



St. C Condominiums
St. Croix, U.S. Virgin Islands

Treasurer's Comments on 2017/2018/2019 Audit Reports

February 23, 2023

To: Association of St. C Condominium Owners

The office staff and myself have been diligently working with the auditor Tom Singleton CPA to bring the Association current on the annually required financial audits.

A history on the annual audits: the last audit performed on behalf of the Association was a 2016 audit in 2019 by Bert Smith & Co. Bert Smith & Co. Tom Singleton, CPA is a member of the Virgin Islands Society of CPAs; came highly recommended by other local condominium associations and local accounting firms; and was engaged to begin with the 2017 audit for St. C. To date, the 2017, 2018 and 2019 audits have been completed.

Enclosed are the audits for 2017, 2018 and 2019. The following are comments that must be taken into consideration when reviewing the reports:

2017: Final audit reflects a gain of \$67,759; however, this was only due to the sale of an Association-owned unit in the amount of \$102,875. Without this sale, the Association would have been operating at a loss of \$35,116.

2018: Final audit reflects a loss of \$367,634.

2017 and 2018: Material weaknesses and significant deficiencies found during the audit:

Payroll: In the payroll test, items were either missing or the hours extended did not agree with the payroll amount paid. This increases the possibility that employees were either over or under paid.

Expenses: In the cash disbursement test, items did not have supporting documentation. This increases the possibility that vendors were either over or under paid or that payments could have been made to ineligible recipients.

Income: In the cash receipts test, items were missing the receivables detail. While owners are expected to monitor the activity in their accounts with the Association, failure for the Association to maintain these records could result in losses for the Association.

2019: Final audit reflects a loss of \$555,563. Significant issues in connection with this audit:

Reserves: The Association's budget showed an assessment for long-term repair/replacement of \$153,648 and the actual amount collected was \$153,163; however, no monies were transferred out of operating to the reserve accounts. The Association operated at a loss of \$555,563 which means the reserve monies collected were fully expended for operations and not long-term repair/replacement. The auditor pointed out that the Board needs to address the inconsistency between the budget and actual revenue and expenses related to the assessment for long-term repair/replacement.

In addition, \$785,361 of the hurricane insurance proceeds of \$5,710,907 received in 2018 were expended in 2019. No documentation was available that demonstrated that the expenditure of these funds was budgeted in 2019.

The office staff and I continue to work with the Association's auditor to complete the backlog of annual audits. The 2020 audit is underway with the 2021 and 2022 audits to follow consecutively.

Jessica Hodge
Treasurer

AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Directors
Association of St. C. Condominium Owners
St. Croix, United States Virgin Islands

Professional standards require me to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit of the Association of St. C Condominium Owners as of and for the year ended December 31, 2019. These matters are, in my professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Auditor's Responsibility Under Professional Standards

These responsibilities were communicated in my engagement letter to the board of directors dated November 21, 2022.

Planned Scope and Timing of the Audit

The planned scope and timing of the audit was discussed in the above referenced engagement letter.

Qualitative Aspects of the Entity's Significant Accounting Practices

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

Significant Difficulties Encountered During the Audit

No significant difficulties were encountered during the audit.

Uncorrected Misstatements

There were no uncorrected misstatements noted during the audit.

Disagreements with Management

There were no disagreements with management during the audit.

Consultations with Other Accountants

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

Significant Issues Discussed with Management

The Organization's 2019 budget showed an assessment for long-term repair/replacement of \$153,648 and the actual revenue from this assessment for 2019 was \$153,163. The budget showed \$62,000 as a contribution to the replacement maintenance reserve but no amounts were transferred from operating to the reserve cash account number 1180 in 2019. The Organization had a loss for 2019 of \$555,563 meaning the long-term repair/replacement assessment collected of \$153,163 was fully expended in 2019. I suggest the board of directors address this seeming inconsistency between the budget and actual revenue and expenses related to the assessment for long-term repair/replacement.

In addition, \$785,361 of the hurricane insurance proceeds of \$5,710,907 received in 2018 were expended in 2019. No documentation was available that demonstrated that the expenditure of these funds was budgeted in 2019. The board of directors should consider budgeting such expenditures in the future.

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



January 17, 2023

COMMUNICATION OF MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

Board of Directors
Association of St. C. Condominium Owners
St. Croix, United States Virgin Islands

In planning and performing my audit of the financial statements of the Association of St. C. Condominium Owners (Association) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, I considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, I identified a deficiency in internal control that I consider to be a material weakness and other deficiencies that I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. I consider the following deficiency in the Association's internal control to be a material weakness:

In my test of cash disbursement internal controls with a sample of 25 vendor payment transactions from 2018, no supporting documentation such as a vendor invoice or equivalent was available. This material weakness increases the possibility that vendors could be either over or under paid or that payments could be made to ineligible recipients.

A significant deficiency is a deficiency, or combination of deficiencies, internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the following deficiencies in the Association's internal control to be significant deficiencies:

In my test of cash receipt internal controls with a sample of 25 cash receipt transactions from 2018, the accounts receivable detail to determine if the payment had been properly recorded was not available. While owners are expected to monitor the activity in their accounts with the Association, it is the Association's responsibility to maintain such records for a reasonable period. Failure to do so could result in losses to the Association.

In my testing of payroll expense, the 4 quarterly Form 941SS's and the annual Form W-3 could not be located. As mentioned above, it is the Association's responsibility to maintain such records for a reasonable period. Failure to do so could result in losses to the Association.

This communication is intended solely for the information and use of management and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

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

November 21, 2022

ASSOCIATION OF ST. C. CONDOMINIUM OWNERS
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2019

ASSOCIATION OF ST. C. CONDOMINIUM OWNERS
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Association of St. C. Condominium Owners
St. Croix, United States Virgin Islands

Opinion

I have audited the accompanying financial statements of Association of St. C. Condominium Owners (the Association), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and change 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, 2019, 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

Management has elected to omit disclosures of estimates of the cost of future major repairs and replacements of existing components, the estimated remaining useful lives of such components and the amount of funds accumulated for such estimated costs of repair and replacement. These disclosures are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such missing information, although not 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 and for placing the financial statements in an appropriate operational, economic or historical context. My opinion on the basic financial statements is not affected by this missing information.



January 17, 2023

Association of St. C. Condominium Owners
Balance Sheet
December 31, 2019

ASSETS

Cash

Cash-operating	\$ 99,650
Cash- reserve	2,659,435
Total - Cash	<u>2,759,085</u>

Other Current Assets

Accounts receivable unit owners, net	244,105
Prepaid expenses	265,063
Total Other Current Assets	<u>509,168</u>

Total Current Assets	<u>3,268,253</u>
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TOTAL ASSETS	<u><u>\$ 3,268,253</u></u>
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LIABILITIES AND FUND BALANCE

Current Liabilities

Accounts payable	\$ 18,470
Accrued liabilities	25,966
Deferred revenue	3,621,888
Deposits	14,577
Total Current Liabilities	<u>3,680,901</u>

Fund Balance

Reserved	131,240
Unreserved	(543,888)
Total Fund Balance	<u>(412,648)</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,268,253</u></u>
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The accompanying notes are an integral part of these financial statements.

Association of St. C. Condominium Owners
Statement of Revenues, Expenses and Change in Fund Balance
Year Ended December 31, 2019

REVENUES

Maintenance fees	\$ 460,318
Insurance assessments	202,112
Deductible assessments	90,003
Long-term repair/replacement assessments	153,163
Insurance proceeds	785,361
Interest and penalties	36,102
Rental income	33,110
Miscellaneous income	80,759
TOTAL REVENUES	<u>1,840,928</u>

EXPENSES

Repairs and maintenance	53,511
Hurricane expenses	785,361
Utilities and telephone	265,238
Insurance	540,582
Professional fees	47,275
Salaries, wages and related expenses	538,202
Office, admin and other expenses	166,322
TOTAL EXPENSES	<u>2,396,491</u>

EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENSES	(555,563)
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BEGINNING FUND BALANCE	<u>142,915</u>
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ENDING FUND BALANCE	<u><u>\$ (412,648)</u></u>
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The accompanying notes are an integral part of these financial statements.

Association of St. C. Condominium Owners
Statement of Cash Flows
Year Ended December 31, 2019

CASH FLOWS FROM OPERATIONS

Excess (deficiency) of revenues over expenses	\$ (555,563)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities	
(Increase) decrease in:	
Accounts receivable unit owners, net	(78,229)
Prepaid expenses	38,355
(Decrease) increase in:	
Accounts payable	(15,219)
Accrued liabilities	(3,925)
Deferred revenue	(785,361)
Deposits	<u>(2,341)</u>
Net Cash Provided (Used) by Operations	<u>(1,402,283)</u>
NET INCREASE (DECREASE) IN CASH	(1,402,283)
CASH AT BEGINNING OF YEAR	<u>4,161,368</u>
CASH AT END OF YEAR	<u><u>\$ 2,759,085</u></u>

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

Association of St. C. Condominium Owners

Notes to the Financial Statements
December 31, 2019

Note 1 - Organization

Association of St. C. Condominium Owners (the "Association") was formed in 1995 under the laws of the United States Virgin Islands for the purpose of maintaining and preserving the common property of the Association, located in St. Croix, the United States Virgin Islands. The Association's community consists of 132 dwelling units titled to the individual owners.

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 quarterly 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.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, if any, be classified separately for accounting and reporting purposes. The operating fund reflects the operating assessments paid by owners to meet the regular, recurring costs of operation. Expenditures from this fund are limited to those connected with the day-to-day operations.

Cash and Cash Equivalents

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

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.

Association of St. C. Condominium Owners

Notes to the Financial Statements

December 31, 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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 amount 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 at December 31, 2019 of \$244,105 to be fully collectible. The Association retains excess operating funds at the end of the fiscal year, if any, for use in future periods.

Concentration of Credit Risk

The Association's primary source of income is assessments paid by owners.

Note 3 – Fixed Assets

The Association's policy for recognizing common property as assets in its balance sheet is to recognize (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds. The Association does not own any personal property or have title to any real property but is responsible for common property maintenance. Real and personal property and common areas and related improvements to such property are not recorded in the Association's financial statement because these properties are owned by the individual unit owners in common and not by the Association.

Note 4 - Federal and State Income Taxes

Condominium associations may elect to be taxed as regular corporations or as homeowners' associations. The Association elected to be taxed as homeowner's association for the year ended December 31, 2019. Its tax returns are subject to audit for three years after they are filed. The Association is not aware of any such audits.

Note 5 – Subsequent Events

The Association evaluated subsequent events for the period from January 1, 2020 to January 17, 2023, the date the financial statements were available for issue. No subsequent events were identified that required disclosure in these financial statements except the COVID-19 virus global pandemic.

Association of St. C. Condominium Owners

Notes to the Financial Statements
December 31, 2019

Note 6 – Risk Management

The Association is exposed to various risks of loss related to damage, destruction of assets, theft, errors and omissions and natural disaster. The Association carries commercial property, general liability, theft, crime, and directors/officers liability insurance to protect it against such losses.

Note 7- Future Major Repairs and Replacements

The board of directors designates amounts periodically for future capital expenditures and deferred maintenance that might otherwise result in special assessments. At December 31, 2019, \$92,015 in savings has been accumulated based on the estimated future costs and actual expenditures may vary from those estimates and the variations may be material.

Note 8- Insurance Settlements

On September 20, 2017, Hurricane Maria struck St. Croix and caused significant damage to the Association's facilities. In 2018, the Association received \$5,710,907 in various payments as an insurance settlement for these damages. In connection with this settlement, the insurance adjustor representing the Association was paid a commission of \$571,091. \$3,621,888 of these proceeds were unexpended at December 31, 2019 and were recorded as deferred revenue on the balance sheet.

Note 9- Concentration of Credit Risk

The Association maintains its cash balances at high credit quality financial institutions. These cash deposits are secured by the FDIC up to \$250,000 per institution. At December 31, 2019, the Association had balances in excess of this FDIC insurance of \$545,280 at United Bank and \$1,510,572 at First Bank.