

**THE REEF ASSOCIATES, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
OCTOBER 31, 2020  
*(With Comparative Totals for 2019)***

**THE REEF ASSOCIATES, INC.**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
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*(With Comparative Totals for 2019)*

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## INDEPENDENT AUDITOR'S REPORT

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Suite 4100  
Baltimore, MD 21202

The Reef Associates, Inc.  
St. Croix  
U.S. Virgin Islands

### Report on the Financial Statements

We have audited the accompanying financial statements of The Reef Associates, Inc. (the Association) which comprise the balance sheet as of October 31, 2020, and the related statement of revenues, expenses and accumulated retained earnings, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 the 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet of The Reef Associates, Inc. as of October 31, 2020, 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.



## **Other Matters**

### ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on pages 12-14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

### **Emphasis of Matter**

In March 2020, as discussed in Note 17 to the financial statements, the World Health Organization declared COVID-19 a "Public Health Emergency of International Concern." Given the uncertainty of the situation, the duration of any organizational disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

### ***Prior Year's Comparative Information***

We have previously audited the Association's 2019 financial statements, and we have expressed an unmodified audit opinion on the financial statements in our report dated February 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Best Smith & Co.*

Washington, D.C.  
January 28, 2021

**THE REEF ASSOCIATES, INC.**  
**BALANCE SHEET**  
**OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 441,827	\$ 318,411
Inventory	3,867	2,590
Accounts Receivable, net	41,138	18,308
Prepaid Expenses	<u>82,119</u>	<u>70,732</u>
Total Current Assets	<u>568,951</u>	<u>410,041</u>
<b>Fixed Assets:</b>		
Property, Plant and Equipment, net	1102,750	1,190,350
Land	<u>11,190</u>	<u>11,190</u>
Total Fixed Assets, net	<u>1,113,940</u>	<u>1,201,540</u>
<b>Other Assets:</b>		
Investments	-	205,803
Deposits	<u>10,287</u>	<u>10,287</u>
Total Other Assets	<u>10,287</u>	<u>216,090</u>
Total Assets	<u>\$ 1,693,178</u>	<u>\$ 1,827,671</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 14,815	\$ 48,626
Accrued Expenses	42,533	22,659
Mortgage and Loan Payable - Current	<u>65,923</u>	<u>58,039</u>
Total Current Liabilities	<u>123,270</u>	<u>129,324</u>
<b>Long-term Liabilities:</b>		
Mortgage and Loan Payable – Non-Current	<u>243,845</u>	<u>287,850</u>
Total Long-term Liabilities	<u>243,845</u>	<u>287,850</u>
Total Liabilities	<u>367,116</u>	<u>417,174</u>
<b>Stockholders' Equity:</b>		
Common Stock	101,000	101,000
Additional Paid-in Capital	565,943	565,943
Retaining Earnings	<u>659,119</u>	<u>743,554</u>
Total Stockholders' Equity	<u>1,326,062</u>	<u>1,410,497</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,693,178</u>	<u>\$ 1,827,671</u>

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

**THE REEF ASSOCIATES, INC.**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND ACCUMULATED RETAINED EARNINGS**  
**FOR THE YEAR ENDED OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Fixed Billings and Surcharge Assessment	\$ 1,208,754	\$ 1,196,301
Service Billings	303,341	314,870
Rent and Concessions	<u>37,977</u>	<u>40,440</u>
Total Revenues	<u>1,550,072</u>	<u>1,551,611</u>
<b>EXPENSES</b>		
Operating and Direct	573,713	555,857
General and Administrative	<u>994,083</u>	<u>992,102</u>
Total Expenses	<u>1,567,796</u>	<u>1,547,959</u>
Income from Operations	<u>(17,724)</u>	<u>3,652</u>
<b>OTHER REVENUE (EXPENSES)</b>		
Golf Expenses (Net of Income)	(49,443)	(9,801)
Interest	(18,917)	(20,571)
Other	<u>1,649</u>	<u>7,389</u>
Total Other Revenue (Expenses)	<u>(66,711)</u>	<u>(22,983)</u>
Net Income (Loss)	(84,435)	(19,331)
Accumulated Retained Earnings – November 1	<u>743,554</u>	<u>762,885</u>
Accumulated Retained Earnings – October 31	<u>\$ 659,119</u>	<u>\$ 743,554</u>

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



**THE REEF ASSOCIATES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	\$ (84,435)	\$ (19,331)
Add Items not Requiring the Outlay of Cash:		
Depreciation and Amortization	145,624	174,275
<i>Changes in Assets and Liabilities:</i>		
Decrease in Inventory	(1,278)	2,138
(Increase) in Prepaid Expenses	(11,387)	(6,267)
Decrease in Accounts Receivable, net	(22,830)	10,914
(Decrease) Increase in Accounts Payable	(33,809)	(58,545)
Increase (Decrease) in Accrued Liabilities	19,873	6,110
<b>Net Cash Provided by Operating Activities</b>	<u>11,758</u>	<u>109,294</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of Fixed Assets	(58,024)	(146,421)
Decrease in Investments	205,803	46,197
<b>Net Cash Used in Investing Activities</b>	<u>147,779</u>	<u>(100,224)</u>
<b>Cash Flows from Financing Activities:</b>		
Loan Proceeds	22,800	-
Reduction of Debt	(58,921)	(49,994)
<b>Net Cash Used in Financing Activities</b>	<u>(36,121)</u>	<u>(49,994)</u>
<b>Net (Decrease) Increase in Cash</b>	123,416	(40,924)
<b>Cash and Cash Equivalents, November 1</b>	<u>318,411</u>	<u>359,335</u>
<b>Cash and Cash Equivalents, October 31</b>	<u>\$ 441,827</u>	<u>\$ 318,411</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Interest Expense	<u>\$ 18,917</u>	<u>\$ 20,571</u>

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

**THE REEF ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2020**

**NOTE 1      ORGANIZATION**

The Association is a statutory condominium association incorporated on St. Croix, U.S. Virgin Islands on May 2, 1974. The Association is responsible for the operation, maintenance, and management of the common property of the Reef Associates, Inc.

**NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of The Reef Associates, Inc.'s (the Association) significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

- **Accounting Basis** --- The Association uses the accrual basis of accounting. Under this basis of accounting, revenue is generally recognized when earned, and expenses are recorded as incurred.
- **Income Recognition** --- The Association is primarily engaged in the management and maintenance of common grounds and facilities of "The Reef," a condominium. The Association assesses management, maintenance, insurance, and other fees to condominium owners, all of whom are stockholders of the Association. In addition, the Association bills each unit owner, as well as tenants, for any other specific repairs and utilities as service billings.
- **Cash and Cash Equivalents** --- The Association considers cash on hand and all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.
- **Investments** --- Investments are carried at fair value and represent instruments purchased with a maturity of more than three months.
- **Allowance for Doubtful Accounts** --- The Association has provided for an allowance for doubtful accounts of \$15,000 for the years ended October 31, 2020, based on management's estimate of the collectability of accounts receivable.
- **Inventory** --- Inventory consists primarily of golf shirts, hats, shorts, shoes, gloves, etc., and are stated at the lower of cost (determined on the first-in, first-out basis) or market.
- **Property, Plant and Equipment** --- The Association capitalizes all fixed assets with a unit cost in excess of \$500 and useful life of over a year. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight-line method. Maintenance and repair costs are expensed when incurred. The useful lives are as follows:

Building and Improvements	5 – 27 years
Land Improvements	10 – 20 years
Water Plant	5 – 15 years
Sewer Plant	7 – 10 years
Machinery and Equipment	5 – 10 years
Furniture and Fixtures	5 – 10 years
Transportation Equipment	5 years



**NOTE 2---SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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- **Prepaid Expenses** --- Prepaid Expenses are advance payments for insurance. Prepayments are recorded as assets when paid and are expensed over time as benefits are realized.
- **Accounting for Impairments of Long-lived Assets** --- The Association periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No evidence of impairment is evident as a result of such review.
- **Use of Estimates** --- The presentation of financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.
- **Comparative Totals:** The 2020 financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Project's financial statements for the year ended October 31, 2019, from which the summarized information was derived.

**NOTE 3 CASH AND CASH EQUIVALENTS**

The cash and cash equivalents include the following:

Cash in Money Fund Accounts	\$ 298,225
Cash in Operational Accounts	<u>143,602</u>
	<u>\$ 441,827</u>

**NOTE 4 CONCENTRATION OF RISK**

The Association maintains cash balances at two financial institutions. Accounts at one institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, while the other institution is insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 including \$250,000 for cash. At October 31, 2020, the Association's cash balances were within the insured limits.

**NOTE 5 ACCOUNTS RECEIVABLES**

Owners of the Association are subject to monthly assessments to provide funds for the Association's operating expenses, capital acquisitions, repairs, and replacements. Accounts receivable of \$41,138 include owners, tenants, and golf fees. This amount is reported net of advance billings of \$97,380 and an allowance for uncollectible of \$15,000 at the balance sheet date.

**NOTE 6      PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<u>2020</u>
Building and Accessories	\$ 1,648,092
Water Plant	164,863
Sewer Plant	678,561
Machinery and Equipment	301,134
Transportation and Equipment	114,963
Furniture and Fixtures	82,626
Land Improvements	<u>684,801</u>
	3,675,040
Less: Accumulated Depreciation	<u>(2,572,290)</u>
Net Book Value	<u>\$ 1,102,750</u>

Depreciation expense at October 31, 2020, was \$145,624. The land is recorded at cost.

**NOTE 7      LONG-TERM DEBT**

Long-term debt consists of the following at October 31, 2020:

6% Mortgage note payable to the Bank of St. Croix, a Division of United Fidelity Bank. The loan is collateralized by a valid and perfected first priority security interest in tangible and intangible personal property of the Association. The mortgage requires monthly installments of \$6,029.92, principal, and interest over a period of 9 years maturing on April 1, 2025.

277,008

On April 3, 2019, the Association entered into a loan agreement with the Bank of St. Croix to purchase a vehicle in the principal sum of \$20,000 at the interest rate of 5.75% per annum commencing on April 3, 2019 and ending April 3, 2023, the principal balance shall be repaid in monthly installments of \$385.13 over a period of 5 years.

10,703

On September 11, 2020, the Association entered into a loan agreement with the Bank of St. Croix to purchase a vehicle in the principal sum of \$22,800 at the interest rate of 4.75% per annum commencing on September 11, 2020 and ending September 11, 2025, the principal balance shall be repaid in monthly installments of \$428.34 over a period of 5 years.

22,057  
309,768  
(65,923)

Total Long-term Debt – Noncurrent

\$ 243,845



The following is a summary of principal maturities of long-term debt during the next five years subsequent to October 31, 2020, are as follows:

	<u>2020</u>
2021	65,923
2022	70,064
2023	72,020
2024	74,234
2025	27,528
Total	<u>\$309,768</u>

#### **NOTE 8      INSURANCE RESERVES**

The Association has established a board-designated reserve that had a balance of \$207,646 as of October 31, 2020, to offset a portion of any uninsured liability. The amount is included in accumulated retained earnings.

#### **NOTE 9      DEPOSITS**

Deposits include the following:

	<u>2020</u>
Virgin Islands Water and Power Authority (WAPA)	\$ 8,287
Other Deposits	2,000
	<u>\$ 10,287</u>

#### **NOTE 10      COMPENSATED ABSENCES**

Employees of the Association are entitled to accrued vacation, depending on the length of service. It is impractical to estimate the amount of compensation for future absences and accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to report the costs of compensated absences when they are paid. Management considers any accrual leave to be immaterial and does not believe this departure from generally accepted accounting principles will have a material impact on the financial statements.

#### **NOTE 11      RETIREMENT PLAN**

The Association established a Merrill Lynch SIMPLE Retirement Account Plan (the Plan) in June 2015. To participate in the Plan, eligible employees must have received compensation from the Association of at least \$2,000. The Association contributes up to 3% of the employee's salary but no more than the employee's contribution to the plan. Employees can also make contributions up to the legal limit. The Association incurred pension expenses of \$6,866 during the year ended October 31, 2020.

#### **NOTE 12      CONTINGENCIES**

There are no material suits or complaints filed nor is any pending against the Association. However, there is a pending claim by a unit owner for struction damages to the unit as a result of wear and tear. The Association has estimated the cost for repairs to the unit will range between \$12,000 to \$20,000. No adjustment has been made to the financials in relation to this claim.



**NOTE 13 INCOME TAXES**

The Association has elected to file income taxes as a regular corporation rather than as a homeowners' Association. This election enables the Association to pay taxes on its net taxable income from all sources at the graduated rate, rather than at 41.8% on non-exempt activities. No provision for income taxes was made for financial statement purposes because the Association had net operating losses of \$84,4435 for the year ended September 30, 2020, and net operating losses through 2020 totaling \$119,007. The Association's federal income and territorial income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. Income tax returns remain open for October 2019, 2018 and 2017.

Net Operating Losses available as of October 31, 2020, were as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 20,192
2011	36,436
2014	23,370
2017	17,044
2018	21,965
2019	19,331
Total	<u>\$ 138,338</u>

**NOTE 14 OUTSTANDING SHARES**

The by-laws of The Reef Associates, Inc. prescribe that each condominium unit owner has one share of stock in the corporation, which shall not be severable from unit ownership. There are thus 101 unit owners and 101 shares outstanding.

**NOTE 15 ADDITIONAL PAID IN CAPITAL**

The amount represents funds received as grants from the Virgin Islands Department of Planning and Natural Resources. The grants were treated as contributions to capital to provide for the expansion and improvement or replacement of the Association's utility water or sewage disposal facility.

**NOTE 16 SUBSEQUENT EVENTS**

The Association's management has evaluated subsequent events through January 28, 2021, the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events that did not exist at the balance sheet date, but disclosures of such events, if any, are included in the accompanying notes.

**NOTE 17 RISK AND UNCERTAINTIES**

The Association's operations and financial performance may be affected by the recent COVID-19 outbreak, which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the Association may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction in assessment and common area charges, owner's payments, golf operations, and other changes that could increase expenses. The outbreak may adversely affect the Association's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the Association is taking appropriate actions to mitigate any negative impact.



**THE REEF ASSOCIATES, INC.**  
**COMPARATIVE SCHEDULE OF REVENUES**  
**FOR THE YEAR ENDED OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

	<u>2020</u>	<u>2019</u>
<b>Fixed Billings:</b>		
Regular Assessment	\$ 928,317	\$ 928,317
Insurance Assessment	182,265	169,812
Infrastructure Repairs	98,172	98,172
	<hr/>	<hr/>
Total Fixed Billings	1,208,754	1,196,301
	<hr/>	<hr/>
<b>Service Billings:</b>		
Water	124,430	139,564
Electricity	150,055	137,926
Owner Agency Rental Fees	13,035	17,485
Unit Sales Fees	10,443	14,208
Maintenance Fee	-	340
Late Charges	3,094	3,454
Miscellaneous	2,284	1,893
	<hr/>	<hr/>
Total Service Billings	303,341	314,870
	<hr/>	<hr/>
<b>Rent and Concessions:</b>		
Concessions Rental	34,277	34,040
Concession convenience store	3,700	6,400
	<hr/>	<hr/>
Total Rent and Concessions	37,977	40,440
	<hr/>	<hr/>
Total Revenues	<u>\$ 1,550,072</u>	<u>\$ 1,551,611</u>

*See auditor's report on comparative supplemental information.*



**THE REEF ASSOCIATES, INC.**  
**COMPARATIVE SCHEDULE OF OPERATING AND DIRECT COSTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

	<u>2020</u>	<u>2019</u>
<b>Repairs and Maintenance:</b>		
Common Areas	\$ 221,208	\$ 137,012
Water and Sewer Systems	62,686	91,043
Pool	10,976	9,877
Building and Improvements	1,731	500
Machinery	18,091	20,745
Electrical System	4,140	9,280
Vehicle Expenses	6,473	6,785
Hurricane Expenses	-	26,560
	<u>325,305</u>	<u>301,802</u>
<b>Total Repairs and Maintenance</b>		
<b>Other Expenses:</b>		
Electricity	<u>248,408</u>	<u>254,055</u>
	<u>248,408</u>	<u>254,055</u>
<b>Total Other Expenses</b>		
<b>Total Operating and Direct Costs</b>	<u>\$ 573,713</u>	<u>\$ 555,857</u>

*See auditor's report on comparative supplemental information.*

**THE REEF ASSOCIATES, INC.**  
**COMPARATIVE SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED OCTOBER 31, 2020**  
*(With Comparative Totals for 2019)*

	<u>2020</u>	<u>2019</u>
Salaries and Wages	\$ 228,094	\$ 220,399
Payroll Taxes	38,055	34,125
Bonus	20,929	16,081
Professional Fees	37,560	30,381
Contract Labor – Landscaping	164,800	161,900
Contract Labor – Other	2,000	-
Security	72,622	77,496
Insurance	217,784	212,734
Depreciation and Amortization	145,624	174,275
Property and Other Taxes	15,149	23,168
Exterminating and Janitorial Services	9,900	10,885
Repairs and Maintenance	5,523	2,782
Office Expenses	17,078	10,566
Telephone	9,598	6,833
Postage	1,817	2,303
Retirement Contributions	6,866	7,213
Gross Receipts Taxes	6	111
Annual Meeting Expense	-	290
Bank Charges	678	560
	<u>\$ 994,083</u>	<u>\$ 992,102</u>

*See auditor's report on comparative supplemental information.*