



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

**Consolidated Financial Statements
with Supplementary Information**

For the Year Ended December 31, 2025

**(With summarized comparative information
for December 31, 2024)**



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.
AND ITS SUBSIDIARY
Consolidated Financial Statements
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December 31, 2025**

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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 sheet as of December 31, 2025, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Palmas Del Mar Homeowners Association, Inc. and its subsidiary as of December 31, 2025, 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 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, 2024, and I expressed an unmodified opinion on those financial statements in my report dated April 5, 2025. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, 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. Rodríguez Velázquez
Certified Public Accountant
License No. 2283
Expires December 1, 2027

Humacao, Puerto Rico
March 18, 2026



D2283-32
Palmas Del Mar Homeowners Association,
Inc. and its subsidiary



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

Consolidated Balance Sheet

December 31, 2025

(With summarized comparative information as of December 31, 2024)

ASSETS	2025			2024 Total
	Operating Fund	Major Repairs Fund	Total	
Current Assets:				
Cash and cash equivalents	\$ 1,954,845	\$ 1,916,467	\$ 3,871,312	\$ 2,611,112
Certificates of deposit	325,192	-	325,192	320,194
Assessments receivable - net	490,580	-	490,580	387,868
Interfund balance	(41,531)	41,531	-	-
Other assets	11,268	-	11,268	8,595
Total current assets	2,740,354	1,957,998	4,698,352	3,327,769
Operating Right-of-Use Assets	7,157	-	7,157	17,237
Property, Plant and Equipment - net	1,396,606	-	1,396,606	1,457,683
Total Assets	\$ 4,144,117	\$ 1,957,998	\$ 6,102,115	\$ 4,802,689
LIABILITIES AND FUND BALANCE				
Current Liabilities:				
Current maturities of obligation under right-of-use leases	\$ 7,157	\$ -	\$ 7,157	\$ 10,080
Accounts payable and accrued expenses	266,961	15,238	282,199	155,566
Security deposit	224,734	-	224,734	198,724
Deferred revenues	985,222	-	985,222	589,550
Total current liabilities	1,484,074	15,238	1,499,312	953,920
Obligation Under Right-of-Use Leases - less current maturities	-	-	-	7,157
Total Liabilities	1,484,074	15,238	1,499,312	961,077
Fund Balance	2,660,043	1,942,760	4,602,803	3,841,612
Total Liabilities and Fund Balance	\$ 4,144,117	\$ 1,957,998	\$ 6,102,115	\$ 4,802,689

The accompanying notes are an integral part of these statements.



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

**Consolidated Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2025**

(With summarized comparative information for the year ended December 31, 2024)

	2025			2024
	Operating Fund	Major Repairs Fund	Total	
Revenues:				
Owners assessment	\$ 5,201,756	\$ -	\$ 5,201,756	\$ 4,363,919
Road repairs	-	15,799	15,799	17,400
Review fees	93,276	-	93,276	101,927
Golf cart path fees	268,196	-	268,196	288,855
Access control stickers	63,991	-	63,991	60,919
Interest and dividends	17,452	17,868	35,320	30,589
Other income	239,455	-	239,455	195,740
Insurance claim income	17,287	-	17,287	10,750
Total revenues	5,901,413	33,667	5,935,080	5,070,099
Expenses:				
Security	1,458,436	-	1,458,436	1,436,057
Professional services	310,257	-	310,257	332,519
Ground maintenance	448,838	-	448,838	387,992
General maintenance	613,269	-	613,269	579,865
Salaries and fringe benefits	823,164	-	823,164	627,234
Bad debts expense	151,197	-	151,197	110,804
Depreciation and amortization	161,244	-	161,244	155,795
Major repairs	-	445,357	445,357	606,769
Hurricane expenses	-	-	-	61,380
Business meetings and activities	230,523	-	230,523	149,076
Office supplies and expenses	101,133	-	101,133	80,941
Utilities	72,571	-	72,571	62,164
Insurance	132,939	-	132,939	107,438
Office and motor vehicles maintenance	97,064	-	97,064	71,124
Bank charges	100,520	-	100,520	80,776
Car stickers, ID cards and others	27,377	-	27,377	20,386
Total expenses	4,728,532	445,357	5,173,889	4,870,320
Excess of revenues over expenses (expenses over revenues)	1,172,881	(411,690)	761,191	199,779
Fund Balance at Beginning of Year	2,140,898	1,700,714	3,841,612	3,641,833
Interfund Approved Transfers	(653,736)	653,736	-	-
Fund Balance at End of Year	\$ 2,660,043	\$ 1,942,760	\$ 4,602,803	\$ 3,841,612

The accompanying notes are an integral part of these statements.



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

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2025

(With summarized comparative information for the year ended December 31, 2024)

	2025			2024 Total
	Operating Fund	Major Repairs Fund	Total	
Cash Flows from Operating Activities:				
Excess of revenues over expenses (expenses over revenues)	\$ 1,172,881	\$ (411,690)	\$ 761,191	\$ 199,779
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:				
Bad debts expense	151,197		151,197	110,804
Depreciation and amortization	161,244	-	161,244	155,795
Decrease (increase) in other assets:				
Assessments receivable	(253,909)	-	(253,909)	(137,462)
Interfund balance	(596,433)	596,433	-	-
Other assets	(2,673)	-	(2,673)	(536)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	111,395	15,238	126,633	(35,093)
Security deposit	26,010	-	26,010	17,600
Deferred revenues	395,672	-	395,672	(156,991)
Total adjustments	<u>(7,497)</u>	<u>611,671</u>	<u>604,174</u>	<u>(45,883)</u>
Net cash provided by operating activities	<u>1,165,384</u>	<u>199,981</u>	<u>1,365,365</u>	<u>153,896</u>
Cash Flows from Investing Activities:				
(Increase) decrease in certificates of deposit	(4,998)	-	(4,998)	407,013
Net additions to property, plant and equipment	<u>(100,167)</u>	<u>-</u>	<u>(100,167)</u>	<u>(77,717)</u>
Net cash (used in) provided by investing activities	(105,165)	-	(105,165)	329,296
Cash Flows from Financing Activities:				
Interfund cash transfers	<u>(653,736)</u>	<u>653,736</u>	<u>-</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(653,736)</u>	<u>653,736</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	406,483	853,717	1,260,200	483,192
Cash and Cash Equivalents at Beginning of Year	<u>1,548,362</u>	<u>1,062,750</u>	<u>2,611,112</u>	<u>2,127,920</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,954,845</u>	<u>\$ 1,916,467</u>	<u>\$ 3,871,312</u>	<u>\$ 2,611,112</u>
Supplemental Disclosure				
Non-cash change in operating right-of-use assets and related liability	\$ 10,080	\$ -	\$ 10,080	\$ 9,345
Write-off of assessments receivable	<u>\$ 129,589</u>	<u>\$ -</u>	<u>\$ 129,589</u>	<u>\$ 139,952</u>

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, 2025

(With summarized comparative information for December 31, 2024)

1. Reporting Entity and Summary of Significant Accounting Policies

Palmas Del Mar Homeowners Association, Inc. (the "Association") was organized as a non-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 Inc. (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 statement of cash flows, the Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposit accounts and a money market mutual fund.

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 conformity 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, 2024, from which the summarized information was derived.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.
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Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

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, 2025, was assigned by the Association's management for the following purposes:

<u>Purposes</u>	<u>Fund Balance</u>
Major Disasters	\$ 1,013,308
Road/Cart Path	281,535
Coral Reef	65,000
Walking Trail	53,102
General Projects	529,815
	<u>\$ 1,942,760</u>

At December 31, 2025, the Major Repairs Fund includes an interfund balance receivable of \$41,531 and projects related payables of \$15,238. The interfund balance receivable is related to normal operating transactions between funds.

Owners' assessments

Owners contribute to cover the costs of maintaining the common areas and security, including an amount destined for 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, 2025, were as follows:

<u>Owner of:</u>	<u>Annual Assessment</u>
Residential units	\$1,300
Residential lots	\$1,040 (80% of the assessment of 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 following 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, 2026, as approved by the Board of Directors, the annual assessments to owners remain the same as those established in 2025; the annual assessment for residential units is \$1,300, and for residential lots is \$1,040. Assessment revenues are recognized as the related performance obligations are satisfied at transaction amounts expected to be collected.



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.
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Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

The Association's performance obligation related to owners' operating assessments is satisfied over time on a daily pro rata basis using the input method, and the 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. 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, 2025, and 2024, the Association had assessments receivable of \$1,376,794 and \$1,252,474 of which \$819,018 and \$752,146 were delinquent, respectively. The Board of Directors is of the opinion that they will ultimately prevail against the remaining homeowners whose assessments are delinquent; however, an allowance for credit losses for the years ended on December 31, 2025, and 2024, amounting to \$886,214 and \$864,606, 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.



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

Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

Assets to be disposed of are separately presented in the consolidated balance sheet 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 sheet. No impairment was recognized during the years ended December 31, 2025, and 2024.

Budget

The annual budget is determined by the Board of Directors and submitted to the unit owners for evaluation and approval at the annual meeting. Any excess of revenues over expenditures at year-end 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 sheet. 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 evaluated the Association's tax positions in accordance with accounting principles generally accepted in the United States of America and concluded that the Association has no uncertain tax positions as of December 31, 2025, that require recognition or disclosure in the accompanying consolidated financial statements. Management also concluded that there are no matters that would jeopardize the Association's tax-exempt status. With few exceptions, the Association is no longer subject to income tax examinations by taxing authorities for years prior to 2021.

Concentration of credit risk

The Association maintains its cash and cash equivalents in demand deposit accounts at high-credit-quality financial institutions. Deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor, per financial institution. At various times throughout the year, the Association may have maintained cash balances in excess of insured limits. As of December 31, 2025 and 2024, cash held in deposit accounts exceeded FDIC insured limits by approximately \$2,472,000 and \$2,422,000, respectively.

As of December 31, 2025, the Association also maintained a money market mutual fund held through a broker-dealer that is a member of the Securities Investor Protection Corporation ("SIPC"). SIPC provides protection up to \$500,000 per customer, including a \$250,000 limit for cash balances; however, SIPC protection does not insure against market losses. As of December 31, 2025, balance held in the money market mutual fund exceeded SIPC protected limits by approximately \$513,000.



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

Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

2. Related Party Transactions

PHA-ARB (Wholly Owned Subsidiary)

During the year ended December 31, 2025, the Association paid payroll and related costs totaling \$118,573 for employees of the Association who performed services on behalf of PHA-ARB, its wholly owned subsidiary. The Association recorded these amounts as due from affiliate, and the subsidiary recorded a corresponding balance as due to affiliate. These intercompany balances were eliminated in the accompanying consolidated financial statements.

PHA Pterocarpus Forest, Inc. (Affiliate)

On December 5, 2011, the Association created PHA Pterocarpus Forest, Inc. ("PHA Pterocarpus"), a not-for-profit organization in charge of overseeing the restoration, preservation, and maintenance conservation efforts of the Pterocarpus Forest, located in the Palmas del Mar Development community. All contracts entered into by PHA Pterocarpus and any amendments to its by-laws or certificate of incorporation are subject to the approval or ratification of the Board of Directors of the Association. In the event of termination or dissolution of PHA Pterocarpus, all of its remaining assets will revert to the Association or be disposed of as directed by the Association's Board of Directors.

In accordance with FASB ASC 958-810-25-4, the Association's control (although not through direct or indirect ownership of a majority voting interest or majority voting rights of the Board of Directors) and economic interest in PHA Pterocarpus may encourage, but do not require consolidation of PHA Pterocarpus' financial statements in those of the Association. Accordingly, management of the Association determined that consolidation is not required and has not included PHA Pterocarpus' financial information in its consolidated financial statements. During the years ended December 31, 2025 and 2024, the Association incurred \$20,745 and \$11,666, respectively, related to PHA Pterocarpus operations for preservation and maintenance conservation efforts of the Forest. As of December 31, 2025 and 2024, PHA Pterocarpus had total assets of \$33,523 and \$49,173, respectively. For the years then ended, PHA Pterocarpus reported donation revenues of \$5,643 and \$11,596, and expenses of \$29,999 and \$26,362, respectively.

The independent auditor's report on the financial statements of PHA Pterocarpus for the year ended December 31, 2025, includes an emphasis-of-matter paragraph describing substantial doubt about PHA Pterocarpus' ability to continue as a going concern. The uncertainty is primarily related to recurring decreases in net assets and insufficient donations to support ongoing operations and required facility repairs. Management of PHA Pterocarpus is evaluating various alternatives to obtain the funds necessary to sustain operations, including a direct donation from PHA and organizing civic activities.

3. Property, Plant and Equipment

At December 31, 2025 and 2024, property, plant and equipment consisted of the following:

	2025	2024
Furnitures and fixtures	\$ 85,852	\$ 144,324
Motor vehicles	73,531	73,531
Access control system	651,212	651,212
Golf cart path	293,088	293,088
Building	2,871,727	2,871,727
Equipment	517,410	420,287
Main gate improvements	69,221	69,221
	<u>4,562,041</u>	<u>4,523,390</u>
Less - Accumulated depreciation and amortization	<u>(3,165,435)</u>	<u>(3,065,707)</u>
	<u>\$ 1,396,606</u>	<u>\$ 1,457,683</u>



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

Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

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 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 sheet. As of December 31, 2025, and 2024, the deferred revenue balance related to this transaction amounted to \$109,849 and \$111,111, respectively.

In addition, prior to year-end, the Association received owner assessments applicable to the subsequent year's budget. These amounts were recognized as deferred revenue until earned. As of December 31, 2025 and 2024, assessments received in advance totaled \$875,373 and \$478,439, 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, 2025, the Association's operating right-of-use assets and its corresponding obligation under right-of-use leases were \$7,157 and represented the present value of the remaining lease payments of 8 months. During the year ended December 31, 2025, rent expense related to this lease was \$11,043, and it is included as part of office supplies and expenses in the accompanying consolidated statement of revenues, expenses and changes in fund balance.

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

<u>Year ending December 31,</u>	<u>Amount</u>
2026	<u>\$ 7,362</u>
Total minimum lease payments	7,362
Less - present value discount	(205)
Present value of lease obligation	<u>\$ 7,157</u>

The Association, as lessor, leases certain multi-use room facilities and a billboard on a day-to-day basis. For the year ended December 31, 2025, rental income from these arrangements totaled approximately \$30,500 and is included in other income in the accompanying consolidated statement of revenues, expenses, and changes in fund balance.

6. Litigation and Contingency

The Association is involved in various legal matters arising in the ordinary course of operations. Management, based on consultation with legal counsel, believes that the ultimate resolution of these matters will not have a material adverse effect on the Association's financial position or results of operations. Accordingly, management has concluded that no provision for legal contingencies is necessary in the accompanying consolidated financial statements.

On August 4, 2025, Palmas Athletic Club ("PAC") filed a voluntary petition for relief under applicable bankruptcy laws. In connection therewith, the Association filed a proof of claim against PAC totaling \$152,230, which was later reduced to \$128,735, related to unpaid annual assessment dues for years 2025 and 2024. PAC has objected to the Association's proof of claim, alleging that a Memorandum of Understanding ("MOU"), dated April 26, 2019, which addressed certain cost-sharing arrangements intended to support PAC's financial sustainability, waived such dues, and has asserted a counterclaim alleging that, if the MOU was terminated, the Association may owe approximately \$446,000 related to certain maintenance and security expenses.



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

Notes to Consolidated Financial Statements

December 31, 2025

(With summarized comparative information for December 31, 2024)

Management, based on consultation with legal counsel, believes that the objection and counterclaim are without merit and that the Association has no obligation to pay such expenses. Accordingly, management has concluded that no provision for loss contingencies is necessary for this matter in the accompanying consolidated financial statements. However, the ultimate outcome of this matter is subject to bankruptcy proceedings and, therefore, cannot presently be determined.

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. Also, the Association has 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, 2025, and 2024, the major repairs and replacements expenses amounted to \$445,357 and \$606,769, respectively. The established Major Repairs Fund has cash available for approximately \$1.9 million on December 31, 2025, 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, 2026, through March 18, 2026, 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 accompanying consolidated financial statements.



SUPPLEMENTARY INFORMATION



**PALMAS DEL MAR HOMEOWNERS ASSOCIATION, INC.
AND ITS SUBSIDIARY**
Schedule of Consolidating Balance Sheet
December 31, 2025

ASSETS	PMHOA ⁽¹⁾⁽³⁾	PHA-ARB ⁽²⁾	Eliminating Entries		Consolidated Balance
			DR	CR	
Current Assets:					
Cash and cash equivalents	\$ 3,422,867	\$ 448,445	\$ -	\$ -	\$ 3,871,312
Certificates of deposit	325,192	-	-	-	325,192
Assessments receivable - net	490,580	-	-	-	490,580
Due from affiliate	118,573	5,490	-	124,063	-
Interfund balance	41,531	-	-	41,531	-
Other assets	11,268	-	-	-	11,268
Total current assets	4,410,011	453,935	-	165,594	4,698,352
Operating Right-of-Use Assets	7,157	-	-	-	7,157
Property, Plant and Equipment, at cost - net	1,396,606	-	-	-	1,396,606
Total Assets	\$ 5,813,774	\$ 453,935	\$ -	\$ 165,594	\$ 6,102,115
LIABILITIES AND FUND BALANCE					
Current Liabilities:					
Current maturities of obligation under right-of-use leases	\$ 7,157	\$ -	\$ -	\$ -	\$ 7,157
Accounts payable and accrued expenses	272,939	9,260	-	-	282,199
Due to affiliate	5,490	118,573	124,063	-	-
Interfund balance	41,531	-	41,531	-	-
Security deposit	-	224,734	-	-	224,734
Deferred revenues	985,222	-	-	-	985,222
Total current liabilities	1,312,339	352,567	165,594	-	1,499,312
Total Liabilities	1,312,339	352,567	165,594	-	1,499,312
Fund Balance	4,501,435	101,368	-	-	4,602,803
Total Liabilities and Fund Balance	\$ 5,813,774	\$ 453,935	\$ 165,594	\$ -	\$ 6,102,115

PMHOA⁽¹⁾ - Palmas Del Mar Homeowners Association, Inc.

PHA-ARB⁽²⁾ - Palmas Del Mar Homeowners Association Architectural Review Board Inc.

PMHOA⁽³⁾ - Includes combined balances of Operating Fund and Major Repairs Fund



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

Schedule of Consolidating Statement of Revenues, Expenses and Changes in Fund Balance

For the Year Ended December 31, 2025

			Eliminating Entries		Consolidated Balance
	PMHOA ⁽¹⁾⁽³⁾	PHA-ARB ⁽²⁾	DR	CR	
Revenues:					
Owners assessment	\$ 5,201,756	\$ -	\$ -	\$ -	\$ 5,201,756
Road repair	15,799	-	-	-	15,799
Review fees	-	93,276	-	-	93,276
Golf cart path fees	268,196	-	-	-	268,196
Access control stickers	63,991	-	-	-	63,991
Interest and dividends	33,462	1,858	-	-	35,320
Other income	239,375	80	-	-	239,455
Insurance claim income	17,287	-	-	-	17,287
Total revenues	5,839,866	95,214	-	-	5,935,080
Expenses:					
Security	1,458,436	-	-	-	1,458,436
Professional services	288,883	139,947	-	118,573	310,257
Ground maintenance	448,838	-	-	-	448,838
General maintenance	613,269	-	-	-	613,269
Salaries and fringe benefits	704,591	-	118,573	-	823,164
Bad debts expense	151,197	-	-	-	151,197
Depreciation and amortization	161,244	-	-	-	161,244
Major repairs	445,357	-	-	-	445,357
Business meetings and activities	230,523	-	-	-	230,523
Office supplies and expenses	101,133	-	-	-	101,133
Utilities	72,571	-	-	-	72,571
Insurance	132,939	-	-	-	132,939
Office and motor vehicles maintenance	95,949	1,115	-	-	97,064
Bank charges	100,157	363	-	-	100,520
Car stickers, ID cards and others	27,377	-	-	-	27,377
Total expenses	5,032,464	141,425	118,573	118,573	5,173,889
Excess of revenues over expenses (expenses over revenues)	807,402	(46,211)	(118,573)	(118,573)	761,191
Fund Balance at Beginning of Year	3,694,033	147,579	-	-	3,841,612
Fund Balance at End of Year	\$ 4,501,435	\$ 101,368	\$ (118,573)	\$ (118,573)	\$ 4,602,803

PMHOA⁽¹⁾ - Palms Del Mar Homeowners Association, Inc.

PHA-ARB⁽²⁾ - Palms Del Mar Homeowners Association Architectural Review Board Inc.

PMHOA⁽³⁾ - Includes combined balances of Operating Fund and Major Repairs Fund