

SCHOONER BAY CONDOMINIUM ASSOCIATION
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

SCHOONER BAY CONDOMINIUM ASSOCIATION

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2018

	PAGE
INDEPENDENT AUDITOR'S REPORT	1 - 2
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 8
REQUIRED SUPPLEMENTAL INFORMATION	9 - 10

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schooner Bay Condominium Association
Christiansted, St. Croix, United States Virgin Islands

Report on the Financial Statements

I have audited the accompanying financial statements of Schooner Bay Condominium Association which comprise the balance sheet as of December 31, 2018 and the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

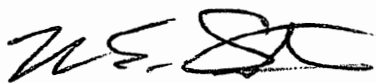
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Schooner Bay Condominium Association as of December 31, 2018, and the results of its operations and its changes in its fund balances and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the future major repairs and replacements information on pages 9 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. The audit was performed for the purpose of expressing an opinion on the fairness of the presentation of the basic financial statements. The information on pages 9 and 10 has not been subjected to my auditing procedures but is the representation of management and I do not express an opinion or provide any assurance on such data.

A handwritten signature in black ink, appearing to be 'W. E. S.', written in a cursive style.

February 20, 2020

Schooner Bay Condominium Association
Balance Sheet
December 31, 2018

	Operating Fund	Reserve Funds	Total
ASSETS			
Cash			
Cash-Checking and On-Hand	\$ 71,046	\$ 115,956	\$ 187,002
Cash-Savings and CDs	36,277	1,602,884	1,639,161
Total - Cash	<u>107,323</u>	<u>1,718,840</u>	<u>1,826,163</u>
Other Current Assets			
Accounts receivable unit owners-net	61,591	-	61,591
Miscellaneous accounts receivables	1,775	-	1,775
Prepaid expenses	80,062	-	80,062
Total Other Current Assets	<u>143,428</u>	<u>-</u>	<u>143,428</u>
Total Current Assets	<u>250,751</u>	<u>1,718,840</u>	<u>1,969,591</u>
Fixed Assets			
Equipment	69,532	-	69,532
Buildings	460,346	-	460,346
Less, Accumulated Depreciation	(408,717)	-	(408,717)
Sub-total	<u>121,161</u>	<u>-</u>	<u>121,161</u>
Land	297,127	-	297,127
Total Fixed Assets	<u>418,288</u>	<u>-</u>	<u>418,288</u>
TOTAL ASSETS	<u>\$ 669,039</u>	<u>\$1,718,840</u>	<u>\$2,387,879</u>
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable and accrued expenses	\$44,715	\$ -	\$44,715
Note payable	19,172	-	19,172
Deferred income	-	1,249,960	1,249,960
Total Current Liabilities	<u>63,887</u>	<u>1,249,960</u>	<u>1,313,847</u>
Fund Balance			
Fund Balance	<u>605,152</u>	<u>468,880</u>	<u>1,074,032</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 669,039</u>	<u>\$ 1,718,840</u>	<u>\$ 2,387,879</u>

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

Schooner Bay Condominium Association
Statement of Revenues, Expenses and Changes in Fund Balance
Year Ending December 31, 2018

	Operating Fund	Reserve Funds	Total
REVENUES			
Common charges to owners	\$357,944	\$ -	\$357,944
Insurance charges to owners	174,285	-	174,285
Improvement charges to owners	23,883	115,956	139,839
Capital charges to owners	98,746	-	98,746
Insurance proceeds	249,960	1,382,531	1,632,491
Owner late fees	8,415	-	8,415
Water meter billings	77,531	-	77,531
Internet charges	29,760	-	29,760
TOTAL REVENUES	1,020,524	1,498,487	2,519,011
EXPENSES			
Repairs and maintenance	122,599	36,091	158,690
Utilities	82,585	-	82,585
Security	44,357	-	44,357
Insurance	196,188	-	196,188
Salaries and payroll taxes	233,556	-	233,556
Professional fees	11,997	200,393	212,390
Office, admin and other expenses	27,425	-	27,425
Depreciation	63,260	-	63,260
Hurricane cleanup and re-build	-	1,317,315	1,317,315
TOTAL EXPENSES	781,967	1,553,799	2,335,766
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	238,557	(55,312)	183,245
Interfund transfers	(73,839)	73,839	-
BEGINNING FUND BALANCES	440,434	450,353	890,787
ENDING FUND BALANCES	\$605,152	\$468,880	\$1,074,032

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

**Schooner Bay Condominium Association
Statement of Cash Flows
Year Ending December 31, 2018**

	Operating Fund	Reserve Funds	Total
CASH FLOWS FROM OPERATIONS			
Excess (deficiency) of revenues over expenses	\$238,557	(\$55,312)	\$183,245
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities			
Depreciation	63,260	-	63,260
Interfund cash transfers, net	(323,799)	323,799	-
(Increase) decrease in:			
Accounts receivable	(2,344)	-	(2,344)
Prepaid expenses	(42,892)	-	(42,892)
Deposits	30,229	-	30,229
Increase (decrease) in:			
Deferred income	-	1,000,000	1,000,000
Note payable	19,172	-	19,172
Accounts payable and accrued expenses	3,877	-	3,877
Net Cash Provided (Used) by Operations	(13,940)	1,268,487	1,254,547
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(4,200)	-	(4,200)
Net Cash (Used) By Investing Activities	(4,200)	-	(4,200)
NET INCREASE (DECREASE) IN CASH	(18,140)	1,268,487	1,250,347
CASH AT BEGINNING OF YEAR	125,463	450,353	575,816
CASH AT END OF YEAR	\$107,323	\$1,718,840	\$1,826,163

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

SCHOONER BAY CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - Nature of Organization

Schooner Bay Condominium Association and Schooner Bay Recreation Association are incorporated homeowners associations (collectively SBA) 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. 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.

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

Restricted Cash – The Association maintains three accounts at their bank as reserved cash funds to use for major repairs and long-term replacements, or for emergency purposes. These funds are not used for operational purposes. As of December 31, 2018, these three accounts totaled \$1,718,840.

Assessments – Members are assessed by SBA for common area charges, insurance and the Capital Repair Fund to provide funds for operating expenses, and future major repairs and replacements.

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. All insurance is reviewed by a Risk Management Committee which consists of three unit owners and an independent outside insurance consultant.

Each year prior to purchasing renewal property insurance, Schooner Bay obtains an update to its replacement cost appraisal of the cost to rebuild all the buildings. This is in order to insure that the amount of insurance that is secured is adequate. The Risk Management Committee then uses the updated appraisal to get quotes for insurance from various carriers. 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.

Schooner Bay’s 2018-2019 property insurance, based upon the updated replacement cost appraisal, is a total sum insured for all the property of \$10,341,563. The policy provides for a 3% deductible which for the 2018-2019 insurance year equals \$321,343.

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 Condominium Association has taken over responsibility for the operation and maintenance of these facilities.

NOTE 5 – Notes Payable

SBA finances a portion of the insurance on the property in order to manage cash flow and avoid a special insurance assessment. The balance of the note on December 31, 2018, was \$19,172 and was fully paid in January, 2019.

NOTE 6 – Related Party Transactions

There were no related party transactions in 2018. A related party transaction is defined as a transaction between a party related to Schooner Bay, such as a director or officer, where that person receives compensation for services or goods provided to Schooner Bay.

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 in high credit quality financial institutions. As of December 31, 2018, SBA's cash exceeded the FDIC insurance limit of \$250,000 by \$1,610,185. As of November 12, 2019, management had transferred all excess balances to accounts which 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, 2019 to February 20, 2020 the date the financial statements were available for issue. Any subsequent events identified are disclosed in these financial statements.

NOTE 10 – Uncertain Tax Positions

The Association takes tax positions which it believes adheres to the tax laws in place within each taxing jurisdiction and therefore has not accrued any penalties or interest related to uncertain tax positions. The Association can be audited for the current and the three prior open tax periods. The Association is not aware of any such ongoing or pending audits.

Schooner Bay Condominium Association
 Required Supplemental Information
 December 31, 2018

Capital Repair Fund

In prior years, SBA had funded actual major repair and replacement expenditures from excess operating funds, or special assessments, as expenditures were incurred. This resulted in uneven monthly bills to unit owners as large special assessments would occur from time to time.

In February, 2010, the Board of Directors adopted a program, the Capital Repair Fund, to begin accumulating funds in a reserve account for estimated future repairs and replacements. The funding program was based on a study performed by the Board in November, 2009 and has been updated annually since. The study was to estimate the useful lives and replacement costs of common property components. The estimates were based on past costs, plus estimates of future costs from licensed contractors who inspected the property, as well as the Schooner Bay staff and representatives of the Board.

SBA is funding such major replacements over the estimated useful lives of the components through monthly assessments to the owners. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Capital Repair Fund may not be adequate to meet future needs. The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Galleries, building exteriors and roofs	4-7	\$290,000
Pools, surfaces, decks and furniture	5 - 7	\$30,000
Roadway surfaces and repaving	10	\$50,000
Cable lines and electric	10-15	\$20,000
Erosion control	10-15	\$20,000
Replacement of Sewer Lines	30	\$30,000
Replacement of copper lines	30	\$200,000

Reserve Cash Balances

The Capital Repair Fund, and other Reserve accounts, had the following transactions respectively for the year:

Description	CRF	Other Reserves	Checking	Hurricane	Total
Restricted Cash Balance January 1, 2018	\$78,983	\$117,281	\$0	\$254,089	\$450,353
<u>Amounts collected</u>					
Member assessments and interest income			115,956		115,956
Insurance recovery from storm				2,632,491	2,632,491
Transfers	(48,561)	(91,161)		213,561	73,839
<u>Amounts spent</u>					
Hurricane Rebuild (See Reconciliation)				(1,553,799)	(1,553,799)
Restricted Cash Balance December 31, 2018	30,422	26,120	115,956	1,546,342	1,718,840

Hurricane Cash Reconciliation

The following table shows the cash balance in the Hurricane account at the beginning of the year and amounts deposited into it, and amounts spent, and cash balance at the end of the year.

Description	Amount
Cash at January 1, 2018	\$254,089
<u>Amounts Received</u>	
Transfers from other accounts prior to insurance recovery	213,561
Insurance recovery in 2018	2,632,491
<u>Amounts Spent</u>	
Buildings and Roofs	(607,643)
Unit repairs	(512,978)
Carpentry to replace and repair Railings and Stairs	(196,694)
Outside construction estimators, insurance advisory and loss consultants	(210,599)
Miscellaneous repairs	(25,885)
Cash, December 31, 2018	\$1,546,342

AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

**Board of Directors
Schooner Bay Condominium Association
Christiansted, St. Croix, United States Virgin Islands**

Professional standards require me to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit of Schooner Bay Condominium Association as of and for the year ended December 31, 2018. These matters are, in my professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Auditor's Responsibility Under Professional Standards

These responsibilities were communicated in my engagement letter to the board of directors dated April 21, 2019.

Planned Scope and Timing of the Audit

The planned scope and timing of the audit was discussed in the above referenced engagement letter and with staff of the Organization in various meetings.

Qualitative Aspects of the Entity's Significant Accounting Practices

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. No significant new accounting policies have been adopted nor have there been any significant changes in existing accounting policies during the current period.

Significant Difficulties Encountered During the Audit

No significant difficulties were encountered during the audit.

Uncorrected Misstatements

There were no uncorrected misstatements noted during the audit.

Disagreements with Management

There were no disagreements with management during the audit.

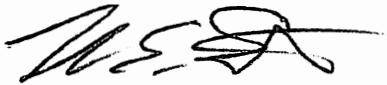
Consultations with Other Accountants

I am not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues were discussed with management.

Please let me know if you have any questions. Thank you for the opportunity to be of service to Schooner Bay Condominium Association.

A handwritten signature in black ink, appearing to be 'M. S. A.', written in a cursive style.

February 20, 2020