

Welcome to the 5th Edition of Frequently Asked Questions (FAQs) by the HIC Finance Committee (FC)

June/July/August 2013

The purpose of this edition of FAQs is to update ongoing FC activities, and to present Accounting and Budgeting 101, so you can get the most out of the financial statements in the View Point and the 2014 budgeting process. Please send questions to HICFAQs@gmail.com. For your information, we have not received any questions into the mailbox since May 29, 2013.

Question #1: As noted in the last FAQs (April/May 2013), our loan was expected to total \$2,171,000. What is the current status of the loan and marina expenses?

The total marina expenses as of July 31, 2013 are \$4,487,118. About \$1,072,000 of that figure has been capitalized (i.e., it is reported as a fixed asset on the balance sheet) and is being depreciated now. The remaining costs will be converted from Work in Progress to a fixed asset upon final completion of the Marina, which is expected to be this year.

Of the total expenses incurred, we have been able to fund over \$2.5 million with assessments collected to date. The remainder has been funded via the loan. It appears that the loan balance is going to be under \$2 million upon conversion to a permanent loan, which is lower than originally planned. Conversion will take place once all final expenses have been paid. The FC recommends conversion in December 2013.

We will update and present options for payment of the loan to the Board as part of the 2014 budgeting process which is currently underway.

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. HIC and the Board will make decisions regarding funding sources and how they will be applied to Marina loan principal and interest.

Question #2: What is the status of the accounts receivable project?

Barbara Harris continues with analyzing cash flow and accounts receivable. It appears the new collection procedures are working. We are now working to streamline some billings as part of the 2014 budgeting process.

Question #3: The last FAQs explained why the View Point now includes a full balance sheet, profit and loss statement, and cash flow. Here are a few tips to help you get more out of these statements, which we are calling Accounting 101:

Overall:

- Note the dates of the statements. The August 2013 View Point includes the statements for June 2013, which is 6 months in, halfway through the year. This delay is because it takes time to record everything for each month and prepare the statements. We are hoping to make this process easier with better (more applicable) accounting software.
- These statements are currently unaudited.

- If you have questions, please submit them to HICFAQs@gmail.com. We may already know the answer due to the time we have spent reviewing the records with Chuck and Melody or due to items already discussed in our committee meetings. Your questions will also help us to determine what else we could explain or provide that might help you.

Treasurer's Report: This will be addressed in a future edition.

Balance Sheet:

- It summarizes the current and long-term assets and liabilities. The difference between assets and liabilities is "Member's Equity."
- It identifies the current balance of the "Capital Reserves" based on contributions recommended from the Capital Study, and "Cash Reserves," which changes when there are net increased revenues related to operations.
- It includes a comparison to the prior year to date balance and shows the variance. Significant differences are generally explained in the footnotes, discussed in the View Point, or noted as special line items.
- It includes a provision for "doubtful accounts," which are the amounts anticipated as unlikely to be collected this year. Although there will always be some expected shortfall, this is being addressed in part through the new collections policy.
- It includes the current Marina loan balance under "Long Term Liabilities" and remaining Marina receivables (excluding interest) under "Other Assets."

Statement of Earnings (Profit and Loss Statement):

- It categorizes the expenses into the summary accounts set up in the general ledger.
- It includes a comparison to the budget as well as the prior year to date (YTD) balances and shows the variances.
 - Island operations are very cyclical. We have a high and low ferry season for good reason. Many revenue user fees (golf, ferry, etc.) drop off in low season. By the end of September, we will have received the vast majority of our user fees (golf, ferry, etc).
- Significant differences are generally explained in the footnotes, discussed in the View Point, or noted as special line items.

Question #4: I've heard/read about a possible "audit" being performed. I thought HIC voted to waive the audit requirement for 2012. What's going on?

Here's what you should know:

1. HIC prepares monthly financial statements, which are published in the View Point. These statements are not, and are not required to be, audited.
2. The HIC membership voted in January to waive the audit requirement for 2012.
3. In December, the HIC membership will vote to decide whether to proceed with or waive an audit of the 2013 books and records.
4. The FC has been advised that no HIC officer or director has engaged a CPA firm to perform audit services at this time.
5. The HIC office has provided numerous financial records to HOA members upon request.
6. Various FC members have spent considerable time in analyzing various components of the HIC books and records, as we have detailed to you in the ongoing FAQs and in summaries to the Board each month.

We thought it would be helpful to provide you with a few salient facts:

Under State law (RCW 64.38.045), an HOA such as HIC with annual assessments exceeding \$50,000 is required to be "audited at least annually by an independent CPA firm." However, the same RCW states

that this audit requirement can be waived by a vote of membership. In the event of a waiver, an HOA must prepare compiled (i.e., not audited) financial statements at least annually.

The RCW also states that the HOA's financial information must be made available to any HOA member upon reasonable advance notice during normal working hours. The HOA may impose and collect a reasonable charge for costs incurred in providing such services.

The definition of an "audit" as used in the RCW quoted above is generally as follows: A financial statements consisting of a specific set of documents that includes a balance sheet, an income statement, a cash flow statement, and specific disclosures. An audit is conducted in accordance with the professional standards of the AICPA. An organization desiring audited financial statements must legally "engage" a qualified CPA firm to perform services and issue an audit report. The report is signed by a publicly-licensed CPA who is "independent".

We will further discuss these audit requirements and the potential costs of engaging a CPA firm to perform an audit for 2013 when we present the proposed budget to the Board at the October meeting.

Question #5: What is the status of the Compensation Study requested by the Board?

Madeline Progner, Jann Kaufmann, and Chuck Motson completed the Compensation Study and did an amazing job! They spent over 200 hours in volunteer efforts, with an estimated value to the island of \$20,000 to \$25,000! The study analyzes both salaries and fringe benefits. They looked at all island employee positions, analyzed job requirements, and conducted comparisons to similar positions (on other islands, for example). We will be using this data in the 2014 budgeting process. The study was created as a budgeting tool and is based on highly confidential information, so there is no plan to release the data publicly. However, a summary of the details will be presented at the October Board meeting.

Question 6: What is the status of the accounting software study mentioned in FAQs #1?

Barbara Harris has substantial experience with accounting software packages and has agreed to lead this study. Assuming the FC recommends conversion and the board approves it, we envision starting the conversion in May 2014, to be completed by January 2015. Barbara plans to spend next summer on Hat, so she will be "on the ground" for conversion!

Question 7: So that all community members can get as much as possible out of the 2014 budgeting process, we are providing the following overview, which we are calling Budgeting 101.

As the FC has evolved and become more involved, we realized we were starting the budgeting process too late in the year. This year we started earlier, which means some of the FC members will never learn to fish. We prepared for the budget in advance by spending the early part of the year targeting risk areas (like salary and accounts receivable) with special projects, and overall took a far more pro-active approach. We will still review the prior year's income and expenses, adjust based on known differences, and submit our recommendations accordingly, but we are also actively incorporating the results of our special projects and actively seeking coordination with the other committees.

We invited the other committees to attend the FC meeting on Saturday, August 17th to get an overview of 2014 budget process and ensure their identified revenues and expenses were considered. Chuck also asked that they coordinate among themselves to identify consistent low/high season dates. The following committees were represented by their chairs:

- Golf – George Harmon
- Equipment – George Harmon
- Marina – Dennis Dearing
- Vessel – Mike Immel
- Long Range Planning – Susan Dahl

Below is our draft schedule for the 2014 budgeting process that was shared with the other committees.

Day	Date	Item
Sun	21-Jul	Finance Kick off meeting
Sat	17-Aug	FC meeting - meet with committees to request input on revenue and expenses
Sat	14-Sep	Requested due date for input from other committees
Sat	21-Sep	Committee input reviewed by FC and given to HIC Office to be incorporated into 2014 budget
Fri	4-Oct	HIC Office to prepare 9 month actual costs, forecasted 3rd quarter. and first draft of 2014 budget to FC
Sat	12-Oct	FC meeting review of 2014 budget to be presented to the board
Sat	19-Oct	FC presents recommended 2014 budget to the board
Sat	16-Nov	Board takes community input and votes on budget
Wed	20-Nov	Budget ballots mailed – Due back by Saturday, December 21

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

Please continue to send inquiries to HICFAQs@gmail.com, including how to contact you if we need more info to address your question. There is a link to the FAQs email address and past editions of the FAQs on the HIC home page under the Document Library. We will always acknowledge receipt of your questions. If you sent in a question and did not receive a response, please send it to the FAQ email again. Please do not send FAQ inquiries to our personal email addresses.

Via future FAQs, we will continue to update the status of the marina loan and expenses, accounts receivable project, and other FC activities at least quarterly. Also, our fearless leader, Cynthia Petrie, is continuing to provide updates regarding FC activities at each Board meeting.