

THE REEF ASSOCIATES, INC.
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED OCTOBER 31, 2022
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2021)

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INDEPENDENT AUDITOR'S REPORT

THOMAS E. SINGLETON
CERTIFIED PUBLIC ACCOUNTANT
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Board of Directors
The Reef Associates, Inc.
St. Croix, United States Virgin Islands

Opinion

I have audited the accompanying financial statements of the Reef Associates, Inc. (the Association), which comprise the balance sheet as of October 31, 2022, and the related statements of revenues, expenses, and change in retained earnings 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 October 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Association and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Required Supplementary Information

The supplementary information for future major repairs and replacements presented on page 10 of this document is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 page 10 has not been subjected to my auditing procedures but has been compiled from information that is the representation of management, without audit or review, and I do not express an opinion or provide any assurance on such data.

Prior Year Summarized Comparative Financial Statements

I previously audited the financial statements as of and for the year ended October 31, 2021 and my report dated December 29, 2021 expressed an unmodified opinion on those financial statements. In my opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited financial statements from which it has been derived.



December 17, 2022

The Reef Associates, Inc.
Balance Sheets
October 31, 2022 and 2021

ASSETS	2022	2021
Cash		
Cash-operating	\$ 56,650	\$ 25,911
Cash-designated	163,389	192,435
Total - Cash	<u>220,039</u>	<u>218,346</u>
Other Current Assets		
Accounts receivable unit owners, net	41,667	26,103
Inventory	4,175	4,175
Prepaid expenses	89,316	98,217
Total Other Current Assets	<u>135,158</u>	<u>128,495</u>
Total Current Assets	<u>355,197</u>	<u>346,841</u>
Fixed Assets		
Furniture and equipment	407,238	401,518
Buildings and improvements	2,474,393	2,441,485
Less accumulated depreciation	<u>(2,110,105)</u>	<u>(1,998,859)</u>
Sub-total	771,526	844,144
Land	11,190	11,190
Total Fixed Assets	<u>782,716</u>	<u>855,334</u>
Other Assets		
Deposits	10,287	10,287
Total - Other Assets	<u>10,287</u>	<u>10,287</u>
TOTAL ASSETS	<u>\$ 1,148,200</u>	<u>\$ 1,212,462</u>
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Accounts payable	\$ 36,375	\$ 30,889
Accrued liabilities	13,665	8,899
Owner prepayments	13,609	-
Mortgage and loans payable-current portion	10,527	78,637
Total Current Liabilities	<u>74,176</u>	<u>118,425</u>
Long-term Liabilities		
Mortgage and loans payable-noncurrent portion	18,347	28,018
Total - Long-term Liabilities	<u>18,347</u>	<u>28,018</u>
Total Liabilities	92,523	146,443
Stockholders' Equity		
Common Stock	101,000	101,000
Additional Paid-in Capital	565,943	565,943
Retained Earnings	388,734	399,076
Total Stockholders' Equity	<u>1,055,677</u>	<u>1,066,019</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,148,200</u>	<u>\$ 1,212,462</u>

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

The Reef Associates, Inc.
Statements of Revenues, Expenses and Changes in Retained Earnings
Years Ended October 31, 2022 and 2021

	2022	2021
REVENUES		
General assessments	\$ 930,407	\$ 881,903
Insurance assessments	231,045	205,190
Infrastructure assessments	97,600	98,172
Owner late fees	2,823	2,455
Rental income	43,160	43,141
Utility charges-electricity	157,312	164,208
Utility charges-water	125,209	150,512
Owner agency rental fees	7,500	12,425
Unit sales fees	37,775	26,890
Golf course	132,985	170,023
Miscellaneous income	9,740	22,148
Loss on adjustment of fixed assets to actual	-	(172,342)
TOTAL REVENUES	1,775,556	1,604,725
EXPENSES		
Repairs and maintenance	191,739	206,102
Electricity	258,547	239,700
Salaries and benefits	496,772	458,381
Insurance	220,324	222,056
Depreciation	111,246	150,664
Contract labor	231,989	223,024
Golf course	198,054	241,488
Interest expense	3,064	10,907
Office, admin and other expenses	74,163	112,446
TOTAL EXPENSES	1,785,898	1,864,768
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(10,342)	(260,043)
BEGINNING RETAINED EARNINGS	399,076	659,119
ENDING RETAINED EARNINGS	\$ 388,734	\$ 399,076

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

The Reef Associates, Inc.
Statements of Cash Flows
Years Ended October 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATIONS		
Excess (deficiency) of revenues over expenses	\$ (10,342)	\$ (260,043)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities		
Depreciation	111,246	150,664
(Increase) decrease in:		
Accounts receivable	(15,564)	15,035
Inventory	-	(308)
Prepaid expenses	8,901	(16,098)
Increase (decrease) in:		
Accounts payable	5,486	16,074
Owner prepayments	13,609	-
Accrued liabilities	4,766	(33,634)
Net Cash Provided (Used) by Operations	<u>118,102</u>	<u>(128,310)</u>
CASH FLOWS FROM INVESTING		
Change in fixed assets	-	107,945
Purchase of fixed assets	(38,628)	-
Net Cash Provided (Used) by Investing	<u>(38,628)</u>	<u>107,945</u>
CASH FLOWS FROM FINANCING		
Loan proceeds	-	19,607
Loan payments	(77,781)	(222,723)
Net Cash Provided (Used) by Financing	<u>(77,781)</u>	<u>(203,116)</u>
NET INCREASE (DECREASE) IN CASH	1,693	(223,481)
CASH AT BEGINNING OF YEAR	<u>218,346</u>	<u>441,827</u>
CASH AT END OF YEAR	<u>\$ 220,039</u>	<u>\$ 218,346</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest Expense	<u>\$ 3,064</u>	<u>\$ 10,907</u>

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

The Reef Associates, Inc.

Notes to the Financial Statements
October 31, 2022

Note 1 - Organization

The Reef Associates, Inc. (the Association) is a condominium homeowners' association which was established in 1974 to provide general owner services for a 101-unit complex located in St. Croix, U.S. Virgin Islands. Each condominium homeowner has one share in the stock of the corporation which is not severable from unit ownership. In addition, the Association operates a golf course and leases facilities it owns to independent entities for the operation of a restaurant and a convenience store.

The common properties within the Association, including the buildings require expenses to be shared by all the owners within the community. Therefore, the community developer provided for and created the Association. Each owner of a unit is a member of the Association and is required to pay a monthly assessment to the Association.

Note 2 - Summary of Significant Accounting Policies

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. Monthly assessments are considered earned during the year for which they are levied by the Board of Directors. The owners are billed by the Association for their share of the cost of maintaining and operating the common property.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand (if any) and cash in banks.

Members' Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. As a result, management considers accounts receivable to be fully collectable under most circumstances. However, \$15,000 has been set aside for uncollectable accounts receivable. The Association retains excess operating funds at the end of the fiscal year, if any, for use in future periods.

The Reef Associates, Inc.

Notes to the Financial Statements

October 31, 2022

Note 2 – Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Association's primary source of income is owner assessments.

Comparative Totals

The summarized comparative financial statements as of and for the year ended October 31, 2021 do not include sufficient information to be a presentation in conformity with US generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended October 31, 2021, from which the summarized information was derived.

Note 3 – Fixed Assets

The depreciable common properties of the Association consist of the following:

Buildings and improvements	\$2,474,393
Furniture, fixtures and equipment	<u>407,238</u>
	2,881,631
Less accumulated depreciation	<u>2,110,105</u>
Total net of accumulated depreciation	<u>\$ 771,526</u>

Fixed assets are depreciated over useful lives of 5 to 27 years on the straight-line method and are evaluated for impairment in value yearly. Management believes no indication of impairment existed at October 31, 2022. See Note 11.

Note 4 - Federal and State Income Taxes

Condominium associations may elect to be taxed as regular corporations or as homeowner associations. The Association elected to be taxed as a regular corporation for the year ended October 31, 2022. The Association is subject to audit on the three prior year tax returns. Management is not aware of any such audits.

The Reef Associates, Inc.

Notes to the Financial Statements
October 31, 2022

Note 4 – Federal and State Income Taxes (continued)

No provision for income taxes was made in the financial statements because the Association had accumulated carried forward net operating losses of \$ 482,816 for the year ended October 31, 2022 and a net operating loss is anticipated for that year as well. As of the date of the issuance of these financial statements, the tax return for the year ended October 31, 2022 had not been filed. Net operating losses carried forward to the current year are as follows as of October 31, 2022:

<u>Year</u>	<u>Amount</u>
2008	\$20,192
2011	36,436
2014	23,370
2017	17,046
2018	21,963
2019	19,331
2020	84,435
2021	<u>260,043</u>
Total	<u>\$482,816</u>

Note 5- Amounts Designated For Future Expenditures

The board of directors designates amounts periodically for future capital, insurance and maintenance purposes that might otherwise result in special assessments. The amounts accumulated have been based on estimated future costs and actual expenditures may vary from those estimates and the variations may be material.

Note 6 - Commitments and Contingencies

The Association may be periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. The Association has insurance coverage against routine business risks including windstorm and earthquake.

Note 7 – Subsequent Event

The Association evaluated subsequent events for the period from November 1, 2022 to December 17, 2022, the date the financial statements were available for issue. The only item noted was the Covid-19 virus pandemic. Management is carefully monitoring the situation and evaluating its options. No adjustments have been made to these financial statements as a result of this uncertainty.

The Reef Associates, Inc.

Notes to the Financial Statements
October 31, 2022

Note 8 – Additional Paid In Capital

This amount represents funds received in prior years as grants from the United States Virgin Islands Department of Planning and Natural Resources. The grants were treated as a contribution to capital to provide for the expansion and improvement or replacement of the Association's water and sewage disposal facilities.

Note 9 – Long-term Debt

Long-term debt at year end consists of three notes payable with interest rates ranging from 4.75% to 5.75% and monthly installment payments of principal and interest totaling \$2,867. These notes had a total unpaid principal balance of \$28,874 at October 31, 2022 and a combined current maturity of \$10,527. These notes are secured by liens on equipment and real estate. Combined principal maturities for the next three years ending on October 31st:

2023	\$10,527
2024	9,057
2025	<u>9,290</u>
Total	<u>\$28,874</u>

Note 10 – Change in Accounting Principle

Effective November 1, 2020, the Association adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This topic requires the recognition of revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. For purposes of the Association, the definition of customers includes the Association's members (owners). The adoption of this topic did not significantly change the Association's accounting policies or significantly impact the financial statements. Restatement was not necessary and there was no cumulative effect upon adoption.

Note 11 – Loss on Adjustment of Fixed Assets to Actual

During the year ended October 31, 2021, the Association undertook an evaluation of the existence of the fixed assets recorded in its general ledger. Certain assets recorded in the general ledger were determined to either not exist or to be stated at an incorrect amount. As a result, an adjustment was made to the fixed asset accounts and the related accumulated depreciation account resulting in a loss of \$172,342.

The Reef Associates, Inc.
 Required Supplementary Information
 Future Major Repairs and Replacements
 Year Ended October 31, 2022

The Organization conducted a study in 2022 to estimate the useful lives and replacement costs of common property. This study was done by the long term planning committee. Estimated life below is the remaining life expectancy. These costs are being funded through the infrastructure repair assessment, the electric surcharge and the common fees.

Component	Estimated Remaining Life (in years)	Estimated Replacement Cost	2023 Funding Requirement
RO water desalination system	4	\$300,000	\$10,000
Cisterns/water tank	7	60,000	19,000
Repair/rebuild sewer plant	9	200,000	
Main sewer and water lines	4	120,000	20,000
Electrical distribution system	9	180,000	
Security system	6	12,000	
Pool filter system	2	6,000	
Resurface pool deck	2	10,000	
Reline pool and replace trim	7	20,000	
Resurface tennis courts	9	15,000	
Replace backhoe	4	65,000	
Replace golf carts	6	160,000	16,000
Golf maintenance equipment	4	80,000	
Replace Ford Transit	4	45,000	
Replace work pickups	4	75,000	
Resurface roads	9	740,000	40,000
Repair roads	4	8,000	
Major repairs to restaurant	9	20,000	20,000
Backup generator	9	<u>30,000</u>	<u> </u>
Total		<u>\$2,146,000</u>	<u>\$125,000</u>

See independent auditor's report on
 financial statements.