



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

**Consolidated Financial Statements  
with Supplementary Information**

**For the Year Ended December 31, 2023**

**(With summarized comparative information  
for December 31, 2022)**



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.  
AND ITS SUBSIDIARY  
Consolidated Financial Statements  
Table of Contents  
December 31, 2023**

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	<u>Page(s)</u>
<b>Independent Auditor's Report</b>	1-2
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets	3
Consolidated Statements of Revenues, Expenses and Changes in Fund Balance	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-12
<b>Supplementary Information</b>	
Schedule of Consolidating Balance Sheets	14
Schedule of Consolidating Statements of Revenues, Expenses and Changes in Fund Balance	15



## 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, 2023, 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, 2023, 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 7 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.

#### **Report on Summarized Comparative Information**

I have previously audited the consolidated financial statements of Palmas del Mar Homeowners Association, Inc. and its subsidiary as of and for the year ended December 31, 2022, and I expressed an unmodified opinion on those financial statements in my report dated March 3, 2023. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

#### **Report on 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. Rodriguez Velázquez**  
Certified Public Accountant  
License No. 2283  
Expires December 1, 2024

Humacao, Puerto Rico  
March 5, 2024

Stamp No. E563379 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, 2023  
(With summarized comparative information as of December 31, 2022)

ASSETS	2023			2022 Total
	Operating Fund	Major Repairs Fund	Total	
Current Assets:				
Cash and cash equivalents	\$ 1,234,082	\$ 893,838	\$ 2,127,920	\$ 2,180,273
Certificates of deposit	727,207	-	727,207	722,885
Assessments receivable - net	361,210	-	361,210	373,239
Interfund balance	(441,264)	441,264	-	-
Other assets	8,059	-	8,059	9,568
Total current assets	1,889,294	1,335,102	3,224,396	3,285,965
Operating Right-of-Use Assets	26,582	-	26,582	35,245
Property, Plant and Equipment - net	1,535,761	-	1,535,761	1,657,882
<b>Total Assets</b>	<b>\$ 3,451,637</b>	<b>\$ 1,335,102</b>	<b>\$ 4,786,739</b>	<b>\$ 4,979,092</b>
<b>LIABILITIES AND FUND BALANCE</b>				
Current Liabilities:				
Current maturities of obligation under right-of-use leases	\$ 9,345	\$ -	\$ 9,345	\$ 8,663
Accounts payable and accrued expenses	190,659	-	190,659	225,861
Security deposit	181,124	-	181,124	170,924
Deferred revenues	746,541	-	746,541	636,631
Total current liabilities	1,127,669	-	1,127,669	1,042,079
Obligation Under Right-of-Use Leases - less current maturities	17,237	-	17,237	26,582
<b>Total Liabilities</b>	<b>1,144,906</b>	<b>-</b>	<b>1,144,906</b>	<b>1,068,661</b>
Fund Balance	2,306,731	1,335,102	3,641,833	3,910,431
<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,451,637</b>	<b>\$ 1,335,102</b>	<b>\$ 4,786,739</b>	<b>\$ 4,979,092</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, 2023**

**(With summarized comparative information for the year ended December 31, 2022)**

	2023			2022 Total
	Operating Fund	Major Repairs Fund	Total	
<b>Revenues:</b>				
Owners assessment	\$ 3,918,348	\$ -	\$ 3,918,348	\$ 3,618,596
Road repairs	-	13,139	13,139	37,963
Review fees	46,052	-	46,052	112,418
Golf cart path fees	149,888	-	149,888	136,196
Access control stickers	66,370	-	66,370	63,919
Interest	12,363	5,894	18,257	4,769
Other income	185,528	-	185,528	129,078
Insurance claim income	12,693	-	12,693	2,050
<b>Total revenues</b>	<b>4,391,242</b>	<b>19,033</b>	<b>4,410,275</b>	<b>4,104,989</b>
<b>Expenses:</b>				
Security	1,281,103	-	1,281,103	1,159,561
Professional services	147,965	-	147,965	141,923
Ground maintenance	357,302	-	357,302	335,742
General maintenance	452,475	11,880	464,355	357,198
Salaries and fringe benefits	652,011	-	652,011	560,453
Bad debts expense	193,724	-	193,724	85,654
Depreciation and amortization	153,199	-	153,199	159,083
Major repairs	-	806,921	806,921	199,513
Hurricane expenses	-	15,331	15,331	48,440
Interest expense	-	-	-	25,886
Business meetings and activities	192,241	-	192,241	87,460
Office supplies	86,470	-	86,470	85,093
Utilities	66,670	-	66,670	62,267
Insurance	102,203	-	102,203	100,280
Office and motor vehicles maintenance	73,415	-	73,415	75,328
Bank charges	71,315	-	71,315	59,315
Car stickers, ID cards and others	14,648	-	14,648	35,708
<b>Total expenses</b>	<b>3,844,741</b>	<b>834,132</b>	<b>4,678,873</b>	<b>3,578,904</b>
Excess of revenues over expenses (expenses over revenues)	546,501	(815,099)	(268,598)	526,085
Fund Balance at Beginning of Year	2,569,643	1,340,788	3,910,431	3,384,346
Interfund Approved Transfers	(809,413)	809,413	-	-
<b>Fund Balance at End of Year</b>	<b>\$ 2,306,731</b>	<b>\$ 1,335,102</b>	<b>\$ 3,641,833</b>	<b>\$ 3,910,431</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, 2023**

**(With summarized comparative information for the year ended December 31, 2022)**

	2023			2022 Total
	Operating Fund	Major Repairs Fund	Total	
<b>Cash Flows from Operating Activities:</b>				
Excess of revenues over expenses (expenses over revenues)	\$ 546,501	\$ (815,099)	\$ (268,598)	\$ 526,085
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:				
Bad debts expense	193,724	-	193,724	85,654
Depreciation and amortization	153,199	-	153,199	159,083
Change in assets and liabilities:				
Increase in assessments receivable	(181,695)	-	(181,695)	(148,229)
Increase in interfund balance	(133,475)	133,475	-	-
Decrease (increase) in other assets	1,509	-	1,509	(5,835)
(Decrease) increase in accounts payable and accrued expenses	(35,202)	-	(35,202)	52,177
Increase in security deposit	10,200	-	10,200	26,000
Increase (decrease) in deferred revenues	109,910	-	109,910	(3,102)
Total adjustments	118,170	133,475	251,645	165,748
Net cash provided by (used in) operating activities	664,671	(681,624)	(16,953)	691,833
<b>Cash Flows from Investing Activities:</b>				
Increase in certificates of deposit	(4,322)	-	(4,322)	(1,926)
Net additions to property, plant and equipment	(31,078)	-	(31,078)	(126,933)
Net cash used in investing activities	(35,400)	-	(35,400)	(128,859)
<b>Cash Flows from Financing Activities:</b>				
Interfund cash transfers	(432,913)	432,913	-	-
Principal payments of long-term debt	-	-	-	(819,584)
Net cash (used in) provided by financing activities	(432,913)	432,913	-	(819,584)
Net increase (decrease) in cash and cash equivalents	196,358	(248,711)	(52,353)	(256,610)
Cash and Cash Equivalents at Beginning of Year	1,037,724	1,142,549	2,180,273	2,436,883
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 1,234,082</b>	<b>\$ 893,838</b>	<b>\$ 2,127,920</b>	<b>\$ 2,180,273</b>
<b>Supplemental Disclosure</b>				
Interest paid during the year	\$ -	\$ -	\$ -	\$ 25,886
Non-cash change in operating right-of-use assets and related liability	\$ 8,663	\$ -	\$ 8,663	\$ 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, 2023 and 2022**

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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 purposes 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 the 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***

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.

The consolidated financial statements include certain prior year summarized comparative information in total, but not by funds. Such information is not intended for and does not include sufficient details to constitute a complete presentation in accordance with GAAP, and it is presented for comparison purposes only. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended December 31, 2022, from which it was derived.





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

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

***Major Repairs Fund***

The Major Repairs Fund is used to accumulate financial resources for future major repairs and replacements of 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 7 for additional disclosure). The Major Repairs Fund balance at December 31, 2023, was assigned by the Association's management for the following purposes:

<u>Purposes</u>	<u>Fund Balance</u>
Major Disasters	\$ 1,000,060
Coral Reef	134,000
General Projects	201,040
	<u>\$ 1,335,100</u>

At December 31, 2023, the Major Repairs Fund includes an interfund balance receivable of \$441,264. This interfund balance is composed of an assignment of \$376,500 approved by the Board of Directors for major disaster projects, and \$64,764 from normal operating transactions between funds.

***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 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, 2023, were as follows:

<u>Owner of:</u>	<u>Annual Assessment</u>
Residential units	\$992
Residential lots	\$794 (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 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, 2024, as approved by the Board of Directors, the residential units and residential lots assessment will be \$1,042 and \$834, 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. A deferred revenue is recorded when the Association receives assessment payments in advance of the satisfaction of its performance obligation.



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

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

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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.

***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, 2023, and 2022, the Association had assessments receivable of \$1,254,090 and \$1,105,405 of which \$811,166 and \$695,177 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 on December 31, 2023, and 2022, amounting to \$892,880 and \$732,166, 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, which range from 3 to 30 years.

***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. The 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, 2023, and 2022.



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

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

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***Budget***

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

***Leases***

The Association, as a lessee, includes operating leases 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 that 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.

Management has evaluated the effect of guidance surrounding uncertain tax positions and concluded that the Association does not have any financial statements exposure to uncertain tax positions at December 31, 2023, nor any matter that could jeopardize its tax-exempt status.

All applicable tax returns through December 31, 2023, have been appropriately filed by the Association. With a few exceptions, the Association is no longer subject to income tax examination by the tax authorities for the years before 2019.

***Concentration of credit risk***

The Association maintains its cash in deposit accounts at high credit quality financial institutions. As of December 31, 2023, and 2022, 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, 2023, and 2022, cash in financial institutions exceeded FDIC and COSSEC insured limits by approximately \$1,782,000 and \$1,820,000, respectively.

***Reclassifications***

Certain reclassifications were made to December 31, 2022, summarized comparative information in order to conform it with current year financial statements presentation.



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

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

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**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. Accordingly, the Associations' management decided not to include PHA Pterocarpus financial information in its consolidated financial statements.

During the years ended December 31, 2023, and 2022, the Association incurred in \$6,375 and \$4,174 related to PHA Pterocarpus operations for the preservation and maintenance conservation efforts of the Pterocarpus Forest, respectively.

As of December 31, 2023, and 2022, PHA Pterocarpus had total assets amounting to \$63,445 and \$75,954, respectively. For the years ended December 31, 2023, and 2022, PHA Pterocarpus reported donations revenues amounting to \$8,025 and \$10,053, respectively. In addition, during the years ended December 31, 2023, and 2022, PHA Pterocarpus reported expenses amounting to \$17,334 and \$20,399, respectively.

**3. Property, Plant and Equipment**

At December 31, 2023 and 2022, property, plant and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Furnitures and fixtures	\$ 155,773	\$ 150,355
Motor vehicles	73,531	101,031
Access control system	651,212	648,143
Golf cart path	293,088	293,088
Building	2,871,727	2,871,727
Equipment	361,798	346,003
Main gate improvements	69,221	62,426
	<u>4,476,350</u>	<u>4,472,773</u>
Less - Accumulated depreciation and amortization	<u>(2,940,589)</u>	<u>(2,814,891)</u>
	<u>\$ 1,535,761</u>	<u>\$ 1,657,882</u>

**4. Deferred Revenues**

In 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, 2023, and 2022, the deferred revenue balance related to this transaction amounted to \$112,374 and \$113,636, respectively.



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

**Notes to Consolidated Financial Statements  
December 31, 2023 and 2022**

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In addition, before the year ended, the Association received the owner's assessments corresponding to the subsequent year budget. The assessments collected in advance were recognized as deferred revenue. As of December 31, 2023, and 2022, the assessments collected in advance amounted to \$634,167 and \$522,995, respectively.

**5. Operating Lease and Lease Obligation**

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 the lease effective date, discounted using the established lease agreement rate of 7.6% and remaining lease payments of 56 months. On December 31, 2023, the Association's operating right-of-use assets and its corresponding obligation under right-of-use leases was \$26,582 and represented the present value of the remaining lease payments of 32 months. During the year ended December 31, 2023, 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>
2024	\$ 11,044
2025	11,044
2026	7,362
Total minimum lease payments	29,450
Less - present value discount	(2,868)
Present value of lease obligation	26,582
Less - current maturities	(9,345)
	<u>\$ 17,237</u>

The Association, as lessor, leases certain multi-use room facilities and a billboard on a day-to-day basis. During the year ended December 31, 2023, rent income related to these leases was approximately \$38,000, and it is included as part of other income in the accompanying consolidated statements of revenues, expenses, and changes in fund balance.

**6. Litigation and Contingency**

The Association is a defendant in various lawsuits resulting from the normal course of operations. The Association's management believes, based on legal advice, that the final disposition of these cases will not have a material adverse effect on the Association's financial position or results of operations. Accordingly, the Association's management has determined that no reserve for legal contingencies is considered necessary in the accompanying consolidated financial statements.

**7. 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, 2023, and 2022, the major repairs and replacements expenses amounted to \$806,921 and \$119,513, respectively.



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

**Notes to Consolidated Financial Statements**

**December 31, 2023 and 2022**

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The established Major Repairs Fund has cash available for approximately \$893,000 on December 31, 2023, 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).

**8. Subsequent Events**

The Association has performed an evaluation of subsequent events from January 1, 2024, through March 5, 2024, 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, 2023

ASSETS	PMHOA <sup>(1)(3)</sup>	PHA-ARB <sup>(2)</sup>	Eliminating Entries		Consolidated Balance
			DR	CR	
Current Assets:					
Cash and cash equivalents	\$ 1,844,198	\$ 283,722	\$ -	\$ -	\$ 2,127,920
Certificates of deposit	727,207	-	-	-	727,207
Assessments receivable - net	361,210	-	-	-	361,210
Due from affiliate	-	10,788	-	10,788	-
Interfund balance	441,264	-	-	441,264	-
Other assets	8,059	-	-	-	8,059
<b>Total current assets</b>	<b>3,381,938</b>	<b>294,510</b>	<b>-</b>	<b>452,052</b>	<b>3,224,396</b>
Operating Right-of-Use Assets	26,582	-	-	-	26,582
Property, Plant and Equipment, at cost - net	1,535,761	-	-	-	1,535,761
<b>Total Assets</b>	<b>\$ 4,944,281</b>	<b>\$ 294,510</b>	<b>\$ -</b>	<b>\$ 452,052</b>	<b>\$ 4,786,739</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Current Liabilities:					
Current maturities of obligation under right-of-use leases	\$ 9,345	\$ -	\$ -	\$ -	\$ 9,345
Accounts payable and accrued expenses	185,099	5,560	-	-	190,659
Due to affiliate	10,788	-	10,788	-	-
Interfund balance	441,264	-	441,264	-	-
Security deposit	-	181,124	-	-	181,124
Deferred revenues	746,541	-	-	-	746,541
<b>Total current liabilities</b>	<b>1,393,037</b>	<b>186,684</b>	<b>452,052</b>	<b>-</b>	<b>1,127,669</b>
Obligation Under Right-of-Use Leases - less current maturities	17,237	-	-	-	17,237
<b>Total Liabilities</b>	<b>1,410,274</b>	<b>186,684</b>	<b>452,052</b>	<b>-</b>	<b>1,144,906</b>
Fund Balance	3,534,007	107,826	-	-	3,641,833
<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,944,281</b>	<b>\$ 294,510</b>	<b>\$ 452,052</b>	<b>\$ -</b>	<b>\$ 4,786,739</b>

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

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

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, 2023

	PMHOA <sup>(1)(3)</sup>	PHA-ARB <sup>(2)</sup>	Eliminating Entries		Consolidated
			DR	CR	Balance
<b>Revenues:</b>					
Owners assessment	\$ 3,918,348	\$ -	\$ -	\$ -	\$ 3,918,348
Road repair	13,139	-	-	-	13,139
Review fees	-	46,052	-	-	46,052
Golf cart path fees	149,888	-	-	-	149,888
Access control stickers	66,370	-	-	-	66,370
Interest	16,856	1,401	-	-	18,257
Other income	180,258	5,270	-	-	185,528
Insurance claim income	12,693	-	-	-	12,693
<b>Total revenues</b>	<b>4,357,552</b>	<b>52,723</b>	<b>-</b>	<b>-</b>	<b>4,410,275</b>
<b>Expenses:</b>					
Security	1,281,103	-	-	-	1,281,103
Professional services	87,690	60,275	-	-	147,965
Ground maintenance	357,302	-	-	-	357,302
General maintenance	464,355	-	-	-	464,355
Salaries and fringe benefits	652,011	-	-	-	652,011
Bad debts expense	193,724	-	-	-	193,724
Depreciation and amortization	153,199	-	-	-	153,199
Major repairs	806,921	-	-	-	806,921
Hurricane expenses	15,331	-	-	-	15,331
Business meetings and activities	192,241	-	-	-	192,241
Office supplies	86,470	-	-	-	86,470
Utilities	66,670	-	-	-	66,670
Insurance	102,203	-	-	-	102,203
Office and motor vehicles maintenance	73,415	-	-	-	73,415
Bank charges	71,315	-	-	-	71,315
Car stickers, ID cards and others	14,648	-	-	-	14,648
<b>Total expenses</b>	<b>4,618,598</b>	<b>60,275</b>	<b>-</b>	<b>-</b>	<b>4,678,873</b>
Excess of expenses over revenues	(261,046)	(7,552)	-	-	(268,598)
Fund Balance at Beginning of Year	3,795,053	115,378	-	-	3,910,431
<b>Fund Balance at End of Year</b>	<b>\$ 3,534,007</b>	<b>\$ 107,826</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,641,833</b>

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

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

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