

SCHOONER BAY ASSOCIATION
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2022

SCHOONER BAY ASSOCIATION
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INDEPENDENT AUDITOR'S REPORT

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, 2022, 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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. 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.



July 27, 2023

Schooner Bay Association
Balance Sheet
December 31, 2022

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash			
Cash-checking	\$ 91,485	\$ -	\$ 91,485
Cash-savings and CDs	-	85,454	85,454
Total Cash	<u>91,485</u>	<u>85,454</u>	<u>176,939</u>
Other Current Assets			
Accounts receivable unit owners-net	50,930	-	50,930
Investments	-	558,097	558,097
Other receivables	895	-	895
Prepaid expenses	67,910	-	67,910
Total Other Current Assets	<u>119,735</u>	<u>558,097</u>	<u>677,832</u>
Total Current Assets	<u>211,220</u>	<u>643,551</u>	<u>854,771</u>
Fixed Assets			
Equipment	116,348	-	116,348
Buildings and improvements	890,585	-	890,585
Property-wide generator	780,532	-	780,532
Less, accumulated depreciation	(557,862)	-	(557,862)
Sub-total	<u>1,229,603</u>	<u>-</u>	<u>1,229,603</u>
Land	297,127	-	297,127
Total Fixed Assets	<u>1,526,730</u>	<u>-</u>	<u>1,526,730</u>
TOTAL ASSETS	<u>\$ 1,737,950</u>	<u>\$ 643,551</u>	<u>\$ 2,381,501</u>
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	\$ 87,297	\$ -	\$ 87,297
Contract liabilities (assessments received in advance-reserve fund)	-	85,454	85,454
Deferred Income	-	558,097	558,097
Total Current Liabilities	<u>87,297</u>	<u>643,551</u>	<u>730,848</u>
Fund Balance			
Fund Balance	<u>1,650,653</u>	<u>-</u>	<u>1,650,653</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,737,950</u>	<u>\$ 643,551</u>	<u>\$ 2,381,501</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, 2022

	Operating Fund	Reserve Fund	Total
REVENUES			
Common Charges	\$ 385,812	\$ -	\$ 385,812
Insurance Charges to Owners	318,064	-	318,064
Water Meter Billings	67,653	-	67,653
Internet	43,800	-	43,800
Other Income	1,331	-	1,331
Insurance Proceeds	612,789	-	612,789
Capital Repair Fund Charges	-	103,971	103,971
TOTAL REVENUES	1,429,449	103,971	1,533,420
EXPENSES			
Repairs and maintenance	-	87,192	87,192
Utilities	109,698	-	109,698
Security	45,506	-	45,506
Insurance	329,415	-	329,415
Salaries and payroll taxes	263,474	-	263,474
Professional fees	10,230	-	10,230
Office, admin and other expenses	25,653	-	25,653
Depreciation	83,297	-	83,297
TOTAL EXPENSES	867,273	87,192	954,465
EXCESS OF REVENUES OVER EXPENSES	562,176	16,779	578,955
RECLASSIFICATION TO CONTRACT LIABILITIES	(68,675)	(16,779)	(85,454)
BEGINNING FUND BALANCES	1,157,152	-	1,157,152
ENDING FUND BALANCES	\$ 1,650,653	\$ -	\$ 1,650,653

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

Schooner Bay Association
Statement of Cash flows
Year Ending December 31, 2022

	Operating Fund	Reserve Fund	Total
CASH FLOWS FROM OPERATIONS			
Excess (deficiency) of revenues over expenses	\$ 562,176	\$ 16,779	\$ 578,955
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities			
Depreciation	83,297	-	83,297
(Increase) decrease in:			
Accounts receivable	8,526	-	8,526
Other receivables	(225)	-	(225)
Prepaid expenses	128,415	-	128,415
Due from/to operating fund	(224,214)	224,214	-
(Decrease) increase in:			
Accounts payable and accrued expenses	10,840	-	10,840
Contract liabilities	(68,675)	68,675	-
Deferred income	-	(612,789)	(612,789)
Net Cash Provided (Used) by Operations	500,140	(303,121)	197,019
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in investments	-	3,626	3,626
Purchase of fixed assets	(433,426)	-	(433,426)
Net Cash (Used) by investing activities	(433,426)	3,626	(429,800)
NET INCREASE (DECREASE) IN CASH	66,714	(299,495)	(232,781)
CASH AT BEGINNING OF YEAR	24,771	384,949	409,720
CASH AT END OF YEAR	\$ 91,485	\$ 85,454	\$ 176,939

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

Schooner Bay Association

Notes to the Financial Statements
December 31, 2022

Note 1 - Organization

Schooner Bay Association (the "Association") was incorporated on February 13, 1987 under the laws of the United States Virgin Islands as a not-for-profit corporation for the purpose of maintaining and preserving the common property of the Association, located in Christiansted, St Croix, the United States Virgin Islands. The Association's community consists of 62 dwelling units titled to the individual owners. The common properties within the Association require expenses to be shared by all the owners within the community. Therefore, the community developer provided for and created the Association. Each owner of a unit is a member of the Association and is required to pay a monthly assessment to the Association.

Note 2 - Summary of Significant Accounting Policies

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors. Disbursements from the reserve fund generally may be made only for designated purposes.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the property of homeowners whose assessments are seriously delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

The net balance of assessments receivable at the beginning and end of the year were \$59,456 and \$50,930, respectively. These amounts are deemed fully collectible and are net of an allowance for doubtful accounts. The Association treats uncollectible assessments, if any, as variable consideration. Methods, inputs and assumptions used to evaluate whether an estimate of variable consideration is constrained include the consideration of past experience and susceptibility to factors outside the Association's control.

In 2022, the average monthly assessment to owners was \$1,085 per homeowner of which about \$140 on average was designated for the reserve fund. The yearly budget and assessments are determined by the board of directors.

Schooner Bay Association

Notes to the Financial Statements
December 31, 2022

Note 2 - Summary of Significant Accounting Policies (Continued)

A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve fund assessments. Contract liabilities at the end of the year was \$85,454 for cash held by the Capital Repair Fund and was reclassified out of the Operating Fund balance.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in banks and certificates of deposit subdivided into operating and reserve categories on the balance sheet.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

Concentration of Credit Risk

The Association's primary source of income is assessments paid by owners.

Real and Common Area Property

Real and common area property owned by the Association is recorded in the Association's financial statements and depreciated over the estimated useful lives on the straight-line basis.

Subsequent Events

The Association evaluated subsequent events for the period from January 1, 2023 to July 27, 2023, the date the financial statements were available for issue. No subsequent events were identified that required adjustment to or disclosure in these financial statements.

Note 3 - Federal and State Income Taxes

Home owner associations may elect to be taxed as regular corporations or as homeowner associations. The Association elected to be taxed as a homeowners' association for the year ended December 31, 2022. Under this election, the Association would be taxed on its nonexempt function income, such as interest income, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

Schooner Bay Association

Notes to the Financial Statements
December 31, 2022

Note 4- Future Major Repairs and Replacements

The budget of the Association provides for reserve accounts for capital expenditures that might otherwise result in special assessments. The Association has conducted a study to determine the remaining lives of the common property components and estimates of the major maintenance that may be required in the future. Funds have been accumulated based on estimated future costs and actual expenditures may vary materially from those estimates.

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 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 the 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 judgments and estimation.

Note 6- Deferred Income

Deferred Income of \$558,097 at December 31, 2022 consists of the remaining balance of unspent insurance proceeds received due to losses from hurricanes in prior years:

Beginning balance	\$1,170,886
Current Expenditures:	
Property-wide generator	<u>612,789</u>
Ending balance	<u>\$558,097</u>

\$612,789 of the \$780,532 cost of the property-wide generator placed in service in 2022 was paid for out of these insurance proceeds.

Schooner Bay Association
 Required Supplemental Information
 Information on Future Major Repairs and Replacements
 December 31, 2022

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.