

Welcome to the 2nd Edition of Frequently Asked Questions (FAQs) re: HIC Finances!

January 7, 2013

The purpose of this edition of FAQs is to address the upcoming ballot. We are including the answers to questions which were asked by attendees in the meeting on December 15, and questions asked by board members since that meeting. We have not yet received any questions into HICFAQs@gmail.com.

FAQ #1: Please expand on the ballot's "description of the budget" as "substantially similar" to last year.

The 2012 expenses were adjusted only as described in the first 3 items: (1) increase of \$5 per hour for the ferry skipper, (2) return of ½ an employee, and (3) increase from \$70,000/year to \$75,000/year for capital/maintenance reserves. 2012 income was only adjusted for the slight decrease in non-collectibles (due to the new collections procedures now in place), and for specific differences, such as three water installations at \$5,000 each expected to occur in 2013. The proposed budget is the conservative minimum deemed necessary by the Board to operate in 2013.

FAQ #2: Why are there contingency line items in the budget? Is this new?

Budgets are estimates. Contingencies are included as a margin of error to provide a reasonable buffer against unknown costs. There has always been "contingencies" in the budget, including \$5,000 in salaries, an amount which has been included for several years in a row. Last year the general contingency amount was \$20,000. This year, the Board approved an increase to \$37,900.

FAQ #3: Please further explain how the "capital/maintenance reserves" fund works.

The purpose of the capital/maintenance reserve is to provide a reasonable plan for funding major repairs and replacements for capital assets (equipment and infrastructure). We have only planned for existing capital assets. Unanticipated purchases from this fund cause a shortfall in the reserve fund plan without additional funding from operating cash or future assessments. Remember that the current island infrastructure is 50 years old. Much of it has been replaced at least once. Saving each year into an account to cover these recurring costs makes our assessments more predictable and simplifies the budget process.

Depreciation was not included as a line item in the operating budget because it is a non-cash expense (i.e., someone is not sending us a bill for it). Instead, the aging (or depreciation) of capital assets is accounted for by funding these expenses through the capital/maintenance reserve budget. The cash set aside to fund the capital reserve study rehabilitates or replaces those capital assets.

FAQ #4: Does the Finance Committee recommend that we waive the audit?

It is not the role of the Finance Committee to hold a position and make a recommendation with regard to waiving an independent audit of HIC financial records. We can advise you of the following:

1. Barbara Harris, one of the FC's highly experienced accounting professionals, spent time in confirming Cash, Payables, and Receivables Balances as of 6/30/12 and found no unexplained items. She plans to do these same balance confirmations again as of 12/31/12.
2. The HIC tax return is prepared each year by an outside CPA firm.

3. We know we promised to keep these FAQs “simple”, but we need to provide you with the technical definition of an audit! An “audit” by an independent outside CPA firm is a highly defined procedure that would focus on outside verification and testing of accounting records and internal controls to allow the CPA firm to express an opinion about whether the HIC financial records are “fairly presented, in all material respects, in conformity with generally accepted accounting principles” and to provide “reasonable assurance about whether the financial statements are free of material misstatement”.

4. The FC cannot and will not “audit” the HIC financial records because we are not an independent outside CPA firm (in fact, we are all owners and advisors to the Board and HIC management), and therefore doing so would be a conflict of interest and not within the scope of the job.

5. The FC will continue to work with Management in analyzing Receivables and our capital/maintenance reserve, creating and recommending budgets based on input from Management and the Board as well as consideration of historical and future financial requirements, investigating accounting software use and needs, providing detailed summaries of specific projects as requested by the Board and the HIC community (such as the Marina Expansion Project), and working with the Board and other Committees in analyzing alternative income sources for HIC.

It is our role to remind you that an independent audit will cost an estimated \$10,000 to \$25,000, an amount not included in the budget recommended by the FC. Therefore, if the Community prefers to not waive an audit, that additional cost will be added to 2013 annual dues.

FAQ #5: How do I get my questions to the Finance Committee for future editions of the FAQs?

Please send your inquiries to HICFAQs@gmail.com, and be sure to tell us how to contact you if we don't understand your question. Please do NOT send any FAQ requests to any of our personal or business e-mail addresses. We are planning for the next edition of FAQs to be issued in February and to address the costs related to the marina expansion.