reporting requirements related to the replacement of LIBORs in hedging derivative instruments and 64 leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after December 31, 2021. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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, 2021, 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, 2021 is as follows:

Description	Level 1 Fair Value	Level 2 Fair Value	Level 3 Fair Value	Total
Long-term certificates of deposit	$ 9,313,461	$	$	$ 9,313,461
Mutual funds	3,212,230			3,212,230
Total	$ 12,525,691	$	$	$ 12,525,691

The changes in net unrealized gain on investments for the year ended December 31, 2021 are as follows:

Description	Unrealized Gains as of January 1, 2021	Change in Unrealized Gains	Unrealized Gains as of December 31, 2021
Long-term certificates of deposit	$ 108,642	$ (95,708)	$ 12,934
Mutual funds	612,523	125,994	738,517
Total	$ 721,165	$ 30,286	$ 751,451

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 net of allowance at the balance sheet date was $335,030. Since numerous accounts are over one year old as of December 31, 2021, 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, 2021. At December 31, 2021, the current member common area maintenance fees receivable, net of allowance, was $106,266, consisting of $205,432 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, 2021. At December 31, 2021, the non-current receivables, net of allowance was $228,764, consisting of $328,764 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		(145,002)
Net property and equipment at December 31, 2021	$	3,709

NOTE 7—GENERAL AND ADMINISTRATIVE EXPENSES

Accounting/auditing	$	94,295
Balloting, newsletters and postage		17,105
Banking and credit card fees		18,773
Board/annual meeting		7,915
Computer/IT		10,187
Contract labor		27,002
Depreciation		999
Insurance		92,525
Legal fees		13,722
Mileage		8,042
Miscellaneous and other		57,854
Office expenses		10,381
Office machine rentals		9,392
Payroll taxes		21,293
POA building maintenance		25,699
Property taxes		2,516
Salaries		281,325
Security alarm		4,025
Subscriptions		350
Telephone and utilities		13,624
Website		4,200
Total general and administrative expenses	$	721,224

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. 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, 2021, the Association’s reserve fund held $12,525,691 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 November of 2019, an owner filed a lawsuit against the Association, the ACC, and others, related to alleged covenant violations. As of December 31, 2021, and through the date of the audit report, the ultimate resolution of this case is unknown.

In 2020, the Association sent an invoice for unpaid maintenance fees to the owners of several undeveloped subdivisions that are within the Association's boundaries. On March 3, 2020, one of these owners disputed the billing and took legal action against the Association. As of December 31, 2021, 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, 2021, and through the date of the audit report, the ultimate resolution of this case is unknown.

Subsequent to December 31, 2021, but prior to the date of this report, the Association took legal action on February 10, 2022, against an owner for alleged covenant violations. As of December 31, 2021, and through the date of the audit report, the ultimate resolution of this case is unknown.