

March 10, 2012

The primary purpose of this edition of FAQs is to address the marina expansion, with a few bonus questions that have been conveyed to us. Please continue to send questions in to HICFAQs@gmail.com.

FAQ #1: Not that I'm complaining, but how come we got "Dumpster Day" and "Recycling" back?

HIC had to cut these services when we lost the regularly scheduled Elsie runs because their cost was unknown. HIC took a conservative approach in the budget, but received numerous complaints as these services were sorely missed. Once HIC had experience scheduling and costing the chartered barge, management reassessed the costs and is now confident these services can return with little or no cost.

Dumpster Day is expected to have no cost impact to the Operating budget. In the past, it almost paid for itself. This year's projected fees will at least equal the costs of providing the dumpsters. Truckloads will be priced to break even. Recycling is projected to cost \$1,500 per year using the chartered barges. Given numerous HIC requests, and the minimal amount, Management decided to fund this cost from the budgeted contingency fund.

FAQ #2: What are the Marina Expansion expenses to date? Are we really meeting our budget?

The marina expansion began at a total budget of about \$4.4 million, based on scaled down estimates from Coast and Harbor Engineering's original \$5.4 million, as noted in the October 7, 2006 presentation to the board and community. Melody provided detailed expenses to date, and is finalizing close-out of 2012 books. It is clear that Chuck did an excellent job of managing costs to the overall targeted budget. Thanks to both of them and to our wonderful crew and neighbors that toiled day and night on the project!

| DESCRIPTION | AMOUNT | NOTES |
|-------------------------|-------------|--|
| Capitalized 2006-2011 | \$1,200,000 | This is pre-construction marina expenses that were converted to assets in 2012 when construction started, including expenses like permitting costs. |
| Expensed in 2012 | 2,800,000 | Construction is expected to be completed in late September 2013. |
| Estimated in 2013 | 425,000 | This includes material costs for the dock and assumes volunteer island labor. |
| Estimated at Completion | \$4,425,000 | This does not include loan fees of \$40K or projected interest on the loan (see FAQ #4 for potential interest expense), but it includes legal fees and a dump truck and dozer. |

FAQ #3: If we have been paying Marina Assessments, why did we need a bank loan?

The two initial Marina assessments totaled expected revenue \$4.2M. Based on past experience with assessments, HIC expected that the total collected, including interest, would exceed \$4.2M. Although not formally quantified, a total budget of \$4.4M was thought to be "safe". The marina assessments are due through 2018, and recent Board negotiations with certain owners have resulted in receivables with payments through 2023. Given inflation, time value of money, and today's low interest rates, it has always made economic sense to plan to obtain a loan and build in the middle of the collections process.

FAQ #4: What are the details of the loan and what is the plan to pay it off?

Our bank loan is expected to total about \$2,171,000 when the docks are done. It is amortized over 15-20 years with a lump sum due in 2023. HIC is currently drawing against the available loan balance, so it is paying interest only on this loan. Once construction is complete (late summer/early fall), the loan becomes "permanent" and monthly loan payments will be \$16K to \$18K minimum. The interest rate is 4.67% for the first five years with an adjustment starting in the 6th year.

Management, the Board, and the FC are currently considering different projected scenarios to determine how HIC will pay off the loan. There are a number of factors in analyzing projected funding sources, including 1) the ongoing collection of the Marina Expansion assessment (Marina accounts receivable – A/R); 2) revenues that can be generated from expanded Marina services; 3) the potential sale of HIC equipment; 4) the potential Puget Sound Yacht Club collection.

The projected interest to be paid to the bank is completely dependent upon how fast we can pay down the loan balance. We are running various scenarios in which total interest expense ranges from \$450K to \$650K. How these various loan payment scenarios will play out depends on the choices of the Board and Management, along with how successful we are at collecting revenues. The bottom line – the sooner we pay off this loan, the better, and that’s what we’re working on!

FAQ #5: What are the projected Marina accounts receivable?

The projected remaining Marina A/R totals approximately \$2.2 million. Management computed this amount based on a reduced number of lots, a 7% reduction for further bad debt, and the interest inherent in agreed upon individual payment schedules. The FC believes these are reasonable adjustments; we are looking into the specific A/R details (as described in the first FAQs issued previously). Important note: the A/R number we are using includes future interest and therefore exceeds the receivable reflected on the HIC balance sheet at 12/31/12 – which was detailed in the recent View Point– because the HIC balance sheet does not include future interest.

We are unable to provide any further information regarding the PSYC situation at this time. The Board and a PSYC Committee are working hard to obtain closure and cannot jeopardize negotiations. Thank you for your patience and understanding!

FAQ #6: What are the expected revenues from expanded Marina services?

The 2013 marina operating budget projects \$35K in net revenue, and the FC believes that amount should continue to be reflected as part of that budget. But with new docks, the FC believes increased revenue of at least \$12K per year could be generated and used to pay down the loan. The Marina Committee needs to determine when and how fees for expanded services could be generated, and the FC will adjust projections as more information is forthcoming.

FAQ #7: What happens to the equipment purchased to construct the Marina?

Last summer, HIC discussed buying a bulldozer, dump truck and excavator for the marina project. An excavator was not purchased. Now, the HIC and the Equipment/Maintenance Committee are looking into whether to keep or sell the dump truck and dozer. One option is to have HIC “buy” them to offset the marina loan while maintaining reasonable capital reserve. Another is to sell the bulldozer to a third party. Details of final recommendation will be presented in the next FAQ as part of the loan payment recommendations.

FAQ #8: How do I get my questions to the Finance Committee for future editions of the FAQs?

We have received a lot of comments that you appreciate the FAQs and to keep them coming. Thank you! Please continue to send your inquiries to HICFAQs@gmail.com and tell us how to contact you if we don’t understand your question. Please do NOT send any FAQs to our personal or business e-mail addresses.

After the last FAQs were issued, we were asked how risky our budget was, and which line item(s) represented the most risk. We identified estimated bad debt and attorney fees, as we have stated with each budget discussion. We stated that overall budget assumptions were not aggressive, as they were based on actual 2012 activity, plus the adjustments described in the FAQs. Although the question came in after the FAQs were issued, we provided a response due to the upcoming vote. In our judgment, it only reiterated previously provided info, so we responded to that individual, but did not amend the FAQs.

Due to work and travel obligations, we are currently planning for the next edition of FAQs to be issued in late April 2013. This edition will update the status of the marina expenses, the accounts receivable project, and any updates to the loan information. It is also the intention of the FC to include an illustration of how our loan balance could be paid off between now and 2023. The FC has developed several "scenarios", based on various facts and assumptions, and we are waiting for some final information from the Board to proceed.