

SCHOONER BAY ASSOCIATION  
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2025

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, 2025, 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, 2025, 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.

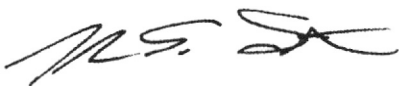
In performing an audit in accordance with generally accepted auditing standards, I:

- 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.

#### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a 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 the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries 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 16, 2026

Schooner Bay Association  
Balance Sheet  
December 31, 2025

|                                                                    | Operating<br>Fund   | Reserve<br>Fund   | Total               |
|--------------------------------------------------------------------|---------------------|-------------------|---------------------|
| <b>ASSETS</b>                                                      |                     |                   |                     |
| <b>Cash and Cash Equivalents</b>                                   |                     |                   |                     |
| Cash - checking                                                    | \$ 91,488           | \$ -              | \$ 91,488           |
| Cash - savings                                                     | -                   | 198,608           | 198,608             |
| Total Cash                                                         | 91,488              | 198,608           | 290,096             |
| <b>Other Current Assets</b>                                        |                     |                   |                     |
| Accounts receivable, net                                           | 24,088              | -                 | 24,088              |
| Investments                                                        | 471,551             | -                 | 471,551             |
| Prepaid expenses                                                   | 161,005             | -                 | 161,005             |
| Total Other Current Assets                                         | 656,644             | -                 | 656,644             |
| Total Current Assets                                               | 748,132             | 198,608           | 946,740             |
| <b>Fixed Assets</b>                                                |                     |                   |                     |
| Buildings and improvements                                         | 1,165,329           | -                 | 1,165,329           |
| Furniture and equipment                                            | 116,349             | -                 | 116,349             |
| Property-wide generator                                            | 780,532             | -                 | 780,532             |
| Less, accumulated depreciation                                     | (881,494)           | -                 | (881,494)           |
| Subtotal                                                           | 1,180,716           | -                 | 1,180,716           |
| Land                                                               | 297,127             | -                 | 297,127             |
| Total Fixed Assets                                                 | 1,477,843           | -                 | 1,477,843           |
| <b>TOTAL ASSETS</b>                                                | <b>\$ 2,225,975</b> | <b>\$ 198,608</b> | <b>\$ 2,424,583</b> |
| <b>LIABILITIES AND FUND BALANCE</b>                                |                     |                   |                     |
| <b>Current Liabilities</b>                                         |                     |                   |                     |
| Accounts payable and accrued expenses                              | \$ 30,487           | \$ -              | \$ 30,487           |
| Assessments received in advance, operating fund                    | 30,208              | -                 | 30,208              |
| Contract liability (assessments received in advance, reserve fund) | -                   | 198,608           | 198,608             |
| Total Current Liabilities                                          | 60,695              | 198,608           | 259,303             |
| <b>Fund Balance</b>                                                | 2,165,280           | -                 | 2,165,280           |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b>                          | <b>\$ 2,225,975</b> | <b>\$ 198,608</b> | <b>\$ 2,424,583</b> |

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

Schooner Bay Association  
Statement of Revenues, Expenses and Changes in Fund Balance  
For the Year Ended December 31, 2025

|                                                      | Operating<br>Fund   | Reserve<br>Fund | Total               |
|------------------------------------------------------|---------------------|-----------------|---------------------|
| <b>REVENUES</b>                                      |                     |                 |                     |
| Common assessments                                   | \$ 535,592          | \$ -            | \$ 535,592          |
| Insurance assessments                                | 398,438             | -               | 398,438             |
| Reserve assessments                                  | -                   | 147,308         | 147,308             |
| Water metered charges                                | 64,435              | -               | 64,435              |
| Investment income                                    | 17,008              | -               | 17,008              |
| Insurance proceeds                                   | 100,963             | 457,134         | 558,097             |
| Other income                                         | 1,430               | -               | 1,430               |
| <b>TOTAL REVENUES</b>                                | <b>1,117,866</b>    | <b>604,442</b>  | <b>1,722,308</b>    |
| <b>EXPENSES</b>                                      |                     |                 |                     |
| Repairs and maintenance                              | 61,040              | -               | 61,040              |
| Utilities                                            | 116,926             | -               | 116,926             |
| Security                                             | 46,061              | -               | 46,061              |
| Insurance                                            | 399,250             | -               | 399,250             |
| Payroll, payroll taxes and benefits                  | 369,027             | -               | 369,027             |
| Professional fees                                    | 15,879              | -               | 15,879              |
| Office, administrative and other expenses            | 18,120              | -               | 18,120              |
| Depreciation                                         | 108,879             | -               | 108,879             |
| Bad debt                                             | 19,191              | -               | 19,191              |
| <b>TOTAL EXPENSES</b>                                | <b>1,154,373</b>    | <b>-</b>        | <b>1,154,373</b>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b> | <b>(36,507)</b>     | <b>604,442</b>  | <b>567,935</b>      |
| <b>BEGINNING FUND BALANCE</b>                        | <b>1,597,345</b>    | <b>-</b>        | <b>1,597,345</b>    |
| Interfund transfers                                  | 604,442             | (604,442)       | -                   |
| <b>ENDING FUND BALANCE</b>                           | <b>\$ 2,165,280</b> | <b>\$ -</b>     | <b>\$ 2,165,280</b> |

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

Schooner Bay Association  
Statement of Cash Flows  
For the Year Ended December 31, 2025

|                                                                                                           | Operating<br>Fund | Reserve<br>Fund | Total        |
|-----------------------------------------------------------------------------------------------------------|-------------------|-----------------|--------------|
| <b>CASH FLOWS FROM OPERATIONS</b>                                                                         |                   |                 |              |
| Cash received from assessments                                                                            | \$ 948,982        | \$ 128,894      | \$ 1,077,876 |
| Cash received from other charges                                                                          | 65,830            | -               | 65,830       |
| Cash received from investment interest and dividends                                                      | 17,008            | -               | 17,008       |
| Cash paid for goods and services                                                                          | (1,061,052)       | -               | (1,061,052)  |
| Net Cash Provided (Used) by Operations                                                                    | (29,232)          | 128,894         | 99,662       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                               |                   |                 |              |
| Cash paid for fixed assets                                                                                | (175,093)         | -               | (175,093)    |
| (Increase) decrease in investments                                                                        | (471,551)         | 457,134         | (14,417)     |
| Net Cash Provided (Used) by Investing Activities                                                          | (646,644)         | 457,134         | (189,510)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                               |                   |                 |              |
| Interfund transfers                                                                                       | 604,442           | (604,442)       | -            |
| Net Cash Provided (Used) by Financing Activities                                                          | 604,442           | (604,442)       | -            |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                                                    | (71,434)          | (18,414)        | (89,848)     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                                     | 162,922           | 217,022         | 379,944      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                                           | \$ 91,488         | \$ 198,608      | \$ 290,096   |
| Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operations |                   |                 |              |
| Excess (deficiency) of revenues over expenses                                                             | \$ (36,507)       | \$ 604,442      | \$ 567,935   |
| Reconciliation adjustments:                                                                               |                   |                 |              |
| Depreciation expense                                                                                      | 108,879           | -               | 108,879      |
| Bad debt expense                                                                                          | 19,191            | -               | 19,191       |
| (Increase) decrease in:                                                                                   |                   |                 |              |
| Accounts receivable                                                                                       | 14,918            | -               | 14,918       |
| Prepaid expenses                                                                                          | 1,619             | -               | 1,619        |
| Increase (decrease) in:                                                                                   |                   |                 |              |
| Accounts payable and accrued expenses                                                                     | 12,299            | -               | 12,299       |
| Assessments received in advance, operating fund                                                           | 12,956            | -               | 12,956       |
| Contract liability (assessments received in advance, reserve fund)                                        | -                 | (18,414)        | (18,414)     |
| Notes payable-insurance premiums                                                                          | (61,624)          | -               | (61,624)     |
| Deferred revenue                                                                                          | (100,963)         | (457,134)       | (558,097)    |
| Net Cash Provided (Used) by Operations                                                                    | \$ (29,232)       | \$ 128,894      | \$ 99,662    |

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

## **Note 1 – Organization**

Schooner Bay Association (the “Association”) was incorporated on February 13, 1987 under the laws of the United States Virgin Islands (“USVI”) as a not-for-profit corporation for the purpose of maintaining and preserving the common property of the Association, located in Christiansted, St. Croix, USVI. The Association’s community consists of 62 dwelling units titled to the individual owners. The common property within the Association requires expenses to be shared among all of 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 monthly assessments to the Association.

## **Note 2 – Summary of Significant Accounting Policies**

### *Basis of Presentation*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. This method of accounting uses the accrual basis. The accrual basis of accounting means that revenues are recorded when they are earned and expenses are recorded when they are incurred.

### *Fund Accounting*

The Association uses fund accounting, which requires that funds, such as operating funds and funds reserved for major repairs and replacements, be classified separately for accounting and reporting purposes. Financial resources and activities are classified in the following funds established according to nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Reserve Fund – This fund is used to accumulate financial resources designated for the future major repairs and replacements of Association common property.

### *Cash and Cash Equivalents*

For purposes of reporting cash flows, the Association considers all monies deposited with financial institutions in checking, savings and money market accounts to be cash and cash equivalents.

### *Investments*

Investments consist of shares in a money market mutual fund invested in United States Treasury securities, held for an indefinite period and classified as available for sale. These investments are recorded at cost which materially approximates fair market value.

### *Member Assessments*

Association members are subject to monthly assessments to provide funds for the Association’s operating expenses and future major repairs and replacements of common property. Assessments are approved by the Association’s board of directors based on budgeted expenditures, and are prorated among individual unit owners based upon the type of unit owned. In the event

Schooner Bay Association  
Notes to the Financial Statements  
As of and for the Year Ended December 31, 2025

assessments exceed the related expenditures in any one year, the excess may be deferred and used to reduce assessments in a subsequent year or refunded to the owners. For 2025, the average monthly common, insurance and reserve assessments per unit amounted to \$738, \$536 and \$173, respectively. Special assessments may also be imposed from time to time as deemed appropriate by the Association board of directors.

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 operating assessments are satisfied over time on a daily pro-rata basis using the input method. Performance obligations related to reserve assessments are satisfied when these funds are expended for their designated purposes. Unexpended reserve and special assessment funds are reported as contract liabilities in the reserve fund until expended and the performance obligations are satisfied.

Assessments receivable are reported at the amounts expected to be collected from outstanding assessments of unit owners. Assessments receivable were \$131,673 and \$116,755 at the beginning and the end of the year, respectively. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are seriously delinquent. The Association treats uncollectible assessments as credit losses, and evaluates the collectability of assessments receivable based on current conditions, past experience and forecasts of future events. Based on these factors, the Association recorded an allowance for doubtful accounts in the amount of \$73,476 and \$92,667 at the beginning and end of the year, respectively.

#### *Fixed Assets*

The Association capitalizes and depreciates significant common property purchased with Association funds and with an estimated useful life exceeding one year. Common area real and personal property owned by the Association is recorded in the Association's financial statements at cost and depreciated over the estimated useful life using the straight-line basis.

#### *Assessments Received in Advance – Operating Fund*

Assessments received in advance – operating fund consists of operating assessments received that are applicable to future periods, and amounted to \$17,252 and \$30,208 at the beginning and end of the year, respectively.

#### *Contract Liabilities (Assessments Received in Advance – Reserve Fund)*

A contract liability is recorded for assessments made in advance of satisfying performance obligations related to reserve fund assessments. The reserve fund contract liability amounted to \$217,022 and \$198,608 at the beginning and end of the year, respectively. Revenue recognized that was included in the beginning contract liability amounted to \$18,414 in 2025.

#### *Deferred Revenue*

Deferred revenue represents unspent insurance proceeds received for extensive damages incurred from previous hurricanes. Revenue is recognized as these funds are expended to repair or replace the Association's hurricane-damaged common property, or when the Association determines that all hurricane-related repairs and replacements are complete.

*Investment Income*

Investment income consists of dividends and interest, is recognized when earned and remains in the fund where it is earned.

*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.

*Concentrations of Credit Risk*

Financial instruments which potentially subject the Association to concentrations of credit risk consist primarily of bank and investment accounts with balances, at times, in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") or the Securities Investor Protection Corporation ("SIPC"). Cash deposits are insured by the FDIC up to \$250,000 per institution. The SIPC insures investment losses up to \$500,000 per institution resulting from failures in the custody function of the broker-dealer but not from declines in the value of the securities. At December 31, 2025, the Association's uninsured cash balance amounted to \$47,832.

At December 31, 2025, \$80,330 of the \$116,755 accounts receivable balance is from the owners of two units. The Association is actively working to collect the balances through its right to lien property securing unpaid assessments. The Association believes the allowance for doubtful accounts at December 31, 2025 of \$92,667 will be adequate to accommodate any resulting losses.

The Association's primary source of income is assessments billed to owners.

*Subsequent Events*

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 16, 2026, the date the financial statements were available to be issued.

**Note 3 - Investments**

Investments amounted to \$471,551 at December 31, 2025, and consisted of shares in a money market mutual fund invested in United States Treasury securities with a dollar-weighted average maturity of 30 days. The shares are held for an indefinite period, classified as available for sale, and recorded at cost which materially approximates fair market value. The Association's investments are exposed to various interest rate, market, currency and credit risks. Due to these risks, it is reasonably possible that the recorded value of these investments could change materially in the near term. Fair market value uses the Level 1 valuation that is based on quoted prices in active markets for identical assets that the Association can access at the measurement date.

#### Note 4 – Fixed Assets

Capitalized property and equipment at December 31, 2025 is as follows:

|                                | Useful Lives<br>(years) | Cost                |
|--------------------------------|-------------------------|---------------------|
| Land                           | -                       | \$ 297,127          |
| Buildings & Improvements       | 7-30                    | 1,165,329           |
| Furniture & Equipment          | 5-7                     | 116,349             |
| Property Generator             | 5-15                    | 780,532             |
|                                |                         | <u>2,359,337</u>    |
| Less: Accumulated Depreciation |                         | (881,494)           |
| Fixed Assets, Net              |                         | <u>\$ 1,477,843</u> |

#### Note 5 – Income Taxes

The Association has elected to be taxed as a homeowners' association under Internal Revenue Code Section 528. Under this election, the Association is 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. The Association is subject to routine audits by taxing jurisdictions; however, management is not aware of any audit in progress for any tax periods.

#### Note 6 – Future Major Repairs and Replacements

The budget of the Association provides for reserve accounts for capital expenditures that might otherwise result in special assessments. Funds accumulated in the reserve fund for future major repairs and replacements of common property amounted to \$217,022 and \$198,608 at the beginning and end of the year, respectively. These funds are held in separate depository accounts and are generally not available for operating purposes. Member assessments designated for regular reserves amounted to \$128,894 in 2025. In an August 2022 study, management and the board of directors estimated the remaining useful lives of common property components and the current costs of major maintenance or replacement that may be required in the future. Actual useful lives and expenditures may vary from those estimates, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs.

#### Note 7 – Contingencies

The Association is exposed to various risks of loss related to damage of assets, theft, errors and omissions, natural disasters and claims arising in the course of business. Additionally, the Association's property insurance policy includes a deductible for hurricane damage coverage. Should it incur an uninsured loss, the Association may increase assessments, implement a special assessment or delay repairs until funds are available.

The Association is in settlement negotiations regarding an ongoing land-related dispute arising in 1996 with the owner of neighboring real property. Management believes resolution of the dispute will not have a material impact on the Association's financial statements.

Schooner Bay Association  
Required Supplementary Information on  
Future Major Repairs and Replacements  
December 31, 2025

The Schooner Bay Association ("Association") board of directors has adopted a program, the Reserve Fund, to accumulate funds for estimated future major repairs and replacements of certain common property. The funding program is based on an August 2022 study performed by management and the board of directors to estimate the useful lives and replacement costs of the common property components detailed below. Actual useful lives and expenditures may vary from estimates and the variations may be material. Therefore, amounts accumulated in the Reserve Fund may not be adequate to meet future needs.

The following information is based on the study and presents significant information about certain components of Association common property.

| <u>Components</u>                       | <u>Estimated<br/>Remaining<br/>Life (Years)</u> | <u>Estimated<br/>Current<br/>Replacement<br/>Costs</u> | <u>Contract<br/>Liability<br/>Balance<br/>12/31/2025</u> |
|-----------------------------------------|-------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|
| Pool, surfaces, decks and furniture     | 0-5                                             | \$ 90,000                                              |                                                          |
| Galleries, building exteriors and roofs | 1-2                                             | 559,222                                                |                                                          |
| Iron work and galleries                 | 25                                              | 25,000                                                 |                                                          |
| Paving                                  | 1-15                                            | 15,000                                                 |                                                          |
| Total                                   |                                                 | <u>\$ 689,222</u>                                      | <u>\$ 198,608</u>                                        |

See independent auditor's report.