

**PALMAS ATHLETIC CLUB, CORP.,
(Not for Profit Entity)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2021

AND

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

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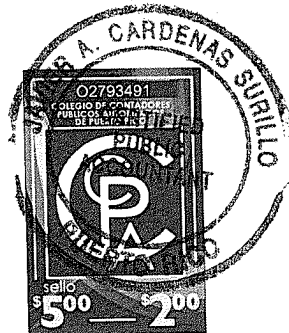
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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

**To the Boards of Directors and Members
PALMAS ATHLETIC CLUB, CORP.,
Humacao, Puerto Rico:**

Management is responsible for the accompanying financial statements of Palmas Athletic Club Corp., (Not for Profit Entity), which comprise the statement of financial position as of December 31, 2021 and the related statements activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America.

I have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. I do not express an opinion, a conclusion, nor provide any assurance on these financial statements.



December 13, 2022
San Juan, Puerto Rico

Javier A Cárdenas Surrillo
License no. 2724
Expires on December 1, 2024

Stamp No. 02793491 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

PALMAS ATHLETIC CLUB, CORP.

STATEMENT OF FINANCIAL POSITION, AS OF DECEMBER 31,

ASSETS	2021
Current assets	
Cash and cash equivalents	\$615,263
Accounts receivable, net	28,532
Inventory	109,134
Total current assets	<u>752,929</u>
Fixed assets	
Recreational & Sporting Facilities Held and Use	2,900,000
General Equipment	1,830,312
Maintenance equipment	914,093
MIS Equipment	158,267
Restaurant equipment	87,383
Golf Cars	280,872
Sub-total	<u>6,170,927</u>
Less : accumulated depreciation	1,678,862
Net total fixed assets	<u>4,492,065</u>
TOTAL ASSETS	<u><u>\$5,244,994</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	118,863
Unearned Income	311,647
Note Payable to Bank - Credit Line	432,115
Accrued interest - Credit Line	324,737
Note Payable - Leases (current)	154,460
Accrued expenses and other liabilities	347,819
Total current liabilities	<u>1,689,641</u>
Long Term Debt	
Note payable to Bank - Mortgage	33,371,863
Note payable to Bank - Leases	365,443
Total Long Term Debt	<u>33,737,306</u>
Net Assets (Deficit)	
Net Assets (Deficit) Without Donor Restrictions	(30,306,299)
Net Assets With Donor Restrictions	124,346
Total Net Assets (Deficit)	<u><u>(30,181,953)</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$5,244,994</u></u>

See Notes to Financial Statements and Independent Accountant's Compilation Report.

PALMAS ATHLETIC CLUB, CORP.

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

Changes in Net Assets Without Donor Restrictions:	2021
Revenues and gains:	
Membership Dues	\$3,460,602
Revenues generated by the use of Facilities	727,966
Program Service Fees, net of cost	340,151
Merchandise Sales, net of cost	1,248,999
Rental Income	309,232
Total revenues and gains without donor restrictions	6,086,950
Expenses and operating losses	
Payroll and payroll benefits	1,968,617
Maintenance expenses	846,026
Utilities	550,532
Credit Cards & Bank Charges	202,436
Professional fees	160,527
Golf Cart Leases	157,060
Workmen's Compensation	64,132
Insurance	247,413
Security expenses	49,925
Advertising and promotion	100,201
Other Operating Expenses	845,363
Total expenses and operating losses	5,192,232
Results of Operations before Other Operating Expenses	894,718
Other Operating Expenses	
Depreciation & amortization	195,314
Interest expenses	70,904
Other Operating Expenses	266,218
Results of Operations before Other Non-Operating Revenues	628,500
Increase in Net Assets Without Donor Restrictions	628,500
Changes in Net Assets with Donor Restrictions	0
Increase in Net Assets	628,500
Net Assets (Deficit), beginning of year	(30,810,453)
Net Assets (Deficit), end of period	(\$30,181,953)

See Notes to Financial Statements and Independent Accountant's Compilation Report.

PALMAS ATHLETIC CLUB, CORP.

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	2021
Cash flows provided by operating activities:	
Change in Net Assets	\$628,500
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	\$195,314
Decrease in accounts receivable	(7,501)
Increase in inventory	(1,038)
Decrease in other assets	0
Decrease in accounts payable	20,443
Increase in unearned income	(19,568)
Increase in accrued interest - credit line	30,000
Decrease in accrued expenses and other liabilities	250,571
Total adjustments	<u>468,221</u>
Net cash provided by operating activities	<u>1,096,721</u>
Cash flows used in investing activities:	
Purchase of equipment	<u>(971,414)</u>
Net cash used in investing activities	<u>(971,414)</u>
Cash flows used in financing activities:	
Proceeds from issuance of note payable - leases (net)	<u>342,538</u>
Net cash provided by financing activities	<u>342,538</u>
Net Increase in Cash and Cash Equivalents	467,845
Cash and Cash Equivalents at beginning of year	147,418
Cash and Cash Equivalents at end of year	<u><u>\$615,263</u></u>

See Notes to Financial Statements and Independent Accountant's Compilation Report.

PALMAS ATHLETIC CLUB, CORP.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021

1. ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Palmas Athletic Club, Corp., (the Organization) was formed under the laws of the Commonwealth of Puerto Rico on August 5, 2010. The entity operates as a not-for-profit voluntary membership organization. The Organization's main purpose is to maintain and promote Sport and Recreational facilities within Palmas Del Mar Resort at Humacao, Puerto Rico. The recreational and sporting facilities under the organization umbrella consist of two Golf courses, a Tennis Center, a Fitness Center and Beach Club.

General and administrative activities include the functions necessary to provide support to the organization's program activities. General and administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns; conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others.

Method of Accounting - The Organization prepares its financial statements in accordance with the generally accepted accounting principles promulgated in the United States of America (US GAAP) for Not-for-Profit Entities (NFP's).

The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Net Assets - The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors / members, as follows:

Net Assets without donor restrictions - net assets without donor restrictions are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets with donor restrictions - with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The organization's unspent contributions are classified in this class if the donor limited their use, as are the unspent appreciation of its donor-restricted endowment funds. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net losses on endowment investments reduce net assets with donor restrictions to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in net assets without donor restrictions. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in net assets without donor restrictions.

PALMAS ATHLETIC CLUB, CORP.
NOTES TO THE AUDITED FINANCIAL STATEMENTS
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Cash and Cash equivalents - For purpose of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2021, cash and cash equivalents consist of:

	2021
Operating Bank Account	\$ 81,610
Savings Account	530,453
Cash on hand and/or Petty Cash	3,200
	\$ 615,263

Concentration of Credit Risks - The Entity financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, and assessments receivable. The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. As of December 31, 2021, cash in bank deposit accounts did exceed the federal insurance limits of \$250,000.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America, requires management to make estimates and assumptions that affect the 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 reporting period. Actual results could differ from those estimates.

Accounts receivables – Accounts receivable are unsecured non-interest-bearing amounts due from members. Management believes that all outstanding accounts receivables are collectible in full, therefore no allowance for uncollectible receivables has been provided.

Property and Equipment - Property and equipment are stated at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to costs and expenses as incurred; expenditures for renewals and betterment are capitalized. Cost and accumulated depreciation for property sold, retired or abandoned are removed from the accounts and any resulting gain or loss is included in income or expense.

Inventory - Inventory are valued at the lower of average cost or market using first-in, first-out method.

Accounting for Membership Dues – Membership Dues are collected on the first five days of the month via electronic posting - “ACH”- or credit card collection. Initial members are required to present two months deposit, which is recognized as unearned income in the balance sheet, and a current month payment. All membership dues collections are recognized when posted.

Expenses recognition and Allocation - The cost of providing the organization’s programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Tax Status - The organization operates under a tax exemption issued by Puerto Rico Tourism Company under Act Number 74 of July 10, 2010 of the Puerto Rico Internal Revenue Code (PRIRC). On May 14, 2013, the Department of Treasury (Hacienda) rejected the original request to operate under the provision of section 1101.01 of the Internal Revenue Code as an Exempt Organization. Management has requested a re-consideration of such determination.

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2. NOTE PAYABLE TO BANK – REVOLVING LINE OF CREDIT

Note Payable to Bank consists of a revolving line of credit agreement with the Puerto Rico Tourism Development Fund (“TDF”) for \$1.9 million dollars, for an 18 months period commencing October 2011 and maturing on March 2013. The proposed use of the Line of Credit was limited to working capital requirements, rehabilitation of the Recreational and Sporting Facilities and operating deficits.

The credit facility includes an interest reserve of approximately \$400,000 with a minimum rate of 6.25%, with interest capitalized until maturity and payable from the amounts reserved.

The Line of Credit is secured by the real estate facilities and a legal pledge over all Organization assets.

	2021
Amount used as of December 31,	\$ 432,115
Interest Accrued as of December 31,	324,737
	<u>\$ 756,852</u>

3. ACCRUED EXPENSES OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2021 consist of:

	2021
Vacation and Bonuses	\$ 55,719
Sales tax	126,093
Accrued expenses - other	166,007
	<u>\$ 347,819</u>

4. LONG TERM DEBT

As of December 31, 2021, Long Term Debt consists of:

	2021
Note Payable to Bank - mortgage	\$ 33,371,863
Capital Leases Obligations	519,903
	<u>\$ 33,891,766</u>
Less; current portion	154,460
Total Long Term Debt	<u>\$ 33,737,306</u>

Note payable to Bank - Mortgage

In October 2010, an Assets Purchase Agreement between the Palmas Athletic Club, Corp. (PAC) and the Puerto Rico Tourism Development Fund (“TDF”) was duly officiated providing for the transfer of title of the Recreational and Sporting Facilities from TDF to PAC in exchange for the assumption of all obligations secured by the Recreational and Sporting Facilities. Under this agreement, PAC recognized the assets value for the same amount of the obligations assumed. According to the Assets Purchase Agreement, upon the completion of the first 18 months of operations, TDF and PAC needed to re-evaluate the assets values and outstanding loans to explore the possibility of refinancing them.

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Capital Leases Obligations

Palmas Athletic Club, Corp. (PAC) entered into several agreements for the lease of equipment and vehicles. These agreements expire on November 1, 2024 and provide for transfer of ownership after the last lease payment is made. The interest rate implicit in the leases is approximately 9.904%. Depreciation of the assets recorded under capital leases is included in depreciation and amortization expense account.

5. CONTINGENCIES AND COMMITMENTS

The Organization is subject to various claims arising in the ordinary course of business, and is defendant in various legal proceedings, which constitute ordinary routine litigation incidental to the Entity's business. It is management's opinion that all such matters are adequately covered by insurance or are accrued in the financial statements as of December 31, 2021.

6. REASON FOR SUBSTANTIAL DOUBT

During the performance of my review procedures, evidence or information came to my attention indicating that an uncertainty or substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued.

As of December 31, 2021, the entity total liabilities exceeded total assets thus resulting in a solvency issue.

	2021
Total Assets	\$ 5,244,994
Total Liabilities	\$ 35,426,947

Management under the guidance of the Board of Directors initiated various initiatives to resolve this issue. Mitigating effect of management's plans should be considered only to the extent it is probable the plans will be effectively implemented and mitigate the conditions or events giving rise to substantial doubt.

Users of the financial statements should recognize that they might reach a different conclusion about the entity's financial position, results of operations, and cash flows if they had access to revised financial data prepared under a different framework.

7. PRIOR PERIOD ADJUSTMENT

On October 2010, PAC entered a transaction agreement to acquire the abandoned Recreational Facilities and Sporting Facilities from Tourism Development Fund (TDF). Such facilities were previously foreclosed from Palmas Country Club, Inc. (former owners). In accordance with the Asset Purchase Agreement with PAC, and after 18 months, TDF would perform an independent appraisal of the facilities and adjust the corresponding asset and related loans to the appraised value. At this date such TDF appraisal was not made or revealed to PAC.

On February 1, 2016, PAC performed an independent appraisal of the recreational facilities on a going concern basis. Such recreational facilities appraisal reflected a going concern value of \$2,900,000.

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Upon acquisition and based on economic conditions leading to the foreclosure by TDF of the long-term asset acquired, it was understood by both parties, that this asset was materially impaired. Since no appraisal was performed or revealed to PAC within the re-evaluation period, as agreed, management assessed the value of such asset at no more than the appraised value performed in February 2016 (\$2,900,000). Moreover, since facilities were abandoned upon acquisition, significant cost and efforts were invested to renovate the recreational facilities to their intended use. Therefore, these facilities valued at acquisition date are deemed to be less than the appraised going concern value.

ASC 958-805 – Not-For-Profit Business Combinations initial measurement accounting was as follows:

Recreational and Sports Facilities acquired	\$ 2,900,000
Related Debt assumed (consideration)	(33,371,863)
Goodwill	30,471,863
Goodwill impairment	(30,471,863)
Net Goodwill	\$ -

Goodwill impairment amounting to \$30,471,863 should have been adjusted to the Statement of Activities in 2011. Therefore, it's being re-stated in the net assets beginning balance.

8. OTHER NON-OPERATING REVENUES

On September 20, 2017 Hurricane Maria significantly damaged the recreational facilities. Management immediately initiated the Insurance Claims process to minimize the interruption period. Insurance claims received amounted to \$2,377,153 all of which were used in the cleaning, repair and maintenance of the recreational sports facilities.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through **December 13, 2022**, which is the date the financial statements were available to be issued and is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and governmental authorities around the world have implemented measures to reduce the spread of COVID-19, including travel bans and restrictions, quarantines, shelter in place orders, shutdowns and social distancing requirements. These measures have adversely affected workforces, suppliers, customers, consumer sentiment, economies, and financial markets, and, along with decreased consumer spending, have led to an economic downturn.

In response to these measures and for the protection of employees and customers, business was temporarily affected for several weeks primarily during the second and third quarter of 2020. This extended period of disrupted operations has had a material adverse impact upon results of operations for the year ended December 31, 2020. However, since reopening of the business sector, a significant improvement in business conditions was register for the year ended December 31, 2021.

Whereas most state and local governments have eased restrictions on commercial retail activity, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions in certain areas. Furthermore, while the recreational and sports services industry has fared much better during the pandemic than certain other sectors of the economy, continued economic weakness may eventually have an adverse impact. Therefore, significant uncertainty remains regarding the ongoing impact of the COVID-19 outbreak upon our financial condition and future results of operations, as well as upon the significant estimates and assumptions utilize in reporting certain assets and liabilities.
