

**SCHOONER BAY CONDOMINIUM ASSOCIATION**  
**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2017**

**SCHOONER BAY CONDOMINIUM ASSOCIATION**

**TABLE OF CONTENTS**

**YEAR ENDED DECEMBER 31, 2017**

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

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, 2017 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, 2017, 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 'M. S. F.', written in a cursive style.

November 13, 2019

Schooner Bay Condominium Association  
Balance Sheet  
December 31, 2017

	<u>Operating Fund</u>	<u>Reserve Funds</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Cash</b>			
Cash-Checking	\$30,186	\$ 91,161	\$ 121,347
Cash-Savings and CDs	95,277	359,192	454,469
Total - Cash	<u>125,463</u>	<u>450,353</u>	<u>575,816</u>
<b>Other Current Assets</b>			
Accounts Receivable unit owners-net	61,022		61,022
Deposits	30,229		30,229
Prepaid expenses	37,170		37,170
Total Other Current Assets	<u>128,421</u>		<u>128,421</u>
<b>Total Current Assets</b>	<u>253,884</u>	<u>450,353</u>	<u>704,237</u>
<b>Fixed Assets</b>			
Equipment	65,332		65,332
Capital Projects	460,346		460,346
Less, Accumulated Depreciation	(345,457)		(345,457)
Sub-total	<u>180,221</u>		<u>180,221</u>
Land	297,127		297,127
Total Fixed Assets	<u>477,348</u>		<u>477,348</u>
<b>TOTAL ASSETS</b>	<u>\$731,232</u>	<u>\$450,353</u>	<u>\$1,181,585</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	\$40,838		\$40,838
Deferred income	249,960		249,960
Total Current Liabilities	<u>290,798</u>		<u>290,798</u>
<b>Fund Balance</b>			
Fund Balance	<u>440,434</u>	<u>450,353</u>	<u>890,787</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 731,232</u>	<u>\$ 450,353</u>	<u>\$ 1,181,585</u>

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

Schooner Bay Condominium Association  
Revenues, Expenses and Changes in Fund Balance  
Year Ending December 31, 2017

	Operating Fund	Reserve Fund	Total
<b>REVENUES</b>			
Common charges to owners	\$347,557	\$ -	\$347,557
Insurance charges to owners	156,828		156,828
Capital charges to owners		95,831	95,831
Owner late fees	3,877		3,877
Water meter billings	67,519		67,519
Internet charges	10,920		10,920
<b>TOTAL REVENUES</b>	<b>586,701</b>	<b>95,831</b>	<b>682,532</b>
<b>EXPENSES</b>			
Ordinary repairs and maintenance	42,311		42,311
Utilities	87,836		87,836
Security	47,119		47,119
Insurance	112,796		112,796
Salaries and payroll taxes	212,670		212,670
Professional fees	34,729		34,729
Office, admin and other expenses	27,475		27,475
Depreciation	75,233		75,233
Hurricane cleanup and re-build	65,629		65,629
<b>TOTAL EXPENSES</b>	<b>705,798</b>		<b>705,798</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>(119,097)</b>	<b>95,831</b>	<b>(23,266)</b>
Interfund transfers	(201,959)	201,959	
<b>BEGINNING FUND BALANCES</b>	<b>761,490</b>	<b>152,563</b>	<b>914,053</b>
<b>ENDING FUND BALANCES</b>	<b>\$440,434</b>	<b>\$450,353</b>	<b>\$890,787</b>

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

Schooner Bay Condominium Association  
Statement of Cash Flows  
Year Ending December 31, 2017

	Operating Fund	Reserve Fund	Total
<b>CASH FLOWS FROM OPERATIONS</b>			
Excess (deficiency) of revenues over expenses	(\$119,097)	\$95,831	(\$23,266)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities			
Depreciation	75,233		75,233
Interfund transfers, net	(201,959)	201,959	
(Increase) decrease in:			
Accounts receivable	(30,481)		(30,481)
Prepaid expenses	9,170		9,170
Deposits	(30,229)		(30,229)
Increase (decrease) in:			
Deferred income	249,960		249,960
Accounts payable and accrued expenses	30,055		30,055
Net Cash Provided by Operations	(17,348)	297,790	280,442
<b>NET INCREASE (DECREASE) IN CASH</b>	(17,348)	297,790	280,442
<b>CASH AT BEGINNING OF YEAR</b>	142,811	152,563	295,374
<b>CASH AT END OF YEAR</b>	\$125,463	\$450,353	\$575,816

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

SCHOONER BAY CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

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, 2017, these three accounts totaled \$450,353.

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.

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 2017-2018 property insurance, based upon the updated replacement cost appraisal, is a total sum insured for all the property of \$10,255,985.

### 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. This note was fully paid during the year.

### NOTE 6 – Related Party Transactions

There were no related party transactions in 2017.

### 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, 2017, SBA's cash on deposit exceeded the FDIC insurance limit of \$250,000 by \$340,666. 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 insured coverage.

**NOTE 9 – Subsequent Events**

The Association evaluated subsequent events for the period from January 1, 2018 to November 13, 2019, 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, 2017

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 the Reserve for Emergencies, had the following transactions respectively for the year:

Description	CRF	Other Reserves	Hurricane	Total
Cash Balance, January 1, 2017	\$ 96,924	\$ 55,639	\$ 0	\$ 152,563
<u>Amounts collected:</u>				
From member assessments and interest income		91,253		91,253
From insurance recovery from storm			250,000	250,000
Transfer from Other reserves to Hurricane		-29,611	29,611	
<u>Amounts spent:</u>				
Building painting and roofs	17,941			17,941
Expenditures from Hurricane			25,522	25,522
Cash Balance, December 31, 2017	\$ 78,983	\$ 117,281	\$254,089	\$ 450,453