

Padre Isles Property Owners Association, Inc.

Audited Financial Statements

December 31, 2022



Padre Isles Property Owners Association, Inc.
Audited Financial Statements
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Balance Sheets as of December 31, 2022	3
Statements of Revenues, Expenses and Changes in Fund Balances for the years ended December 31, 2022	4
Statements of Cash Flows for the fiscal year ended December 31, 2022	5
Notes to Financial Statements	6-12



Craig A. Adamson, CPA CFF-Partner
Austin Adamson, CPA MAcc-Partner
Jennifer M. Perales, CPA MBA-Partner
Trevor R. Prewett, MAcc-Partner

Independent Auditor's Report

June 23, 2023

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

Opinion

We have audited the financial statements of Padre Isles Property Owners Association, Inc., Inc. which comprise the balance sheet as of December 31, 2022, 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 accompanying financial statements present fairly, in all material respects, the financial position of Padre Isles Property Owners Association, Inc., Inc. as of December 31, 2022, 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.

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., 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.

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.

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., 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 Responsibility 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 GAAS 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 GAAS, 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 information about 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 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 this missing information.

A handwritten signature in blue ink that reads "Adamson & Company, LLC". The signature is written in a cursive, flowing style.

Adamson & Company, LLC

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

Balance Sheet

December 31, 2022

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 953,536
Member Common Area Fees Receivable (Note 3)	159,585
Prepaid Expenses	19,465

Total Current Assets 1,132,586

Property and Equipment, Net (Note 4) 2,710

Other Assets

Non-current Member Common Area Fees Receivable, Net of Allowance (Note 3)	118,343
Investments (Notes 5 and 6)	11,372,785

Total Other Assets 11,491,128

TOTAL ASSETS \$ 12,626,424

LIABILITIES AND FUND BALANCE

Current Liabilities:

Accounts Payable	\$ 55,900
Builder Deposits	1,700
Wages Payable	23,277
Prepaid Member Common Area Maintenance Fees	15,062

Total Current Liabilities 95,939

TOTAL LIABILITIES 95,939

FUND BALANCE 12,530,485

TOTAL LIABILITIES AND FUND BALANCE \$ 12,626,424

See accompanying notes to financial statements

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

Statement of Revenues, Expenses and Change in Fund Balance

Year Ended December 31, 2022

OPERATING REVENUES

Member Common Area Maintenance Fees (Note 3)	\$ 2,037,823
Architectural Control Committee Fees	87,635
Resale Certificate Fees	<u>22,800</u>

Total Operating Revenues 2,148,258

OPERATING EXPENSES

General and Administrative (Note 8)	702,570
Bulkhead Maintenance	585,339
Common Area Maintenance	516,869
Billish Park Construction & Maintenance	67,785
Canal Maintenance	10,497
Common Area Maintenance Fee Write-Offs (Note 3)	<u>11,561</u>

Total Operating Expenses 1,894,621

Net Income From Operations 253,637

NON-OPERATING REVENUES AND EXPENSES

Interest, Dividend and Capital Gains Income	182,029
Unrealized Loss On Investments	(784,188)
Investment Expenses	(10,100)
Interest on Member Common Area Maintenance In Arrears (Note 3)	25,438
Billish Park City Contribution	14,700
Other Income	2,060
Other Expenses	<u>(5,176)</u>

Net Non-Operating Loss (575,237)

Excess of Expenses and Losses Over Revenues (321,600)

FUND BALANCE - BEGINNING 12,852,085

FUND BALANCE - ENDING \$12,530,485

PADRE ISLES PROPERTY OWNERS ASSOCIATION, INC.

Statement of Cash Flows

Year Ended December 31, 2022

Cash Flows from Operating Activities	
Change in Fund Balance	\$ (321,600)
Adjustments to Reconcile Change in Fund Balance to Net Cash Provided by Operating Activities:	
Depreciation Expense	999
Unrealized Loss on Investments	784,188
Changes in Operating Assets and Liabilities	
Accounts Receivable	123,198
Prepaid Insurance and Expenses	13,277
Non-current Receivables	(110,688)
Accounts Payable	(116,238)
Accrued Liabilities	2,807
	<hr/>
Net Cash Provided (Used) by Operating Activities	375,943
 Cash Flows from Investing Activities	
Sales of Investments	6,465,000
Purchase of Investments	(6,096,282)
	<hr/>
Net Cash Used by Investing Activities	368,718
 Net Increase in Cash	744,661
 Cash at Beginning of Year	<hr/> 208,875
 Cash at End of Year	<hr/> <hr/> \$ 953,536
 Supplemental Disclosures:	
Cash Paid for Interest	<hr/> <hr/> \$ 328

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 1 – Nature of Operations

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, 2022 was \$199,166.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include time and demand deposits, cash on hand and highly liquid debt instruments with initial maturities of three months or less.

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

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 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, 2022 was \$999.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the report 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, 2022.

Insurance

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

Income Taxes

The Association qualifies as a tax-exempt property owners' association under Internal Revenue Code Section 528 for the year ended December 31, 2022. 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, 2022, 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 2020, 2021, and 2022 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.

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Date of Management’s Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 23, 2023, 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, 2022, all investments were valued using Level 1 inputs.

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

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, 2022, 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.

Concentration of Credit Risk

The Association maintains cash balances at financial institutions located in south Texas. Cash accounts 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, 2022, there were no cash deposits in excess of federally insured limits.

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 3 – Member Common Area Maintenance Fees Receivable

The Association has amounts due from members related to 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 16% of annual revenues. Historically, because individual member delinquencies are relatively 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, 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, with board approval, 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 the allowance for doubtful accounts at the balance sheet date was \$277,928. Since numerous accounts are over one year old as of December 31, 2022, 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.

At December 31, 2022, the current receivables for common area maintenance and late fees billed in 2022 was \$159,585. Non-current receivables, net of allowance, represent past years' common area maintenance fees and late charges (billed prior to 2022) due from members as of December 31, 2022. The non-current receivables, net of allowance was \$118,343, consisting of \$317,509 in non-current common area maintenance fees and late charges less \$199,166 in allowance for doubtful accounts.

Note 4 – Property and Equipment

Property and equipment at December 31, 2022 are as follows:

Office Building	\$102,167
Furniture & Equipment	<u>46,543</u>
	148,710
Less: Accumulated Depreciation	<u>146,001</u>
	<u>\$ 2,709</u>

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 5 – Investments

Investments are recorded at fair value. The fair value at December 31, 2022 is as follows:

<u>Description</u>	<u>Level 1</u>
Certificates of Deposit	\$ 4,440,447
U.S. Treasury Notes	4,256,027
Mutual Funds	<u>2,676,311</u>
Total	<u>\$11,372,785</u>

All fair values of the Association’s investments have been determined using Level 1 inputs.

Certificates of deposit are maintained at numerous financial institutions with the balance at each institution below the federally insured limit of \$250,000.

Note 6 - Future Major Repairs & 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, 2022, the Association’s reserve fund held \$11,372,785 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 7 – Legal Matters

In November of 2019, an owner filed a lawsuit against the Association, the ACC, and others, related to alleged covenant violations. Subsequent to December 31, 2022, but prior to the date of the audit report, this case was settled prior to a court hearing. No further action is anticipated with regard to this matter.

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. In March 2020, one of these owners disputed the billing and took legal action against the Association. . During 2022, the parties reached an agreement whereby this dispute could be unwound by a specific set of actions. Several of these actions have taken place. However, a few remain to be completed. As of December 31, 2022, and through the date of the audit report, the ultimate resolution of this case is unknown.

Padre Isles Property Owners Association, Inc.

Notes to the Financial Statements

December 31, 2022

Note 7 – Legal Matters (continued)

In July of 2020, an owner filed a lawsuit against the Association, the ACC, and others, related to alleged covenant violations. Throughout 2022 no actions or filings have taken place by either the plaintiff or the Association. As of December 31, 2022, and through the date of the audit report, the ultimate resolution of this case is unknown.

In February 2022, the Association took legal action against an owner for alleged covenant violations. As of December 31, 2022, the owner has resolved the covenant violations to the Association's satisfaction. However, the legal action remains unresolved over payment of the Association's attorney fees. As of December 31, 2022, and through the date of the audit report, the ultimate resolution of this case is unknown.

Note 8 – General and Administrative Expenses

Accounting & Auditing	\$ 44,690
Balloting, Newsletters, & Postage	19,715
Banking & Credit Card Fees	18,101
Board & Annual Meetings	12,672
Computer & IT	12,519
Contract Labor	16,271
Deprecation	999
Employee Benefits	40,635
Insurance	127,922
Legal Fees	54,997
Mileage	11,395
Miscellaneous	7,223
Office Expenses	3,592
Office Machine Rentals	10,782
POA Building Maintenance	3,210
Property Taxes	923
Salaries	294,325
Security Alarm	3,203
Subscriptions	345
Telephone & Utilities	16,651
Website	<u>2,400</u>
Total General and Administrative Expenses	<u>\$702,570</u>