

*Welcome to the 8th Edition of Frequently Asked Questions (FAQs) re: HIC Finances*  
**May 2014 - July 2014**

The purpose of this edition of FAQs is to discuss the Hat Island Community (HIC) financial status through June 2014, including the marina loan status and clarification of collateral. Please send questions to [HICFAQs@gmail.com](mailto: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.

**FAQ #1: What is the current status of monitoring the overall 2014 budget?**

*The FC presented the financial status as of June 30, 2014 (six months into the year, based on unaudited financial records) at the July 19, 2014 Board meeting. Here is a copy of the PowerPoint presentation:*

*Slide 1: We were below budget on cash received, primarily because assessments are overdue on 120+ lots. Also, vehicle fees have not been paid on 40+ cars.*

Where we are to Budget			
Income based on Cash Received			
(\$ Thousands)	Actual	Budget	Variance
Assessments	209.1	237.7	(28.6)
Ferry	39.8	40.8	( 1.0)
Water	54.1	71.9	(17.8)
Fuel	19.1	16.3	2.8
Golf	23.1	26.3	( 3.2)
Marina	70.0	78.1	( 8 .1)
Car Fee Parking	29.5	37.2	( 7.7)
Barge	17.9	13.2	3.8
Other	10.7	13.3	( 2.9)
<b>Total</b>	<b>\$ 472.2</b>	<b>\$ 535.1</b>	<b>\$ (62.7)</b>

Note: Cash Basis



*Slide 2: We were very close to budget on our expenses, but fuel delivery was made shortly after June 30.*

Where we are to Budget			
Expenses			
(\$ Thousands)	Actual	Budget	Variance
Wages	179.9	179.8	( 0.1)
Fuel	39.2	63.2	24.0
Maintenance	32.9	32.6	( 0.3)
Barge Transport	17.2	17.3	0.1
Taxes	17.8	12.4	( 5.4)
Utilities	9.3	9.7	0.4
Office	8.6	5.2	( 3.4)
Other	27.6	33.5	5.9
<b>Total</b>	<b>\$ 332.5</b>	<b>\$ 353 .7</b>	<b>\$ 21.8</b>

Converted to cash basis does not include legal fees paid and billed to owners legal fee cost 2014 \$ 30K still \$18K Receivable



Slide 3: Operating cash was slightly higher this time last year.

### Operating Cash Funds What We Have

(\$ Thousands)	2014	2013	Difference
Operating Cash	\$104.2	\$ 119.2	(15.0)
Dedicated Reserves	289.6	319.6	( 30.0)
<b>Total</b>	<b>393.8</b>	<b>438.8</b>	<b>(45.0)</b>

\*\* Note Does not included \$88,000 of dedicated Marina Funds



Slide 4: Cash reserves, which reflect 3 months of operating expenses, have not been touched in 3 years. It appears we may need to use them this year. Note the significant reduction in capital reserves.

### Dedicated Reserve Funds What We Have

(\$ Thousands)	2014	2013	Difference
Cash Reserves	\$131.3	\$ 129.7	\$ 1.6
Capital Reserve	56.7	110.8	( 54.1)
RO Funds	33.6	57.1	( 23.5)
Insurance Reserve	25.5	22.0	3.5
H Division Funds	42.4	0	42.4
<b>Total</b>	<b>\$ 289.6</b>	<b>\$ 319.6</b>	<b>\$ ( 30.0)</b>

Cash Reserves = 3 months of operating expenses



Slide 5: \$211K reflected the operating cash we conservatively believe will still be received this year (for those items already billed).

### What is Owed to Us Accounts Receivable as of June 2014

\$ 1,967 K Total Due
-1,629 K Marina
- 67 K Prior to 2013
<b>271 K 2014 Receivable</b>
- 6 K Car Fee
- 6 K Interest Charged
- 18 K Legal Fees billed to Owners
- 30 K Late Payers
<b>\$ 211 K Potential Collections</b>



Slide 6: \$489K reflected the combination of potential collections (Slide 5) plus other budgeted income for the last part of the year.

### Other Income per Budget Estimated July - December

\$ 100K Barge, Water, Gas , Marina, Golf etc.
+ 55K Ferry – budgeted ?
+ 44K Estimated other receipts
+ 211K Projected A/R Receipts
- 25K Transfer to Reserves
+ 104K Operating Cash on Hand
<b>\$ 489K Projected Cash Receipts</b>



Slide 7: (\$10K) indicated we will not have enough funds to meet our obligations this year without using our operating cash reserves.

### What we need for Operations July thru December 2014

\$ 175K Wages
<b>245K Other Operational Costs</b>
\$ 420K Total Operations Costs
\$ 489K Projected available cash
\$ 69K
\$ - 10K Insurance Deductible Ferry Repair
\$ - 35K Insurance Deductible Lawsuit
\$ - 34K Net Ferry Replacement Rental (Per Office)
<b>\$ ( 10K) To be funded by Cash Reserves</b>



Slide 8: Recent events (that occurred after the presentation on July 19) make our cash position even more uncertain.

### Finance Committee Disclaimer

- Ferry Income is a guess
- No final information on the Ferry repair costs and insurance payment – Expenses and Insurance Payment per Office at Finance Committee July Meeting
- Legal Expenses and Insurance Payment per Office at Finance Committee July Meeting
- The capital reserve has not been financially reviewed and needs to be.

**FAQ #2: What is the current status of monitoring the marina loan?**

The FC presented the current status of the marina loan as of June 30, 2014 (six months into the year, based on unaudited financial records) at the July 19, 2014 Board meeting. Here is a copy of the PowerPoint presentation:

Slide 1: \$288k reflected the planned principal payment as budgeted.

**Marina Loan  
2014 Budget Assumptions**

\$305 K Collect Marina Assessments  
-82 K to be used to pay interest  
223 K to be used to pay principal  
+ 20 K Funds generated from Marina  
+ 45 K Surplus from Car Fee etc.  
\$288 K Projected Principal Payment



Slide 2: Please note that marina funds are processed through a separate account.

**Marina Money Market Account  
June 2014**

\$ 80K Balance as 1/1/2014  
192 K Marina Assessments Collected  
63 % of Budget Assumptions  
272 K Available Marina Assessment Funds  
(95)K Principal Payment May 2014  
(88)K Loan Payments Jan – June  
89 K Balance of Marina Money Market



Slide 3: \$1,751K was the loan balance at June 30, 2014.

**Marina Loan  
Where are we as of June 2014**

\$1,890 K Loan Balance as of 1-1-2014  
(95) K Extra Principal Payment May 2014  
(44) K Principal portion of Monthly Payments  
\$1,751 K Loan Balance as of 6-30-2014  
\$ 45K Interest paid Jan – June



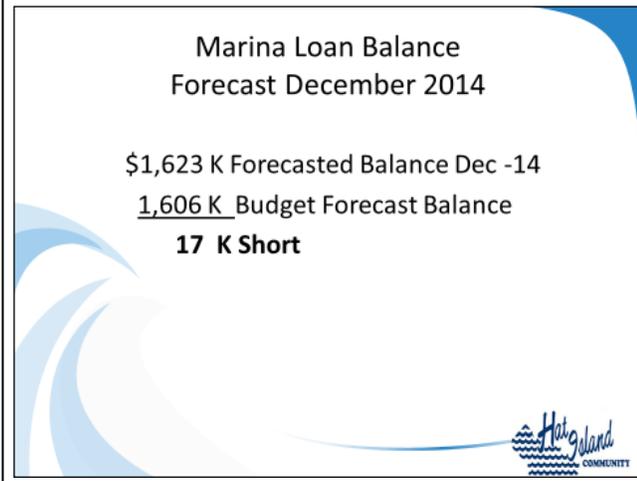
Slide 4: \$1,623K was the balance projected for the end of 2014.

**Marina Loan Forecast  
Jul – Dec 2014**

\$1,751 K Loan Balance as of 7-1-2014  
(80) K Extra Principal Payment Jul – Dec \*  
(48) K Principal portion of monthly payment  
\$1,623 K Projected 12-2014 Balance  
\$ 41 K Projected Interest Jul - Dec  
\* Assumes average Monthly Marina Assessment Income of \$24K  
Based on no Additional funds from Operations



Slide 5: The extra operating cash budgeted for payment against the loan (\$65K in Slide 1) has not been applied to principal and, based on the info in FAQ#1, will most likely not be available in 2014.



Slide 6: Since we are already behind budget in 2014, we won't be able to fund the \$75K needed to reach the goal of \$500K by December 2018.



We ended our presentation with the following question: "HOW CAN THE ISLAND GENERATE \$94K PER YEAR??" This is the annual amount we currently believe will be needed for 2015-2018 (instead of \$75K per year) due to the shortfall in 2014. Our underlying assumption is that marina assessments currently due will continue to be paid. Stay tuned as we deal with this issue as part of the 2015 budget.

### **FAQ #3: What HIC property is currently serving as the collateral for the Marina Loan?**

This question, along with numerous answers (both right and wrong), is currently floating around the HIC grapevine, so we thought we would answer it for you here. Our loan is secured by deed of trust on real estate owned by HIC (i.e., the marina, golf course and picnic area), as well as by liens via UCC filings against most personal property (both tangible and intangible) owned by HIC (i.e., all equipment, all inventory, and all accounts receivable, but NOT the ferry). It would be typical and expected for any bank to require such security for a loan of this size to an organization such as HIC.

With regard to the ferry, here is the gist of a phone conversation on August 12 between Cynthia Petrie and the VP at Foundation Bank who handles our marina loan: According to our lender, "the UCC filings made to secure Hat Island's personal property against the marina loan do not include the ferry because a boat that's over 50 feet long can only be secured using a preferred marine mortgage. There is no such mortgage on the Hat Island ferry."

For your information, a ballot requesting approval to use certain HIC assets to secure the marina loan was mailed to all owners in the Fall of 2012. The request was approved by 88% of the voters (231 yes vs 31 no votes), as counted at an HIC Special Meeting on November 17, 2012.

### **FAQ #4: What is the current status of the financial software conversion?**

The conversion has started and is happening. Barbara Harris is working with Melody. Thank you to them both!

### **FAQ #5: What is the current status of the 2015 Budget?**

The FC is on track to present the proposed 2015 budget to the Board at the October meeting.

### **FAQ #6: How do I get my questions to you so they can be addressed in future editions of the FAQs?**

Please send your inquiries to [HICFAQs@gmail.com](mailto: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.