

SCHOONER BAY ASSOCIATION  
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS  
DECEMBER 31, 2021

SCHOONER BAY ASSOCIATION  
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## INDEPENDENT AUDITOR'S REPORT

**THOMAS E. SINGLETON**  
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Board of Directors  
Schooner Bay Association  
St. Croix, United States Virgin Islands

### **Opinion**

I have audited the accompanying financial statements of Schooner Bay Association (the Association), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021, 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. 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 the Association 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.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association'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 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Association'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 the Association'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.

#### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the Information on Future Major Repairs and Replacements on page 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not 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. I have applied certain limited procedures to this required supplemental information in accordance with auditing standards generally accepted in the United States of America which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



February 17, 2023

Schooner Bay Association  
Balance Sheet  
December 31, 2021

	Operating Fund	Reserve Fund	Total
<b>ASSETS</b>			
<b>Cash</b>			
Cash-checking	\$ 24,771	\$ -	\$ 24,771
Cash-savings and CDs	-	384,949	384,949
Total Cash	<u>24,771</u>	<u>384,949</u>	<u>409,720</u>
<b>Other Current Assets</b>			
Accounts receivable unit owners-net	59,456	-	59,456
Investments	-	561,723	561,723
Other receivables	670	-	670
Due from Operating Fund	-	224,214	224,214
Prepaid expenses	196,325	-	196,325
Total Other Current Assets	<u>256,451</u>	<u>785,937</u>	<u>1,042,388</u>
Total Current Assets	<u>281,222</u>	<u>1,170,886</u>	<u>1,452,108</u>
<b>Fixed Assets</b>			
Equipment	71,924	-	71,924
Buildings and improvements	564,988	-	564,988
Less, accumulated depreciation	(476,565)	-	(476,565)
Sub-total	<u>160,347</u>	<u>-</u>	<u>160,347</u>
Work in progress	719,127	-	719,127
Land	297,127	-	297,127
Total Fixed Assets	<u>1,176,601</u>	<u>-</u>	<u>1,176,601</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,457,823</u>	<u>\$ 1,170,886</u>	<u>\$ 2,628,709</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	\$ 69,665	\$ -	\$ 69,665
Other liabilities	6,792	-	6,792
Due to Reserve Fund	224,214	-	224,214
Deferred Income	-	1,170,886	1,170,886
Total Current Liabilities	<u>300,671</u>	<u>1,170,886</u>	<u>1,471,557</u>
<b>Fund Balance</b>			
Fund Balance	<u>1,157,152</u>	<u>-</u>	<u>1,157,152</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 1,457,823</u>	<u>\$ 1,170,886</u>	<u>\$ 2,628,709</u>

The accompanying notes are an integral part of these financial statements.

Schooner Bay Association  
Statement of Revenues, Expenses and Changes in Fund Balance  
Year Ending December 31, 2021

	Operating Fund	Reserve Fund	Total
<b>REVENUES</b>			
Common Charges	\$ 367,538	\$ -	\$ 367,538
Insurance Charges to Owners	265,866	-	265,866
Water Meter Billings	70,779	-	70,779
Internet	43,441	-	43,441
Capital Repair Fund Charges	98,981	-	98,981
<b>TOTAL REVENUES</b>	<b>846,605</b>	<b>-</b>	<b>846,605</b>
<b>EXPENSES</b>			
Ordinary repairs and maintenance	91,302	-	91,302
Utilities	117,265	-	117,265
Security	46,755	-	46,755
Insurance	281,013	-	281,013
Salaries and payroll taxes	265,763	-	265,763
Professional fees	6,138	-	6,138
Office, admin and other expenses	21,670	-	21,670
Depreciation	13,525	-	13,525
<b>TOTAL EXPENSES</b>	<b>843,431</b>	<b>-</b>	<b>843,431</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>3,174</b>	<b>-</b>	<b>3,174</b>
Interfund transfers	21,932	(21,932)	-
<b>BEGINNING FUND BALANCES</b>	<b>1,132,046</b>	<b>21,932</b>	<b>1,153,978</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 1,157,152</b>	<b>\$ -</b>	<b>\$ 1,157,152</b>

The accompanying notes are an integral part of these financial statements.

Schooner Bay Association  
Statement of Cash flows  
Year Ending December 31, 2021

	Operating Fund	Reserve Fund	Total
<b>CASH FLOWS FROM OPERATIONS</b>			
Excess (deficiency) of revenues over expenses	\$ 3,174	\$ -	\$ 3,174
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities			
Depreciation	13,525	-	13,525
Interfund transfers, net	246,146	(246,146)	-
(Increase) decrease in:			
Accounts receivable	30,656	-	30,656
Prepaid expenses	(101,426)	-	(101,426)
(Decrease) increase in:			
Accounts payable and accrued expenses	51,707	-	51,707
Other liabilities	(7,596)	-	(7,596)
Net Cash Provided by Operations	<u>236,186</u>	<u>(246,146)</u>	<u>(9,960)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease in investments	-	215,912	(297,635)
Purchase of fixed assets	(263,534)	-	(341,020)
Net Cash (Used) by investing activities	<u>(263,534)</u>	<u>215,912</u>	<u>(47,622)</u>
NET INCREASE (DECREASE) IN CASH	(27,348)	(30,234)	(57,582)
CASH AT BEGINNING OF YEAR	<u>52,119</u>	<u>415,183</u>	<u>467,302</u>
CASH AT END OF YEAR	<u>\$ 24,771</u>	<u>\$ 384,949</u>	<u>\$ 409,720</u>

The accompanying notes are an integral part of these financial statements.

SCHOONER BAY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

NOTE 1 - Nature of Organization

Schooner Bay Association and Schooner Bay Recreation Association are incorporated homeowners associations (collectively SBA or the Association) which are responsible for maintaining the common areas of 62 condominium units housed in seven buildings, the recreation facilities, and nine acres of grounds, located in Christiansted, St. Croix, US Virgin Islands owned in common by the unit owners. SBA is governed by a five-member board of directors elected by the unit owners.

NOTE 2 – Significant Accounting Policies

Fund Accounting – SBA maintains its accounts using fund accounting on the accrual method. Financial resources are classified for accounting and reporting purposes in the following funds:

Operating Fund – Accounts for resources available for general operations.

Reserve (Capital Repair Fund) – Accounts for resources designated for future major repairs.

Restricted Cash – The Association maintains accounts at a bank and an investment firm as reserved cash and investment funds to use for major repairs and long-term replacements, or for emergency purposes and not for operational purposes. As of December 31, 2021, these accounts totaled \$384,949.

Assessments – Members are assessed by SBA for common charges for operating expenses, insurance charges for insurance premiums and capital charges for future major repairs and replacements. The Association’s primary source of income is owner assessments. Accounts receivable unit owners-net is considered to be fully collectible. SBA’s performance obligations related to its common and insurance assessments are satisfied over time on a daily pro-rata basis using the input method. The Reserve Fund performance obligations are satisfied when these funds are expended for the designated purpose.

Property and Equipment – SBA capitalizes all property and equipment which it owns. These assets are depreciated using the straight-line method over estimated useful lives of 5 – 7 years. SBA also capitalizes all major repairs and replacements made from the Capital Repair Fund. These items are depreciated over estimated useful lives of 3 – 15 years.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and revenues and expenses. Actual results could differ from those estimates.



Cash and Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand (if any), checking account cash in banks and time deposit accounts.

#### NOTE 3 – Risk Management

SBA is exposed to various risks of loss related to damage, destruction of assets, theft, errors and omissions and natural disasters. SBA carries commercial property insurance based on an annual appraisal of the property for windstorm and other perils. Other policies cover general liability, theft, crime, non-owned automobiles (covering employee use of personal vehicles on SBA business) and directors and officers' liability.

Each year prior to purchasing renewal property insurance, SBA obtains an update to its replacement cost appraisal of the cost to rebuild all the buildings. This is in order to assure that the amount of insurance that is secured is adequate prior to getting quotes. The property insurance coverage is placed on a replacement cost basis (RCV). Having the updated RCV appraisal from a qualified appraiser enables the Association to obtain an "agreed value" endorsement to the policy, which prevents any possible issues at the time of a loss that the amount of insurance is understated and could thus result in a coinsurance penalty.

#### NOTE 4 – Recreation Association

The swimming pools, tennis courts and related structures which are part of the complex are owned by the Schooner Bay Recreation Association, which is a non-stock corporation in which every owner in the Association has one vote. Schooner Bay Association has taken over responsibility for the operation and maintenance of these facilities.

#### NOTE 5 – Investments

Investments consist of mutual fund accounts stated at fair market value. These investments are exposed to various risks such as interest rate and credit risks. \$500,000 of these investments are not covered by FDIC depository insurance up to \$250,000 per account but by SIPC insurance coverage. SIPC insurance covers losses of up to \$500,000 resulting from failures in the custody function of the broker dealer but not from declines in the value of the security. Fair market value is recorded using Level 1 valuation as defined below.

Level 1 - valuation is based on quoted prices in active markets for identical assets that the Association can access at the measurement date.

Level 2 - valuation is based on inputs other than quoted prices included in Level 1 that are observable for the asset either directly or indirectly.

Level 3 – valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. Valuation at this level uses pricing models, discounted cash flow methods and significant judgment and estimation.

#### NOTE 6 – Related Party Transactions

There were no related party transactions in 2021. A related party transaction is defined as a transaction between a party related to SBA, such as a director or officer, where that person receives compensation for services or goods provided to SBA.

#### NOTE 7 – Income Taxes

Condominium associations may elect to be taxed as regular corporations or as homeowners' associations. The election is made on an annual basis and will be made depending on which method results in the lowest tax liability. No provision has been made for income taxes since SBA expects to have no taxable income.

#### NOTE 8 – Concentration of Credit Risk

The Association maintains its cash balances and investment balances in high credit quality financial institutions. As of December 31, 2021, SBA's cash and investments were within the limits of the applicable FDIC or SIPC federal government insurance coverage.

#### NOTE 9 – Subsequent Events

The Association evaluated subsequent events for the period from January 1, 2022 to February 17, 2023, the date the financial statements were available for issue. The only subsequent event identified for disclosure in these financial statements was the Covid-19 pandemic. Management is monitoring this situation.

#### NOTE 10 – Future Major Repairs and Replacements

The Association's governing documents requires the accumulation of funds to finance estimated future repairs and replacements. The Association has conducted a study to determine the remaining useful lives of the components of common property and estimates of the cost of major repairs and replacements that may be required in the future. Funds have been accumulated based on estimated future costs and actual expenditures may vary from those estimates and the variations may be material.

Schooner Bay Association  
 Required Supplemental Information  
 Information on Future Major Repairs and Replacements  
 December 31, 2021

The Association conducted a study in August, 2022 to estimate the remaining useful lives and replacement costs of common property. This study was done by management and the board of directors. These estimated costs are being separately funded by the Association.

Components	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Pool, surfaces, decks and Furniture	1-8	\$90,000
Galleries, building exteriors and roofs	4	\$559,222
Iron work on galleries	28	\$25,000
Paving	3-18	\$15,000

See independent auditor's report.