

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

The purpose of this edition of FAQs is to discuss the state of the HIC finances as we hit the mid-way point of 2015 and start to gear up our resources to create a proposed 2016 budget that you will vote on this fall. The information detailed below is based on the FC presentation given at the Board meeting on July 18 by our new Chair, Kevin Smith. 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.

FAQ #1: We've heard the software conversion isn't done yet. Is that true?

That is NOT true! We have the books converted from our old system (AccPac) to QuickBooks Online (QBO), and we are using QBO to generate financial reports. We have the Coastal Bank and all credit card accounts connected to QBO, so activity is now updated daily. Our payroll functions are now connected to QBO and we plan to upgrade to Full Service QBO Payroll to eliminate payroll tax processing in the office. June water bills were generated from the system, and future water bills will be generated automatically. We are developing new processes and procedures to streamline our financial systems, including 1) eliminating excess Excel spreadsheets, 2) providing efficient and effective reporting of accounts receivable for use by the collections committee, 3) generating statements from QBO via email, and 4) creating a way to send out invoices for 2016 assessments when one bill has multiple due dates. Once we have QBO streamlined, the FC will be providing recommendations to Management and the Board for an outside bookkeeper who can perform the "heavy lifting" when it comes to financial activity and reporting.

FAQ #2: What is the state of HIC's finances for 2015?

Here is the information presented at the 7/18 Board meeting:

**Operational Cash INCOME (Cash basis – not including Marina)
1st 6 Months 2015 vs. 2014**

(\$ Thousands)	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Assessments	350.5	209.1	141.4
Ferry	39.6	39.8	(0.2)
Water	20.9	16.7	4.2
Fuel	18.2	19.1	(0.9)
Golf	21.7	23.1	(1.4)
Marina	68.7	70.0	(1.3)
Barge	9.5	17.9	(8.4)
Other	9.6	10.7	(1.1)
Total Operations	\$538.7	\$406.4	\$132.3

**EXPENSES Paid in Cash (Cash basis – not including Marina)
1st 6 Months 2015 vs. 2014**

(\$ Thousands)	<u>2015</u>	<u>2014</u>	<u>Variance</u>
Wages	168.3	179.8	(11.5)
Fuel	33.5	39.0	(5.5)
Insurance	39.6	33.7	5.9
Maintenance	22.5	32.9	(10.4)
Legal	29.9	33.5	(3.6)
Barge	9.9	17.2	(7.3)
Taxes	11.0	17.8	(6.8)
Utilities	11.8	9.3	2.5
Office	16.5	8.6	7.9
Other	29.1	24.4	4.7
Total	\$372.1	\$396.2	\$(24.1)

FAQ #3: Looks like income is up and expenses are down! That’s good news, isn’t it?

That is good news, but we need to take this a step further and analyze “available” cash. It’s critical to understand how much cash can be used for operations and how much must be “reserved”, i.e., designated for specific purposes. Here is that breakdown for the first six months of 2015, all in \$ thousands and not including the Marina assessments/loan:

Operating Cash as of 1/1/15	50.9
+ Jan 1 Insurance Reserve Balance	20.7
+ Jan 1 Capital Reserve Balance	1.7
+ Jan 1 RO Reserve Balance	3.2
+ Jan 1 H Division Reserve Balance	41.7
+ Ferry Insurance proceeds	45.6
+ 2015 Assessments + Operations	<u>538.7</u> (see above income)
Jan – Jun Available Cash	\$702.5
Less:	
Ferry Repair Bill paid	45.6
2014 Bills paid in 2015	61.6
2015 Increase in Reserves	99.0
2015 Operating Cash Expenses	372.1 (see above expense)
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Operating Cash & Cash Reserve	\$124.2

FAQ #4: If we're understanding this correctly, we have \$124,200 in operating cash right now. Do we have other cash that is reserved? Reserved for what?

Yes, we have increased our cash position substantially compared to the end of last year. Here's what we have in various bank accounts:

Cash Position			
6/30/15 vs. 12/31/14			
(Excluding Marina)			
(\$ Thousands)	<u>Jun 15</u>	<u>Dec 14</u>	<u>Variance</u>
Operating Cash	83.3	51.0	32.3
Cash Reserve	40.9	0	40.9
Insurance Reserve	.7	20.7	(20.0)
Capital Reserve	85.8	1.7	84.1
RO Funds	28.3	3.2	25.0
H Division Funds	51.5	41.5	10.0
RO Bond	1.5	1.5	0
Total	\$292.0	\$119.6	\$172.4

FAQ #5: Looks much better! Should we still be concerned about finances?

Our Special Assessment of \$300/lot that was passed last fall has helped considerably in increasing our cash. Keep in mind that the special Assessment was specifically earmarked to fund three things: 1) increase capital reserves so we can maintain and upgrade our infrastructure as required; 2) increase cash reserves with a goal of holding three months of operating expenses (\$120,000) at all times; and 3) paying for ferry repairs required by the Coast Guard in 2015.

FAQ #6: So what's the projected cash flow for the remainder of 2015? Are we on track to attain our "breakeven budget" for operations AND end up with sufficient balances in our cash and capital reserves? How many people aren't paying their assessments?

Let's start by looking at the current situation with regard to accounts receivable (A/R). In other words, how much is owed to HIC for the rest of the year, and how much of that do we realistically expect to receive. Here is the A/R as of June 2015:

\$ 1,944 K Total Due
- 1,363 K Marina
 - 89 K Prior to 2015
 - 27 K PSYC

\$465 K Receivable from 2015 which consists of:
 288 K Annual Assessment
 145 K Special Assessment
 13 K Water Maintenance Assessment
 3 K Car Fee
 16 K Other – Barge, Water, etc.

This is what we *realistically* expect to receive this year:

465 K Receivable from 2015
- 267 K Receivable from 1 owner
- 50 K Other late payees
+ 12 K Est. of payment for pre-2015
\$160 K Est. of cash from Receivables

FAQ #7: Hmmm....what about other sources of income? And, if that's what we expect to receive, what do we expect to spend?

Here's our current projection for the rest of 2015, based on the realistic expectation of who will pay assessments:

\$160 K	Cash from Receivable
<u>95 K</u>	Income from Operations (e.g., golf, marina, water use, ferry)
\$255 K	Estimate of Incoming Cash
125 K	6-30 Cash and Cash Reserve On Hand
<u>85 K</u>	6-30 Capital Reserve On Hand
\$465 K	Estimated Available Operating AND Reserve Funds

Less Cash Needs for the rest of 2015:

180 K	Wages
145 K	Other Operational Costs: July – Dec
45 K	Minimum Ferry Upgrades (part of Special Assessment)
60 K	Insurance (20 K Bill in Oct + Insurance Reserve Build Up)
25 K	What we owe as of today (Credit Cards) (112 K - 76K Legal – 11 K RO Insurance Claim)
\$ 455 K	Estimated Cash Needs: July – Dec
\$10 K	Balance of Operations & Capital Reserve Cash

FAQ #8: WAIT! Only \$10,000 left at the end of the year? This looks like déjà vu all over again!

Indeed it does, so stay tuned for FC recommendations. We also want to make it clear that the forecasts shown above for the rest of 2015 are based on our "best guess" estimates and assumptions, so all is subject to change. Here are some of the assumptions we used:

- **Cost of Ferry Repair is an example - more detailed analysis needs to be done and cost may need to be updated**
- **\$87K of Outstanding Legal and RO Repair invoices is too, expected to be paid by Insurance**
- **AND, all future Legal expenses are expected to be paid by insurance and not included in Cash Needs and not included in the Forecast**
- **Finally, Bookkeeper to come, settle lawsuits, etc. =>\$'s**

FAQ #9: 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, 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.