

Welcome to this Edition of Frequently Asked Questions (FAQs) re: HIC Finances
October/November 2015

The purpose of this edition of FAQs is to reiterate the presentation the Finance Committee (FC) made at the HIC Board meeting on October 17, 2015 with regard to

- 1) HIC finances year-to-date through September 30, 2015;
- 2) Information as to projected finances through the end of 2015, and
- 3) The FC's 2016 budget proposal to the Board.

Please send questions to HICFAQs@gmail.com.

IMPORTANT: Please remember that the FC makes recommendations to the Board, but we **DO NOT SET POLICY!** Our goal is to hash through possibilities, weigh the pros and cons of each, and present what we think are the best alternatives for Board consideration. The ideas communicated from the FC are not approved as statements of fact until the Board makes its final decisions and/or revenue and expenses are realized. For example, HIC and the Board make decisions on funding sources and how they will be applied to Marina loan principal and interest.

STATE OF HIC FINANCES YEAR-TO-DATE THROUGH SEPTEMBER 30, 2015

FAQ #1: *How much CASH came in through September?? (Note – not including Marina assessments)*

(\$ Thousands)	This Year	Last Year	Variance
Ferry	\$ 78.8	\$ 67.5	\$ 11.3
Marina	94.8	91.5	3.3
Golf	30.8	35.6	(4.8)
Fuel	32.0	37.0	(5.0)
Barge & Dumpster	32.3	32.2	0.1
Water Sales & Hookup	46.7	37.7	9.0
Insurance Claim	45.6		45.6
Assessments	<u>631.5</u>	<u>446.0</u>	<u>185.5</u>
Total Incoming	\$ 992.5	\$ 747.5	\$ 245.0
To Reserves	<u>(222.4)</u>	<u>(104.9)</u>	<u>(117.5)</u>
Operations Cash	\$ 770.1	\$ 642.6	\$ 127.5

FAQ #2: *How much CASH went out through September? (Note – not including Marina loan payments)*

(\$ Thousands)	This YR	Last YR	Variance
Wages	\$ 272.3	\$ 268.4	\$(3.9)
Fuel	53.8	58.5	4.7
Legal	65.8	46.6	(19.2)
Taxes	19.0	24.3	5.3
Barge	28.8	27.9	(0.9)
Insurance	82.2	52.1	(30.1)
Maintenance	62.6	39.8	(22.8)
All Other	80.0	<u>78.6</u>	(1.4)
2014 Expenses	<u>88.0</u>		<u>(88.0)</u>
Total	\$ 752.5	\$ 596.2	\$ 156.3

FAQ #3: What CASH do we have in the bank as of September? (Note – not including Marina reserves)

(\$ Thousands)	9/30/15	12/31/14	Difference	
Cash and Cash Reserves	\$ 68.4	\$ 51.0	\$ 17.4	
Capital Reserve	76.5	1.7	74.8	Note 1
RO Funds	15.9	4.8	11.1	Note 1
Insurance Reserve	<u>32.8</u>	<u>20.7</u>	<u>12.1</u>	Note 2
Total Available Cash	\$ 193.6	\$ 78.2	\$ 115.4	
H Division Funds	\$ 50.8	\$ 41.5	\$ 9.3	Note 1

Note 1: Designated funds to be used for specific purposes

Note 2: Insurance reserves are operating cash that is held separately to ensure adequate funds available when insurance premiums are due

FAQ #4: What is OWED to HIC by owners as of October 7, 2015?

\$ 1,764 K Total Due
<u>-1,295 K Marina</u>
\$ 469 K Operating Cash Receivables
- 304 K 1 Lot owner 275 Lots
<u>- 84 K 45 Lots non or late payers (see more detail in FAQ#9)</u>
\$ 81 K Potential Income from Receivables
\$ 27 K Due as of 10/15
\$ 54 K Due by 1/15/16 – Pay now!

PROJECTED FINANCES THROUGH DECEMBER 2015

FC Disclaimer – All projections of income cash and outgoing expenses were based on average year to date adjusted for low season and are presented here for discussion and planning purposes only. We anticipate actual numbers when analyzed in January 2016 will be different.

FAQ #5: What is our estimated CASH income October thru December 2015?

\$ 10K Fees for Service – Ferry, Water, etc.
+ 27K Projected 3rd A/R Receipts collected
+ 28K Projected just over 50% of 4 th Qtr. (Maybe!)
+ <u>68K</u> Operating Cash on Hand as of 9/30/15
\$ 133K Projected Cash Available thru 12/31/15

FAQ #6: Hey, that looks pretty good! What are HIC expenses for October thru December?

\$ 80K 6 Payrolls
20K Insurance Bill Due November
20K Operations
22K Bills due since 9/30 *(1)
<u>21K</u> Other Operations non Capital Expenses*(2)
\$ 163 K Estimated Cash Needed thru 12/31
\$ <u>-133K</u> Estimated Cash Available (FAQ #5 as above)
(\$ 30 K) Short fall - Carry over to 2016

* (1) Does not include \$218K of legal bills outstanding

* (2) Does not include October ferry haul out work assumed to be paid from capital reserve

THE FC's 2016 BUDGET PROPOSAL AT THE HIC MEETING on 10/17/15

FAQ #7: What does it take to run the Island? (based on 2015 projected actual #'s)

➤ Labor	\$ 360K
➤ Ferry incl berth/fuel	\$ 50K
➤ Barge (offset by income)	\$ 29K
➤ Cost of Goods (resale fuel et al)	\$ 49K
➤ Insurance	\$ 110K
➤ Utilities	\$ 25K
➤ Excise and Property tax	\$ 25K
➤ Legal fees	\$ 100K
➤ Accounting fees (incl bkpr & audit)	\$ 67K
➤ Repairs/Maint/Small tools	\$ 75K
➤ All other	\$ 48K
TOTAL	\$938K

FAQ #8: What income BESIDES assessments do we expect?

• Ferry	\$ 85K
• Water	\$ 115K
• Marina and Apt Rental	\$ 95K
• Golf	\$ 31K
• Car Fees	\$ 32K
• Barge (Offset by expense)	\$ 29K
• All other – Dumpster Day, sales Fuel, Sand, Gravel, Ev Park, et al	\$ 54K
TOTAL	\$ 441K
Less operating expenses in #7 above	- 938K
WE ARE SHORT BY	\$ 497K

FAQ #9: Annual assessments are designed to cover these types of shortages. Where do we stand in regard to collection of assessments?

- There are currently 923 BILLABLE lots
- We are "STUCK" with regular assessments of \$472/year due to the way our By-Laws are written
- **\$472 x 923 lots = \$436K IF EVERYONE PAYS!!!**
- We need to cover \$497K as detailed in #8 above
- **This doesn't look too bad – We're just short by \$61K, after \$472 annual assessments, right?**
(\$436K -- \$497K)

BUT HERE'S THE CHALLENGE.....

- **As of October 15, 320 lots are not being paid**
 - Some for quite some time
 - Some more recently went into arrears
- 320/923 = **35% NOT PAYING NOW.**
- **So just 65% of lots are paying assessments on time.**

AND HERE'S HOW THAT TRANSLATES TO CASH FLOW.....

- 923 lots x 65% = 600 Lots expected to pay
- **600 lots x \$472 annual assessment = \$283K**
- Remember – we need to cover \$497K
- If only 65% of lots pay, we are still short by \$214K (\$497K - \$283K)
- **\$214K / 600 paying lots = \$360 additional per PAYING lot to cover operating expense**

FAQ #10: OK, that's not too much more than the \$300 Special Assessment we had for 2015. Is anything missing in this analysis? You bet – RESERVES!!!!

Cash Reserves: Designed to have three months of operating expenses in the bank at all times. Projected to be GONE by the end of 2015

Capital Reserves: Mandated by WA state law for HOAs
Based on a calculation performed by a third party specialist (as per WA law)
HIC is significantly underfunded based on 2015 study
These reserves are designed to ensure we can repair/replace infrastructure

FAQ #11: What does the FC budget look like when a proposal to fund reserves is included?

Anticipated fees from service (per FAQ #8 above)	\$441K
\$472 regular assessment x 600 paying lots (#9 above)	\$283K
Less:	
Anticipated operating expenses (#7 above)	(\$938K)
Funding of cash reserves (recommended)	(\$ 60K)
Funding of capital reserves (recommended)	<u>(\$100K)</u>

This leaves us SHORT by \$374K/600 paying lots = \$625/lot

FAQ #12: OK, that's a bigger number. Where does that put the FC proposed budget?

• Annual Assessment	\$ 472
• Special Assessment to cover:	
– Rest of operating expenses	\$356
– Cash reserves	\$100
– Capital reserves	<u>\$169</u>
Total Special Assessment	<u>\$ 625</u>
• TOTAL PROPOSED BY THE FCFOR 2016 (Based on 600 lots paying!)	\$1,097

FAQ #13: Does the FC have any other adjustments to consider:

Current shortage including funding of cash and capital reserves	\$ 374K (/600 = \$625 more per lot)
IF car fees are eliminated	+\$ 32K (/600 = \$54 more per lot)
IF salaries are increased	+\$ 85K(/600 = \$142 more per lot)
IF legal fees are increased	+\$ 100K(/600 = \$167 more per lot)

Other Ideas:

- Increase Annual water fee by \$50 or \$100/year and designate those collections to RO/water Reserve
- Add another Special Assessment specifically to fund Additional Capital Reserves

FAQ #14: WAIT!! What happens if some or all of those 320 non-paying lots start paying? This special assessments is calculated based on just 600 lots paying! What will we do with any additional funds? (And wouldn't that be a nice challenge to have for a change.....)

RECAP Assuming 100% Collections:

- Anticipated Fees from Service \$441K
- If 923 lots pay \$472 regular assess \$436K
- If 923 lots pay \$625 special assess \$577K
- Anticipated operating expenses (\$938K)
- Fund Cash Reserves (\$ 60K)
- Fund Capital Reserves (\$ 100K)
- EXCESS FUNDS: \$356K!!!!

WHOO-HOO! We could come close to fully funding cash reserves! We could pay down a big chunk of the marina loan! What else??

FAQ #15: What specific problems could there be if the Board proposes a similar budget, that budget gets approved, and we all start sending in our checks? Here are a few potential challenges:

- 1. Many more lots stop paying
- 2. The ferry tanks again
- 3. We lose the current lawsuit
- 4. A significant portion of our outstanding legal fees aren't covered by insurance

This budget does not address these or similar possibilities.

FAQ #16: What happens now?

The Board is working with Management to fine tune a budget proposal for 2016. That proposal will be presented by the Board at the November Board meeting. The voting process will be put in motion, with results made public at the December Board meeting. So stay tuned, and provide your Board members with your input.

FAQ #17: We understand that there is at times "excess" in the Marina bank account from the collection of Marina assessments, and that that excess is periodically sent to Foundation Bank to pay down the principal of the loan. Why can't that excess be used to fund our operations during this cash flow challenge?

The only funds that are deposited to the Marina-designated bank account are those payments on the two assessments that were approved by the HIC community to fund the Marina expansion and renovation. The funds designated for this purpose CANNOT be used for any other purpose. Our Board and management would be seriously breaching their fiduciary duty if these designated marina assessment funds were used for any other purpose!

Next FAQs in the works:

1. State of the Marina Loan
2. Another look at our capital reserves and applicable state law

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.