

Hat Island Community Assn. – 2021 Budget FAQs

Welcome to this edition of Frequently Asked Questions (FAQs) addressing important questions members of the Community may have regarding the proposed 2021 budget and assessment.

These FAQs summarize the 2021-Budget recently recommended for adoption by the Board of Trustees. Next year's proposed assessment is \$1,200 per lot. These FAQs are designed to provide additional background information relevant to an understanding of how your assessment, and other community income, will be used in 2021 and to address several related matters of general concern to the Community.

FAQ #1. What sources of revenue and expense requirements does the Association anticipate in 2021? (Background: in addition to assessment income the Community has several revenue sources including revenue for items such as: ferry service, golf, water, moorage, fuel sales, barge use, various fees and similar charges.)

Income Projected for 2021:

General Assessment Income (net)	1,113,600 (assumes 928 paying lots)
Collection/Past Due Accounts	18,500
Estimated Non-Paying Assessments	(417,326)
Net Assessments	714,774

Water Income	190,000
Ferry Income	74,900
General Service/Barge	113,800
Golf Income	32,570
Marina Income	91,140
Apartment & Common Area Income	7,450
Other Community Income	22,240
Legal Marina Payment	120,000
Total Other Income	652,100
Gross Income	1,366,874

Cost of Goods Sold	<u>(143,361)</u>
Expenses	(1,216,270)
Net Operating Income	9,243

Capital Reserves (New Ferry)	21,303
R.O. Reserves	(28,000)
Total Reserve Transactions	(6,697)

Net Total	0
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FAQ #2: So, how about expenses. Looking at the big picture, how will the funds be expended in 2021?

Generally, community expenses include the cost of operating all island services including insurance, payroll and benefits, ferry operations, golf operations, professional services, maintenance costs of roads and other community assets, taxes and utilities (to review a more detailed list please refer to the proposed budget). In addition, the Community maintains reserve funds to meet anticipated capital costs. The new ferry will be funded by the ferry reserve fund of 38.3%

The total amount of operating expenses anticipated in 2021 is 918,923. In addition to these operating expenses, the Community anticipates adding 21,303 to reserve accounts (a drawdown from Capital Reserves of 6,697 and an addition of \$28,000 for Water System Reserves). Here's an overview of expenses projected for 2021:

Operations	918,923
Loan Payments	297,347
Capital Reserve	(6,697)
Water Reserve	<u>28,000</u>
Total	1,241,573

FAQ #3: Is there a payment plan available for payment of the assessment?

Yes. The \$1200 assessment may be paid in four equal payments of \$300 each on the following dates: March 31st; June 30th; September 30th; and December 31st.

FAQ #4: OK, I've got the big picture, but let's dig a little deeper. Let's focus on some of the largest expenses. What are the major expense categories that the community needs to fund?

Please refer to the 2021-Budget for the complete detail of expenses.

	<u>2021 Budget</u>
Administration	40,400
Salaries / Wages / Benefits / Tax	517,719
Repairs and Maintenance	73,912
Supplies	50,000
Insurance	120,000
Professional Services	41,633
Utilities	31,260
State Taxes	44,000
Cost of Goods Sold	143,631
Total Operating Expense	1,060,555
Plus	
Vessel Loan Payment	90,000
Marina Payment	207,347
Total Loan Payments	297,347
Total Operations Requirements	1,357,902

The current year has been a challenge for the island staff as they have dealt with the pandemic effects on island activity. Ferry revenue has been impacted significantly because of the reduced ferry capacity this summer and fall. On the other hand, other sources of income from usage fees and assessments remained steady. Expenses were adjusted as much as possible and we even received a bit of help from the government!

We have taken conservative approach in the 2021 budget as next year could provide further surprises. The greatest impact as of now is on the 2021 reserve fund additions. (See FAQ#2). However, in all probability, we will be able to modify our reserve fund contribution estimate when we close books for 2020 and we execute the sale of the old ferry. The Capital Reserves will have a reduced requirement in 2021 The new ferry's arrival will restart the ferry reserve requirement to zero The current reserve balances are healthy:

Capital Reserves	\$342,895
Cash Reserve	\$258,131
RO Reserve	\$64,594
Marina Reserve	\$60,217
Total Reserves	\$725,838

Also Operating Bank account balances are healthy at about \$480,000.

Bottom line: This budget should be adequate for 2021 barring any MAJOR changes in the economy.

FAQ #5: Tell me, how assessments are apportioned among the lot owners? Also, what happens when owners do not pay their assessments?

Pursuant to the bylaws, all island lots are billed equally for annual assessments. Assessments are billed equally to lot owners without regard to whether a lot is improved with a home or otherwise.

Experience from recent years indicates that in 2021 only 580 (out of 928 "billable lots") lots can be counted on to pay their assessments. This means that the Community cannot count on financial participation of lot owners owning 348 lots (or about 37% of the total). While there are over 30 separate lot owners in this delinquent group, the majority of these lots (276) are owned by related entities controlled by a single person. The Community has been diligently pursuing its legal claim to exercise its right of foreclosure for the majority of these past due assessments, and recent legal proceedings have both dismissed the claims brought against the Community and lifted the stay consequently allowing the Community to pursue foreclosure. This is now being appealed.

It is HICA's policy to vigorously pursue collection of delinquent assessments. The community adds late fees and interests to the amounts charged.

FAQ #6: How does the failure of some owners to pay their assessment affect my obligation for the assessment?

Simply put, failure for some lot owners to pay their assessments shifts the burden to owners who pay their assessment for the time being. If all lot owners could be counted on to pay their fair share, the assessment would be only about \$800 - - instead of \$1200. Approximately one-third of each paid assessment is used to meet the obligations of non-paying members. As they become delinquent, unpaid assessments become receivables on the books of the Association.

FAQ #7: What if the budget is not approved by the community?

Approval of the assessment keeps basic services at approximately their current level. Failure to approve an assessment will result in the HICA adopting the previous year's budget.

FAQ #8: Where I can get more detail about the proposed budget?

The proposed 2021 Budget has been emailed to all members. If you have not received a copy of the 2021-Budget please email the HICA office at hioffice@hatisland.com. A copy of the budget will be promptly forwarded to you.

FAQ #9: Reserve requirements and reserve fund.

The community maintains several types of reserve funds funded by assessments. The most significant of these is a Capital Reserve Fund. The Capital Reserve Budget was developed with the guidance of industry professionals (CEDCORE, LLC). The Capital Reserve Budget has determined that major repairs and replacement of capital assets (equipment, buildings, and infrastructure) will require a total future capital reserve of approximately \$1M (the actual projected balance changes each year due to inflation and other considerations). While it will take many years to build the recommended capital reserve, the 2021-Budget allocates \$21,303 for contributions to this reserve fund. Cash reserves have been fully funded. See FAQ#2 and FAQ#4

FAQ #10: Where can I find out more about the Capital Reserve?

The Reserve Study prepared by CEDCORE LLC can be found online in the document library at www.hatisland.org.

The community has been pursuing collection of past due assessments from delinquent owners. Accrued delinquent assessments substantially exceed one million dollars. Recently, a court ruling lifted a court-imposed stay allowing HICA to proceed with foreclosure against approximately 38 lots. Due to the uncertainty as to the timing and the continuing possibility of delays resulting from legal proceedings, the Finance Committee and the Board of Trustees is unwilling to predict a date certain for collection of these past due amounts.

FAQ #11: HICA has implemented a new accounting system. How is that working out?

Budget, payables, receivables, and preparation of monthly financial statements functions are back under the direct control of the Association despite the increased workload to the office personnel. The amounts budgeted for "Bookkeeper Expense" establish the accounting system in house to provide regular accurate reports to the community. We will also hire an outside CPA firm for oversight, expertise and direction. The new accounting system is working well and is a great improvement over past systems. Look for informative new reports that will be provided to the community in 2021.

FAQ #12: How would you respond to an assertion that the Island is overstaffed?

Simply put, the Island is not overstaffed. HICA is responsible to responsibly manage the assets of the community and provide for the various operations of Hat Island. The Community operates a ferry

boat, golf course, reverse osmosis plant, water distribution system, miles of roadway, and a marina. The staff is accountable to numerous governmental agencies and provides billing and accounting services. The entire staff for the island consists of eleven employees (supplemented with volunteers) who report to seven volunteer members of the Board of Trustees.

FAQ #13: What is the current status of the pending audit?

HICA completed the 2015 and 2016 audit and these are posted on the website. We have hired a new CPA who is preparing the documents needed to complete the 2017 audit. The cost of the pending audit is anticipated to exceed \$20,000 for 2017. Having completed the 2015 and 2016 audits we anticipate and hope that 2017 audit will go a little quicker. Once the 2017 is complete we will proceed with the 2018 and 2019 reviews. The HICA Board of Trustees and the HICA staff are dedicated to completion of the pending audit and the future maintenance of clear and accurate accounting information, available to all members of the community.

FAQ #14: Tell me how was the proposed budget for 2021 developed?

The budget was initially developed by the Finance Committee. Members of the Finance Committee were appointed by the President of the Board of Trustees. Committee members bring a diverse background (generally in business, finance and accounting) to the committee. Meeting regularly over the course of over four months the committee developed a proposed budget for the coming year. Their work was assisted by island management staff and members of the Board of Trustees. Each line item of the budget is examined by the Committee. After reaching consensus, the proposed budget for 2020 was submitted to the HICA Board of Trustees for consideration, modification, and eventual approval.

FAQ #15: Where do I go for more information or answers to more questions?

You are invited to direct questions and comments to hioffice@hatisland.com. (Please do NOT send any requests for information to the personal or business email addresses of the members of the Board of Trustees or members of the Finance Committee). Thank you in advance for your input!