



**PALMAS DEL MAR HOMEOWNERS  
ASSOCIATION, INC. AND ITS SUBSIDIARY**

**Consolidated Financial Statements  
with Supplementary Information**

**For the Year Ended December 31, 2022**

**(With Comparative Totals for December 31, 2021)**



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Consolidated Financial Statements**

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**December 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Palmas Del Mar Homeowners Association, Inc.  
and its subsidiary (A non-profit organization)  
Humacao, Puerto Rico

### Opinion

I have audited the accompanying consolidated financial statements of Palmas del Mar Homeowners Association, Inc. and its subsidiary (a non-profit organization), which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of revenues, expenses and changes in fund balance, and consolidated cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Palmas del Mar Homeowners Association, Inc. and its subsidiary as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Palmas del Mar Homeowners Association, Inc. and its subsidiary and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Other Matters

As described in Note 8 to the consolidated financial statements, Palmas del Mar Homeowners Association, Inc. management has omitted the required supplementary 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, 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. My opinion on the consolidated financial statements is not affected by this missing information.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmas del Mar Homeowners Association, Inc. and its subsidiary'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

My objectives are to obtain reasonable assurance about whether the consolidated 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 my 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, I:

- 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 Palmas del Mar Homeowners Association, Inc. and its subsidiary'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmas del Mar Homeowners Association, Inc. and its subsidiary's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

#### **Summarized Comparative Totals**

I have previously audited the consolidated financial statements of Palmas del Mar Homeowners Association, Inc. and its subsidiary for December 31, 2021, and I expressed an unmodified opinion on those financial statements in my report dated March 22, 2022. In my opinion, the summarized comparative totals presented herein as of and for the year ended December 31, 2021, are consistent, in all material respects, with the audited consolidated financial statements from which they have been derived.

#### **Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information contained in pages 14 through 15 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Jorge L. Rodríguez Velázquez**  
Certified Public Accountant  
License No. 2283  
Expires December 1, 2024

Humacao, Puerto Rico  
March 3, 2023

Stamp E500393 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the original of this report.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2022**  
**(With Comparative Totals for 2021)**

<b>ASSETS</b>	<b>2022</b>			<b>2021 Total</b>
	<b>Operating Fund</b>	<b>Major Repairs Fund</b>	<b>Total</b>	
Current Assets:				
Cash and cash equivalents	\$ 1,037,724	\$ 1,142,549	\$ 2,180,273	\$ 2,436,883
Certificates of deposit	722,885	-	722,885	720,959
Assessments receivable - net	373,239	-	373,239	310,664
Other assets	9,568	198,239	207,807	36,927
Total current assets	2,143,416	1,340,788	3,484,204	3,505,433
Operating Right-of-Use Assets	35,245	-	35,245	-
Property, Plant and Equipment - net	1,657,882	-	1,657,882	1,690,032
<b>Total Assets</b>	<b>\$ 3,836,543</b>	<b>\$ 1,340,788</b>	<b>\$ 5,177,331</b>	<b>\$ 5,195,465</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Current Liabilities:				
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 181,258
Current maturities of obligation under right-of-use leases	8,663	-	8,663	-
Accounts payable and accrued expenses	424,100	-	424,100	206,878
Security deposit	170,924	-	170,924	144,924
Deferred revenues	636,631	-	636,631	639,733
Total current liabilities	1,240,318	-	1,240,318	1,172,793
Long-Term Debt - less current maturities	-	-	-	638,326
Obligation Under Right-of-Use Leases - less current maturities	26,582	-	26,582	-
<b>Total Liabilities</b>	<b>1,266,900</b>	<b>-</b>	<b>1,266,900</b>	<b>1,811,119</b>
Fund Balance	2,569,643	1,340,788	3,910,431	3,384,346
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,836,543</b>	<b>\$ 1,340,788</b>	<b>\$ 5,177,331</b>	<b>\$ 5,195,465</b>

The accompanying notes are an integral part of these statements.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Consolidated Statements of Revenues, Expenses and Changes in Fund Balance  
For the Year Ended December 31, 2022  
(With Comparative Totals for 2021)**

	<b>2022</b>			<b>2021</b>
	<b>Operating Fund</b>	<b>Major Repairs Fund</b>	<b>Total</b>	<b>Total</b>
<b>Revenues:</b>				
Owners assessment	\$ 3,618,596	\$ -	\$ 3,618,596	\$ 3,506,091
Road repairs	-	37,963	37,963	26,522
Review fees	112,418	-	112,418	127,091
Golf cart path fees	136,196	-	136,196	123,528
Access control stickers	63,919	-	63,919	77,844
Interest	3,531	1,238	4,769	7,519
Gain on debt extinguishment	-	-	-	59,800
Other income	129,078	-	129,078	196,851
Windstorm claim - property loss	2,050	-	2,050	1,383
<b>Total revenues</b>	<b>4,065,788</b>	<b>39,201</b>	<b>4,104,989</b>	<b>4,126,629</b>
<b>Expenses:</b>				
Security	1,159,561	-	1,159,561	1,004,086
Professional services	141,923	-	141,923	287,218
Ground maintenance	335,742	-	335,742	302,005
General maintenance	318,698	38,500	357,198	314,756
Salaries and fringe benefits	560,453	-	560,453	404,145
Bad debts expense	85,654	-	85,654	34,927
Depreciation and amortization	159,083	-	159,083	165,398
Major repairs	-	199,513	199,513	127,836
Hurricane expenses	-	48,440	48,440	-
Interest expense	25,886	-	25,886	49,381
Business meetings and activities	87,460	-	87,460	50,228
Office supplies	85,093	-	85,093	92,111
Utilities	62,267	-	62,267	60,043
Insurance	100,280	-	100,280	98,667
Office and motor vehicles maintenance	75,328	-	75,328	86,202
Bank charges	59,109	206	59,315	56,920
Car stickers, ID cards and others	35,708	-	35,708	18,817
<b>Total expenses</b>	<b>3,292,245</b>	<b>286,659</b>	<b>3,578,904</b>	<b>3,152,740</b>
<b>Excess of revenues over expenses (expenses over revenues)</b>	<b>773,543</b>	<b>(247,458)</b>	<b>526,085</b>	<b>973,889</b>
<b>Fund Balance at Beginning of Year</b>	<b>2,296,100</b>	<b>1,088,246</b>	<b>3,384,346</b>	<b>2,410,457</b>
<b>Interfund Transfer</b>	<b>(500,000)</b>	<b>500,000</b>	<b>-</b>	<b>-</b>
<b>Fund Balance at End of Year</b>	<b>\$ 2,569,643</b>	<b>\$ 1,340,788</b>	<b>\$ 3,910,431</b>	<b>\$ 3,384,346</b>

The accompanying notes are an integral part of these statements.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Consolidated Statements of Cash Flows  
For the Year Ended December 31, 2022  
(With Comparative Totals for 2021)**

	2022			2021
	Operating Fund	Major Repairs Fund	Total	Total
Cash Flows from Operating Activities:				
Excess of revenues over expenses (expenses over revenues)	\$ 773,543	\$ (247,458)	\$ 526,085	\$ 973,889
Adjustments to reconcile excess of revenues over expenses (expenses over revenues)				
Bad debts expense	85,654		85,654	34,927
Gain on debt extinguishment	-	-	-	(59,800)
Depreciation and amortization	159,083	-	159,083	165,398
Change in assets and liabilities:				
Increase in assessments receivable	(148,229)	-	(148,229)	(17,353)
Decrease in other receivables	-	-	-	15,121
Increase in other assets	(5,835)	(165,045)	(170,880)	(33,325)
Increase in accounts payable and accrued expenses	217,222	-	217,222	13,693
Increase in security deposit	26,000	-	26,000	66,060
(Decrease) increase in deferred revenues	(3,102)	-	(3,102)	156,662
Total adjustments	330,793	(165,045)	165,748	341,383
Net cash provided by (used in) operating activities	1,104,336	(412,503)	691,833	1,315,272
Cash Flows from Investing Activities:				
Increase in certificates of deposit	(1,926)	-	(1,926)	(5,188)
Net additions to property, plant and equipment	(126,933)	-	(126,933)	(70,585)
Net cash used in investing activities	(128,859)	-	(128,859)	(75,773)
Cash Flows from Financing Activities:				
Interfund transfer	(500,000)	500,000	-	-
Principal payments of long-term debt	(819,584)	-	(819,584)	(172,317)
Principal payments of capital lease obligation	-	-	-	(30,431)
Net cash (used in) provided by financing activities	(1,319,584)	500,000	(819,584)	(202,748)
Net (decrease) increase in cash and cash equivalents	(344,107)	87,497	(256,610)	1,036,751
Cash and Cash Equivalents at Beginning of Year	1,381,831	1,055,052	2,436,883	1,400,132
Cash and Cash Equivalents at End of Year	\$ 1,037,724	\$ 1,142,549	\$ 2,180,273	\$ 2,436,883
<b>Supplemental Disclosure</b>				
Interest paid during the year	\$ 25,886	\$ -	\$ 25,886	\$ 49,381
Non-cash change in operating right-of-use assets and related liability	\$ 8,031	\$ -	\$ 8,031	\$ -

The accompanying notes are an integral part of these statements.



## **PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC. AND ITS SUBSIDIARY**

### **Notes to Consolidated Financial Statements**

**December 31, 2022 and 2021**

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#### **1. Reporting Entity and Summary of Significant Accounting Policies**

Palmas Del Mar Homeowners Association, Inc. (the "Association") was organized as a non-for-profit organization under the laws of Commonwealth of Puerto Rico. The Association is primarily engaged in the management, maintenance and preserving common property of Palmas del Mar Development, consisting principally of access control parcels, golf cart paths and a building located in Humacao, Puerto Rico.

Palmas Del Mar Homeowners Association Architectural Review Board (PHA-ARB) is a wholly owned subsidiary of the Association and is also a non-for-profit entity organized under the laws of Commonwealth of Puerto Rico. PHA-ARB is engaged to prepare, promulgate and enforce design and development guidance and construction rules and regulations for the Palmas Del Mar Development community.

A summary of the significant accounting policies followed in the United States of America and consistently applied in the preparation of the accompanying consolidated financial statements judged by management to be the most appropriate in the circumstances to present fairly the Association's consolidated financial position and results of operations in accordance with accounting principles generally accepted in the United States of America follows:

##### ***Method of accounting***

The Association's consolidated financial statements have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and accordingly, reflect all significant receivables, payables, and other liabilities. Revenue is recorded as earned and expenses are recorded as incurred.

The consolidated financial statements include the accounts of the Association and PHA-ARB, its wholly owned subsidiary, which are included as part of the Operating Fund for presentation in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

##### ***Use of estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

##### ***Cash and cash equivalents***

For purposes of the consolidated statements of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

##### ***Basis of presentation***

During July 2021, as approved by its Board of Directors, the Association's management established a Major Repairs Fund (as described below) and changed its financial statements presentation to funds reporting. The basic changes to the consolidated financial statements were in its titles and the substitution of the net assets caption for fund balance.

The Association operates on a fund accounting basis whereby the operating fund is used for payment of current expenses, while major repairs and replacements are disbursed from the accumulated major repairs fund.





**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

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***Major Repairs Fund***

The Major Repairs Fund, which was established and funded during 2021, is used to accumulate financial resources for future major repairs and replacements of the common property or other specific purposes (emergencies situations) rather than be used for current operations. However, funds maintained at the Major Repairs Fund are not formally restricted and, accordingly, at the discretion of the Association's Board of Directors and management, are available for its general operations. The funds assigned to the Major Repairs Fund come principally from excess cash maintained by the Association in a bank account identified for these purposes (see Note 8 for additional disclosure). The Major Repairs Fund balance at December 31, 2022 was segregated by the Association's management for the following purposes:

<b>Purposes</b>	<b>Fund Balance</b>
Major Disasters	\$ 751,500
Coral Reef	170,000
Marina Dretch and Aerators	125,000
General Projects	294,500
	<u>\$ 1,341,000</u>

***Owners' assessments***

Owners contribute to cover the costs of maintaining the common areas, including an amount destined to major projects and repairs. The contribution is determined based on the type of the unit owned. The policy of the Association is to impose late fees on overdue installments. When the quota is considered expired and in delinquency status, it could be reclaimed through the courts at the behest of the Association to decree a lien on the property of the holder. The late fees are recognized as income when such fees are collected. The Association uses a guideline of 100% provision for allowance for doubtful accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

Annual assessments to owners, during the year ended December 31, 2022, were as follows:

<b>Owner of:</b>	<b>Annual Assessment</b>
Residential units	\$914
Residential lots	\$732 (80% of the assessment or residential units)
Commercial units	One assessment of residential units per each 1,000 square feet or fraction thereof
Commercial lots	One assessment of residential units per acre or fraction thereof
Rural tracts	One assessment of residential units per each 17 acres or fraction thereof

The annual budget and assessments of owners are determined by the Board of Directors and approved by the owners. If the next year's assessment is paid prior to January 31 of the year, a 2.5% discount is applied. The Association retains excess operating funds, that are not designated for future major repairs and replacements, for future operational needs. For the year ending December 31, 2023, as approved by the Board of Directors, the residential units and residential lots assessment will be \$944 and \$756, respectively. Assessment revenues are recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligation related to the owner's operating assessment is satisfied over time on a daily pro-rata basis using the input method, and its related revenue is recognized on a monthly straight-line basis.

The road repairs assessment is designated by the Association for future major repairs and replacements and is used exclusively for road repairs. Road repairs fees are assessed at \$0.40 per square foot of new construction payable on or before the final endorsement for such new construction is provided by the PHA-ARB.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

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***Assessments receivable***

As related to assessments receivable, the Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. As of December 31, 2022 and 2021, the Association had assessments receivable of \$1,105,405 and \$959,548 of which \$695,177 and \$615,462 were delinquent, respectively. The Board of Directors is of opinion that they will ultimately prevail against the remaining homeowners whose assessments are delinquent; however, an allowance for uncollectible accounts for the years ended in December 31, 2022 and 2021, amounting to \$732,166 and \$648,884, respectively, has been established.

***Financial instruments***

The carrying amounts of cash and cash equivalents, certificates of deposit, assessments receivable, other receivable and other assets, accounts payable and accrued expenses, security deposit, and deferred revenues approximate their fair value because of the short maturity of these items.

***Prepaid expenses***

Expenditures made to secure the use of assets or the receipt of services at a future date are charged to prepaid expenses account and are amortized based on the term and usage of the amounts.

***Property, plant and equipment***

The Association's policy for common property is to recognize as property, plant and equipment in the consolidated balance sheet: (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds, or that is used to generate significant cash flows from members on the basis of usage or from non-members.

Palmas Del Mar Properties, Inc., (the "Developer") may retain legal title to common properties until such time as it has completed improvements, if any, thereon. The Developer is obligated to transfer such legal title to the Association (or to the proper governmental instrumentality, where applicable) when, in the Developer's opinion, the Association is able to maintain the same, but not later than the date of completion of the development. The Association is obligated to accept all legal titles and all transactions delivered to them by the Developer, which pertain to the common properties.

Depreciation and amortization of property, plant and equipment is provided using the straight-line method for financial reporting purposes based on its estimated useful life.

***Impairment of long-lived assets***

The Association evaluates its property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flow, an impairment charge is recognized by which the carrying amount of the asset exceeds its estimated future cash flow. Assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less cost to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets. No impairment was recognized during the years ended December 31, 2022 and 2021.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
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**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

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***Budget***

The annual budget is determined by the Board of Directors and sent to the owners. Any excess of income over expenditures at the end of the year is retained by the Board of Directors for use in future periods.

***Leases***

Operating leases, as a lessee, are included in operating right-of-use assets and obligation under right-of-use leases on the consolidated balance sheets. Operating right-of-use assets represents the Association's right to use an underlying asset for the lease term. Obligation under right-of-use leases represents the Association's liability to make lease payments arising from the lease. Operating right-of-use assets and its related obligation are recognized at commencement date, for leases with terms of more than twelve months, based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate.

The commencement date is when the Association either takes possession of the asset, or when the asset is available for use. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

***Income taxes***

The Association is exempt from income, municipal, and property taxes, under section 1101(09) of the Puerto Rico Income Tax Code, section 9(9) of the Municipal License Act, and section 5.01(e) of the Municipal Property Tax Act, respectively.

***Concentration of credit risk***

The Association maintains its cash in deposit accounts at high credit quality financial institutions. As of December 31, 2022 and 2021, the accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") and "Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico" ("COSSEC") up to \$250,000 per financial institution, respectively. At various times through the year, the Association may have maintained cash balances in excess of the insured amounts. As of December 31, 2022 and 2021, cash in financial institutions exceeded FDIC and COSSEC insured limits by \$1,820,078 and \$2,2056,816, respectively.

***Recently Adopted Accounting Pronouncement***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, or *Accounting Standards Codification 842 ("ASC 842")*. ASC 842 establishes a comprehensive new lease accounting model. The new standard clarifies the definitions of a lease, requires a dual approach to lease classification similar to current lease classifications, and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. Key provisions in this guidance include additional disclosures surrounding the amount, timing and uncertainty of cash flows arising from leases. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU was effective for all business entities for fiscal years beginning after December 15, 2019. In June 2020, the FASB issued ASU 2020-05 which included a deferral by one year the effective date of ASC 842. The Association adopted ASU 2016-02 on January 1, 2022. Refer to Note 6, for additional disclosure.

***Summarized Comparative Totals for 2021***

The consolidated financial statements include certain summarized comparative totals information for 2021 but not by fund. Such comparative totals information does not include sufficient details to constitute a presentation in accordance with generally accepted accounting principles, and it is presented for informational purposes only. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended December 31, 2021, from which it was derived.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

**2. Related Party Transactions**

On December 5, 2011, the Association created the PHA Pterocarpus Forest, Inc. ("PHA Pterocarpus"), a not-for-profit organization that is in charge of overseeing the restoration, preservation and maintenance conservation efforts of a Pterocarpus Forest located in the Palmas del Mar Development community. All contracts entered into by PHA Pterocarpus and all amendments to its by-laws or certificate of incorporation shall be subject to the approval or ratification of the Board of Directors of the Association. Also, in the event of termination or dissolution of PHA Pterocarpus, any and all of its active belongings will revert to the Association or be disposed as directed by the Board of Directors of the Association. In accordance with FASB ASC 958-810-25-4, the aforementioned control (although neither through direct or indirect ownership of a majority voting interest nor a majority of voting interest in the Board of Directors other than ownership) and economic interest that the Association has over PHA Pterocarpus will encourage, but not require, consolidation of PHA Pterocarpus financial statements in the financial statements of the Association.

During the years ended December 31, 2022 and 2021, the Association incurred in \$4,174 and \$11,782 related to PHA Pterocarpus operations for the preservation and maintenance conservation efforts of the Pterocarpus Forest, respectively.

As of December 31, 2022 and 2021, PHA Pterocarpus had total assets amounting to \$75,954 and \$82,601, respectively. For the years ended December 31, 2022 and 2021, PHA Pterocarpus reported donations revenues amounting to \$10,053 and \$17,829, respectively. In addition, during the years ended December 31, 2022 and 2021, PHA Pterocarpus reported expenses amounting to \$20,399 and \$18,231, respectively.

**3. Property, Plant and Equipment**

At December 31, 2022 and 2021, property, plant and equipment consisted of the following:

	<b>2022</b>	<b>2021</b>
Furnitures and fixtures	\$ 150,355	\$ 143,384
Motor vehicles	101,031	73,290
Access control system	648,143	648,143
Golf cart path	293,088	293,088
Building	2,871,727	2,871,727
Equipment	346,003	346,003
Main gate improvements	62,426	-
	<u>4,472,773</u>	<u>4,375,635</u>
Less - Accumulated depreciation and amortization	<u>(2,814,891)</u>	<u>(2,701,596)</u>
	1,657,882	1,674,039
Construction in progress	-	15,993
	<u>\$ 1,657,882</u>	<u>\$ 1,690,032</u>

The Association's building served as collateral for a long term-debt paid in full during the current year, as disclosed in Note 5 to the accompanying consolidated financial statements.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

**4. Deferred Revenues**

On December 2013, the Association, as lessor, entered into a property lease agreement with a third party. This agreement leases a parcel of land, considered common property of the Palmas del Mar. The lease term is for 99 years and will be automatically extended and covered by the initial payment with no additional cost. At the execution of this agreement, the lessee paid a lump sum of \$125,000 which was recognized as deferred revenue in the consolidated balance sheets. As of December 31, 2022 and 2021, the deferred revenue balance related to this transaction amounted to \$113,636 and \$114,899, respectively.

In addition, before the year ended, the Association received owner's assessments corresponding to the subsequent year budget. The assessments collected in advance were recognized as deferred revenue. As of December 31, 2022 and 2021, the assessments collected in advance amounted to \$522,995 and \$524,834, respectively.

**5. Long-Term Debt**

At December 31, 2021, long-term debt consisted of: a 6.50% note payable to bank, collateralized with building, due in monthly installments of \$18,230 including interest through February 2026, with an outstanding principal balance of \$819,584. This outstanding principal balance of the long-term debt was presented in the consolidated balance sheet of 2021 as follows: \$181,258 and \$638,326 as current and long-term portion, respectively. During August 2022, the Association paid in full the referred long-term debt, and accordingly, there is no balance outstanding at December 31, 2022.

In addition, on April 6, 2021, the SBA granted a fully forgiveness of a note payable for principal of \$59,800, obtained by the Association under the SBA's Paycheck Protection Program (CARES Act). The forgiven principal balance of \$59,800 was presented as gain on debt extinguishment in the 2021 consolidated statement of revenues, expenses and changes in fund balance.

**6. Operating Lease**

During September 2021, the Association as lessee, entered into a lease agreement for certain office equipment. The lease agreement provides for monthly payments of \$920 through September 2026. Effective on January 1, 2022, the Association adopted the provisions of ASU No. 2016-02, *Leases (Topic 842)*, and, as related to this lease agreement, recognized an operating right-of-use assets and its corresponding related lease obligation of \$43,276. This amount represented the present value of the remaining lease payments at such date, discounted using the established lease agreement rate of 7.6% and remaining lease payments of 56 months. At December 31, 2022, the Association's operating right-of-use assets and its corresponding obligation under right-of-use leases was \$35,245, and represented the present value of the remaining lease payments of 44 months. During year ended December 31, 2022, rent expense related to this lease was \$11,044, and it is included as part of office supplies in the accompanying consolidated statements of revenues, expenses and changes in fund balance.

Future minimum lease payments for years ending December 31 are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2023	\$ 11,044
2024	11,044
2025	11,044
2026	7,362
Total minimum lease payments	40,494
Less - present value discount	(5,249)
Present value of lease obligation	<u>\$ 35,245</u>





**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
December 31, 2022 and 2021**

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**7. Coronavirus Disease (COVID-19)**

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures world-wide. The COVID-19 outbreak in Puerto Rico caused business disruptions through mandated and voluntary closures. While the disruption is expected to be temporary, there is uncertainty around its duration. Although the Association's management expected this pandemic to have some temporarily negative impact in its operations, actually no significant adverse impact has been experienced in the Association's financial results and operations.

**8. Future Major Repairs and Replacements**

Although the Association's management has established a fund for major repairs, it has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time. For the years ended December 31, 2022 and 2021, the major repairs and replacements expenses amounted to \$199,513 and \$127,836, respectively. The established Major Repairs Fund has cash available for approximately \$1.1 million at December 31, 2022, which, at the discretion of the Association's Board of Directors and management, has been assigned for future major repairs and replacements (refer to Note 1).

**9. Subsequent Events**

The Association has performed an evaluation of subsequent events from January 1, 2023 through March 3, 2023, which is the date the consolidated financial statements were available to be issued, and has determined that there are no such events that require recognition or disclosure in the consolidated financial statements.



## **SUPPLEMENTARY INFORMATION**



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY  
Schedule of Consolidating Balance Sheets  
December 31, 2022**

ASSETS			Eliminating Entries		Consolidated Balance
	PMHOA <sup>(1)(3)</sup>	PHA-ARB <sup>(2)</sup>	DR	CR	
Current Assets					
Cash and cash equivalents	\$ 1,889,421	\$ 290,852	\$ -	\$ -	\$ 2,180,273
Certificates of deposit	722,885	-	-	-	722,885
Assessments receivable - net	373,239	-	-	-	373,239
Due from affiliate	-	5,490	-	5,490	-
Other assets, including interfund balance	207,807	-	-	-	207,807
Total current assets	3,193,352	296,342	-	5,490	3,484,204
Operating Right-of-Use Assets	35,245	-	-	-	35,245
Property, Plant and Equipment, at cost - net	1,657,882	-	-	-	1,657,882
<b>Total Assets</b>	<b>\$ 4,886,479</b>	<b>\$ 296,342</b>	<b>\$ -</b>	<b>\$ 5,490</b>	<b>\$ 5,177,331</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Current Liabilities					
Current maturities of obligation under right-of-use leases	\$ 8,663	\$ -	\$ -	\$ -	\$ 8,663
Accounts payable and accrued expenses, including interfund balance	414,060	10,040	-	-	424,100
Due to affiliate	5,490	-	5,490	-	-
Security deposit	-	170,924	-	-	170,924
Deferred revenues	636,631	-	-	-	636,631
Total current liabilities	1,064,844	180,964	5,490	-	1,240,318
Obligation Under Right-of-Use Leases - less current maturities	26,582	-	-	-	26,582
<b>Total Liabilities</b>	<b>1,091,426</b>	<b>180,964</b>	<b>5,490</b>	<b>-</b>	<b>1,266,900</b>
Fund Balance	3,795,053	115,378	-	-	3,910,431
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,886,479</b>	<b>\$ 296,342</b>	<b>\$ 5,490</b>	<b>\$ -</b>	<b>\$ 5,177,331</b>

PMHOA<sup>(1)</sup> - Palmas del Mar Homeowners Association, Inc.

PHA-ARB<sup>(2)</sup> - Palmas del Mar Homeowners Association Architectural Review Board

PMHOA<sup>(3)</sup> - Includes combined balances of Operating Fund and Major Repairs Fund





**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY**  
**Schedule of Consolidating Statements of Revenues, Expenses and Changes in Fund Balance**  
**For the Year Ended December 31, 2022**

	<b>PMHOA<sup>(1)(3)</sup></b>	<b>PHA-ARB<sup>(2)</sup></b>	<b>Eliminating Entries</b>		<b>Consolidated</b>
			<b>DR</b>	<b>CR</b>	<b>Balance</b>
<b>Revenues:</b>					
Owners assessment	\$ 3,618,596	\$ -	\$ -	\$ -	\$ 3,618,596
Road repair	37,963	-	-	-	37,963
Review fees	-	112,418	-	-	112,418
Golf cart path fees	136,196	-	-	-	136,196
Access control stickers	63,919	-	-	-	63,919
Interest	4,512	257	-	-	4,769
Other income	128,598	480	-	-	129,078
Windstorm claim - property loss	2,050	-	-	-	2,050
<b>Total revenues</b>	<b>3,991,834</b>	<b>113,155</b>	<b>-</b>	<b>-</b>	<b>4,104,989</b>
<b>Expenses:</b>					
Security	1,159,561	-	-	-	1,159,561
Professional services	83,373	58,550	-	-	141,923
Ground maintenance	335,742	-	-	-	335,742
General maintenance	357,198	-	-	-	357,198
Salaries and fringe benefits	560,453	-	-	-	560,453
Bad debts expense	85,654	-	-	-	85,654
Depreciation and amortization	159,083	-	-	-	159,083
Major repairs	199,513	-	-	-	199,513
Hurricane expenses	48,440	-	-	-	48,440
Interest expense	25,886	-	-	-	25,886
Business meetings and activities	87,460	-	-	-	87,460
Office supplies	82,884	2,209	-	-	85,093
Utilities	61,655	612	-	-	62,267
Insurance	100,280	-	-	-	100,280
Office and motor vehicles maintenance	75,328	-	-	-	75,328
Bank charges	59,315	-	-	-	59,315
Car stickers, ID cards and others	35,708	-	-	-	35,708
<b>Total expenses</b>	<b>3,517,533</b>	<b>61,371</b>	<b>-</b>	<b>-</b>	<b>3,578,904</b>
<b>Excess of revenues over expenses</b>	<b>474,301</b>	<b>51,784</b>	<b>-</b>	<b>-</b>	<b>526,085</b>
<b>Fund Balance at Beginning of Year</b>	<b>3,320,752</b>	<b>63,594</b>	<b>-</b>	<b>-</b>	<b>3,384,346</b>
<b>Fund Balance at End of Year</b>	<b>\$ 3,795,053</b>	<b>\$ 115,378</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,910,431</b>

**PMHOA<sup>(1)</sup> - Palmas del Mar Homeowners Association, Inc.**

**PHA-ARB<sup>(2)</sup> - Palmas del Mar Homeowners Association Architectural Review Board**

**PMHOA<sup>(3)</sup> - Includes combined balances of Operating Fund and Major Repairs Fund**