

**INDEPENDENT AUDITOR'S REPORT
FOR
HMC MANAGEMENT - 2014**

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HMC FINANCIAL STATEMENTS AUDITED BY:

MICHAEL KANDER CPA

MICHAEL KANDER CPA

7406 27TH Street West Suite 14, University Place, WA 98466

INDEPENDENT AUDITOR'S REPORT

April 25, 2015

To the Board of Directors of Herron Management Company
Herron Island (Lakebay), WA

We have audited the accompanying financial statements of Herron Management Company, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report continued:

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herron Management Company as of September 20, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Reserve Studies dated April 19, 2013 and March 17, 2014, on pages 10 and 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Michael Kander
CPA
University Place, WA

HMC MANAGEMENT
Balance Sheet
As of September 30, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash and Cash Equivalents (See Note A)		
Checking (Operating Account)	\$ 256,415	\$ 290,801
Checking (Water Account)	31,675	46,057
Certificate of Deposit	1,058	1,056
Total Cash and Cash Equivalents	<u>289,148</u>	<u>337,913</u>
Accounts Receivable (Current)		
General Operating Assessments Receivable	4,691	7,811
Base Fees Receivable (Water System)	<u>1,944</u>	<u>2,319</u>
Total Accounts Receivable	<u>6,635</u>	<u>10,130</u>
Total Current Assets	<u>295,783</u>	<u>348,043</u>
Long Term and Other Assets		
Investment in Vanguard Funds (See Note B)	526,152	351,757
Land Acquired (use not determined)	30,000	30,000
Delinquent Members Assessments (See Note D)	57,000	45,000
(Net Realizable Value)		
Delinquent Water Department Receivables	13,000	
(Net Realizable Value)		
Prepaid Drydock Expenses (See Note E)	75,398	33,822
Prepaid Engine Maintenance Expenses (See Note E)	<u>151,543</u>	<u>181,851</u>
Total Long Term Assets	<u>853,092</u>	<u>642,430</u>
Plant, Property and Equipment		
Land - Common Use (See Note A)	25,600	25,600
Fixed Assets	4,300,884	
Ferry/Docks	2,108,732	2,108,732
Water System	108,217	108,217
Water Distribution System (See Note C & I)	1,718,140	1,718,140
Small Boat Dock (Parks)	269,944	266,683
Roads	57,292	57,292
Office/Equipment	38,559	38,559
less Accumulated Depreciation	<u>(1,739,165)</u>	<u>(1,645,646)</u>
Total Net Fixed Assets	<u>2,561,719</u>	<u>2,651,977</u>
Total Plant, Property, and Equipment, net	<u>2,587,319</u>	<u>2,677,577</u>
TOTAL ASSETS	<u>\$ 3,736,194</u>	<u>\$ 3,668,050</u>

Continued

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See Independent Auditor's Report
The Accompanying Notes are an Integral Part of these Financial Statements

HMC MANAGEMENT
Balance Sheet
As of September 30, 2014 and 2013

LIABILITIES AND MEMBERS' EQUITY

	2014	2013
LIABILITIES		
Short Term Liabilities		
Accounts Payable - Trade	\$ 18,632	\$ 3,263
Short Term Portion of USDA Loan (See Note I)	53,278	53,278
Dry Dock Payable	75,398	
Engine Maintenance Payable (See Note E)	56,647	56,647
Prepaid Assessments - General	21,048	17,985
Prepaid Assessments - Water System	2,807	5,811
Security Deposits	9,876	3,525
Total Short Term Liabilities	237,685	140,509
Long Term Liability (See Note I)		
USDA Loan for Water Distribution System	1,291,431	1,312,036
Total Long Term Liability	1,291,431	1,312,036
TOTAL LIABILITIES	1,529,116	1,452,545
MEMBERS' EQUITY		
Unrestricted Balance	1,533,382	1,702,532
Board Designated for Engine Maintenance	151,543	181,851
Board Designated for Capital and Major Repairs and Maintenance (See Note B)	526,152	351,757
TOTAL MEMBERS' EQUITY BEFORE ADJUSTMENT	2,207,077	2,215,505
ADJUSTMENT FOR PRIOR PERIOD (RECEIVABLES)	-	(20,635)
TOTAL MEMBERS' EQUITY AFTER ADJUSTMENT	2,207,077	2,194,870
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,736,194	\$ 3,668,050

HMC MANAGEMENT
Statement of Activities
For the Years Ended September 30, 2014 and 2013

OPERATING and CAPITAL ACCOUNTS	2014	2013
REVENUES AND OTHER SUPPORT		
Member Assessments, gross (See Note A)		
General Operations	\$ 611,582	\$ 598,899
USDA Loan Semi-Annual Assessment	54,351	26,552
Quarterly Water Assessments	99,981	95,406
Reserve Assessment	69,750	61,500
Total Assessments	<u>835,664</u>	<u>782,357</u>
Ferry Fees	174,200	174,847
Attorney Fee Invoicing	11,636	17,646
Miscellaneous Water Fees	858	1,920
Property Transfer Fees	3,675	5,950
HMC Interest & Handling Charges	17,165	17,286
Water Interest & Handling Charges	11,990	7,623
Miscellaneous HMC	5,008	1,964
Interest Earned (All Accounts)	47	84
TOTAL REVENUES AND OTHER SUPPORT	<u>1,060,243</u>	<u>1,009,677</u>
EXPENSES BY DEPARTMENT (See Schedule 1)		
Ferry	531,366	483,628
Ferry Docks	79,395	68,771
Administration	186,661	168,730
Water	147,500	161,507
Parks	20,550	22,186
Roads	29,287	31,188
TOTAL EXPENSES	<u>994,759</u>	<u>936,010</u>
REVENUES EXCEEDING EXPENSES (LOSS)	<u>65,485</u>	<u>73,667</u>
OTHER INCOME/(EXPENSE)		
Accrued Expense on USDA Loan	(53,278)	(53,278)
Special Assessment (Engine)	-	130,536
Special Assessment for Water Distribution System - One Time Payment (See Note I)	-	410,780
Gain on Sale of Property	-	10,200
TOTAL OTHER INCOME/(EXPENSE)	<u>(53,278)</u>	<u>498,238</u>
TOTAL REVENUES EXCEEDING EXPENSES	<u>\$ 12,207</u>	<u>\$ 571,905</u>

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of these Financial Statements

HMC MANAGEMENT

Statement of Functional Expenses - Schedule 1

October 2013 - September 2014 with Comparative Totals for Prior Period (2013)

2014 EXPENSE	Ferry	Ferry Docks	Administration	Water	Parks	Roads	2014		2013	
							Total	Total	Total	Total
--Department--										
Payroll	\$ 251,522	\$ -	\$ 91,628	\$ 9,571	\$ -	\$ -	\$ 352,721	\$ 360,187		
Wages	21,559		7,861	872			30,292	28,654		
Taxes	48,812		11,371				60,182	63,615		
Benefits (Retirement and Medical)										
Total Payroll	321,892	0	110,859	10,443	0	0	443,195	458,452		
Major Repairs and Maintenance:										
Ferry Amortized (See Note E)	64,130								64,130	45,330
Other Major Repairs & Maintenance	6,936	32,607							54,244	
Routine Repairs and Maintenance	20,942	4,178	2,331	11,549	3,180	9,414	51,594		47,321	
Insurance	45,319	15,497	3,454			820	65,090		64,706	
Ferry Fuel	54,014						54,014		66,047	
Professional Services	480	18,508	53,697	5,409		1,487	79,580		63,243	
Miscellaneous Service & Supplies	10,515		6,422	5,487			22,425		18,461	
Taxes, Licenses, and DNR Lease	5,278	113	1,385	5,100	397		12,273		17,510	
Postage, Printing, Copying	1,859		4,096	396			6,350		5,829	
Utilities	4,790		3,768	2,881	4,377		15,817		8,081	
USDA Loan Interest				33,179			33,179		16,913	
Total Expenses by Department before Depreciation	531,366	75,692	186,012	74,445	7,954	26,422	901,891	817,192		
Depreciation	-	3,703	649	73,055	12,596	2,865	92,868	124,118		
Total Expenses by Department after Depreciation	\$ 531,366	\$ 79,395	\$ 186,661	\$ 147,500	\$ 20,550	\$ 29,287	\$ 994,759	\$ 941,310		

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of these Financial Statements

HMC MANAGEMENT
Statement of Changes in Members' Equity
As of September 30, 2014 and 2013

	Capital Account	Operating Account	<u>Total Members' Equity</u>	
			2014	2013
MEMBERS' EQUITY				
BEGINNING OF YEAR	\$ 734,029	\$ 1,460,841	\$ 2,194,870	\$ 1,596,010
Excess of Revenues over Expenses (Loss) before Other Income and Other Items		12,207	12,207	68,367
Other Income				551,516
Adjustment, Prior Period				(21,023)
Board Designated Transfers from Operating Account to Capital Account, net	174,350	(174,350)	-	-
MEMBERS' EQUITY	\$ 908,379	\$ 1,298,698	\$ 2,207,077	\$ 2,194,870
END OF YEAR				

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of these Financial Statements

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HMC Management
Statement of Cash Flows
For the Years Ended September 2014
and 2013

	2014	2013
OPERATING ACTIVITIES		
Net Income (Loss)	\$ 12,207	\$ 619,883
Adjustments to reconcile Net Income to net cash provided by operations:		
Increase/(Decrease)		
Depreciation	93,519	124,118
Delinquent Accounts Receivable (SEE NOTE D)	(25,000)	(34,000)
Assessments/Base Fees Receivable	3,120	10,202
Base Fees Receivable (Water System)	375	(878)
Prepaid Maintenance Expenses (See Note E)	(41,576)	45,330
Prepaid Engine Overhaul Expenses (See Note E)	30,308	(181,851)
Prepaid Expenses for Water Project		7,416
Miscellaneous		4,867
Accounts Payable	15,369	(19,838)
Short Term Portion of USDA Loan		53,278
Dry Dock Maintenance Payable	75,398	(67,644)
Engine Maintenance Payable	-	56,647
Prepaid Assessments and Fees	59	3,553
Prepaid Assessments and Fees	6,351	5,811
Net cash provided by Operating Activities	170,130	626,895
INVESTING ACTIVITIES		
Land Acquired		10,000
Land Common Use		1,700
Water Distribution System		(455,398)
Prepaid Periodic Engine Maintenance	(151,543)	
Capital Additions/Improvements	(3,261)	(42,281)
Net cash used by Investing Activities	(154,804)	(485,979)
FINANCING ACTIVITIES		
Transfer from (to) Capital Account	(43,993)	(19,080)
Payment on Long Term Debt	(20,099)	(9,864)
Other Receivable for Capital Expenditures		123,094
Adjustment of USDA Loan Proceeds (See Note I)		17,860
Acquisition of Debt (See Notes C and H)		(76,338)
Net cash provided by Financing Activities	(64,092)	35,672
Net cash increase(decrease) for period	(48,766)	176,588
Cash at beginning of period	337,914	161,326
Cash at end of period	\$ 289,148	\$ 337,914

See Independent Auditor's Report
The Accompanying Notes are an Integral Part of these Financial Statements

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HMC MANAGEMENT
RESERVE STUDY - April 19, 2013
for the period beginning October 1, 2013

Dept.	Component	Useful Life	Remaining Useful Life	Current Avg.Cost	Future Avg.Cost
<u>Site/Grounds</u>					
	Asphalt Roads - Repair/Resurface	30	11	\$ 24,150	\$ 33,429
	Gravel Roads/Lots - Maintenance	5	4	23,000	25,887
<u>Small Boat Marina</u>					
	Docks/Floats - Replace	30	17	117,000	193,383
	Docks Pilings - Replace	50	47	195,000	782,320
	Trestle/Ramp - Replace	30	17	78,750	130,162
	Gangway - Replace	30	17	7,000	11,570
<u>Picnic/Recreation</u>					
	Play Equipment - Replace	20	3	45,000	49,173
	Basketball Court - Repair/replace	25	24	17,500	35,574
	Pavilion Roof - Replace	25	14	7,150	10,815
<u>Community Building</u>					
	Siding - Replace	50	40	21,000	68,503
	Roof - Replace	40	28	16,200	37,064
	Septic - Replace	50	17	8,000	13,223
<u>Equipment</u>					
	Utility Tractor/Mower - Replace	10	3	13,500	14,322
	Dust/Water Truck - Replace	12	1	15,000	15,450
<u>Ferry System</u>					
	Ferry Terminals - Inspect/Repair	2	1	18,000	18,540
	Ferry Terminals - Paint	12	2	233,200	247,402
	Ferry Terminals Cables - Replace	6	0	34,500	41,195
	Ferry Terminal Structure - Replace	60	38	2,250,000	6,918,263
	Ferry Ramp Dolphins - Replace	50	6	845,000	1,008,974
	Ferry Ramp Generators - Replace	20	12	35,000	49,902
	Ferry Vessel - Shipyard	2	0	92,500	98,133
	Ferry Vessel - Overhaul Engines	5	4	35,000	39,393
	Ferry Vessel - Replace Engines	50	49	152,000	646,945
	Ferry Vessel - Overhaul Transmissior	5	4	13,000	14,632
	Ferry Vessel - Replace Transmissions	25	24	31,500	64,033
	Ferry Vessel - Replace	60	35	1,500,000	4,220,794
<u>Legal Contingency Fund</u>		NA	NA	\$ -	\$ 35,000

HMC WATER SYSTEM
RESERVE STUDY - March 17, 2014
for the period beginning October 1, 2014

Function Component	Useful Life	Remaining Useful Life	Current Avg.Cost	Future Avg.Cost
<u>Capacity</u>				
Well Pumps and Controls	30	28	\$ 20,000	\$ 45,759
<u>Storage</u>				
Storage Tank - Replace	80	71	198,000	1,614,761
Storage Tank - Clean	5	0	2,500	2,898
<u>Boost</u>				
Booster Pumps, 5 HP - Replace	20	18	15,000	25,536
Booster Pumps, 15 HP - Replace	40	38	20,000	61,496
Booster Pumps Control - Replace	20	18	15,000	25,536
<u>Distribution</u>				
Distribution Lines, 6"-8" - Replace	70	68	947,250	7,069,617
Distribution Lines, 2" - Replace	40	38	62,500	192,174
Service Connect/Lines - Replace	40	38	238,200	732,413
Service Meters - Replace	41	8	119,100	150,872
Service Meter Box/Setters - Replace	51	18	119,100	202,760
Pressure Reducing Valves - Replace	51	18	12,000	20,429
Blow-Out/Isolation Valves - Replace	61	28	35,200	80,993
Hydrants - Replace	40	38	141,450	434,928
<u>Building/Site</u>				
Builing Roofs - Replace	40	39	3,000	9,501
Storage Shed - Replace	20	19	2,500	4,384
Builing Electrical - Replace	30	28	10,000	22,879
Chain Link Fence - Replace	3.5	34	15,840	43,273
<u>Systems/Equipment</u>				
Generator Emergency - Replace	50	10	40,000	53,757
Meter Reader System - Replace	5	3	5,000	5,464
<u>Financial/Professional</u>				
SWSMP - Update	6	1	3500	3605
Sanitary Survey - Update	5	0	2000	2319

HMC MANAGEMENT
Notes to Financial Statements
For the Fiscal Year Ended September 30, 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

HMC Management was incorporated on May 1, 1958, in the State of Washington, as an homeowners' association. HMC Management operates and maintains the common property (including roads, parks, and water service) on Herron Island and the associated private ferry service and wharfs. HMC Management levies annual and special assessments on 389 "assessable" units. For the water billings and assessment 397 units were billed and assessed. (Assessable units are single or contiguous units that are owned by one member.)

Basis of Accounting

The financial statements have been prepared in accordance with generally accepted government accounting principles and accordingly reflect all significant receivables, payables and other liabilities.

Disbursements from the operating account are generally at the discretion of the board. Disbursements from the reserve savings accounts may be generally made only for specific purposes designated by the board. (See Note B)

Cash and Cash Equivalents

HMC Management considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The certificate of deposit is included in this asset category because it may be readily redeemed with an immaterial early withdrawal penalty.

The balance exceeds the Federal Depository Insurance Corporation coverage by approximately \$189,000. Management accepts this risk because Sound Credit Union has not defaulted on any known accounts

Investments

The Vanguard Money Market Funds (Reserves) are considered as long-term assets because management intends to hold these for more than one year. The balance exceeds the Federal Depository Insurance Corporation coverage by approximately \$426,000. Management accepts this risk because Vanguard has not defaulted on any known accounts.

HMC MANAGEMENT
Notes to Financial Statements
For the Fiscal Year Ended September 30, 2014

Fair Value of Cash and Investments

U.S. accounting standards define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in HMC's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

HMC's financial instruments are investments which are measured at fair value on a recurring basis as follows:

-Cash and Money Market Accounts are valued at the stated cost which approximates fair value.

-Mutual funds are valued at their net asset value (NAV) of shares held by HMC at year end.

Fixed Assets

The Company capitalizes property and equipment over \$1,000 and depreciates fixed assets and improvements over their useful life using straight-line depreciation methodology. At acquisition, the estimated useful life of the ferry and ferry docks were 20 years and 40 years respectively. The estimated useful life of capitalized equipment is five to seven years.

Land

HMC Management owns 13 lots that are for common use by the organization and by members and four lots for undetermined future use or sale. Original acquisition costs were not available. The organization used lowest assessed values for 2001 through 2005 to fairly value the property.

Additionally, HMC Management owns four tracts of land and beach front property for common use, but valuations are unknown.

Member Assessments

HMC Management's members are subject to annual assessments (\$1,758 per assessable unit in 2014) to provide funds for general operating expenses, future capital acquisitions, and major repairs and replacements. Assessments and accounts receivable at the balance sheet date represent fees and other charges due from owners. Delinquent owners' accounts are reported separately. HMC Management considers these receivables partially collectable and, accordingly, reports at net realizable value. HMC Policy is to classify assessments older than 30 days as delinquent and to begin legal proceedings as soon as practical. See Note D for discussion of delinquent accounts.

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See Independent Auditor's Report
The accompanying notes are an integral part of the financial statements.

HMC MANAGEMENT
Notes to Financial Statements
For the Fiscal Year Ended September 30, 2014

Special Assessments

A special water assessment in 2012 was designated for the new water distribution system to comply with state water regulations, financed by the USDA over 40 years at 2.5 percent. 92 Members elected to pay off their portion in full at the beginning (\$4,475) for a total of \$410,780. The remaining members are paying \$44.55 each quarter until the 40-year USDA loan is paid off.

The water assessments fully paid are reported as other income in the Statement of Activities for 2013 to simplify and clarify the financial presentation. The income from the members who elected to pay over 40 years is reported in the Statement of Activities as operating income.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. As a homeowner's association, most exempt function income, which consists primarily of member assessments, is not taxable.

In general, the association's tax returns may be selected for examination by tax authorities subject to a three-year statute of limitations for federal returns and four years for state excise tax returns.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires HMC Management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Insurance

Management has elected to expense insurance costs when paid. This procedure does not significantly change the financial position or operating results.

NOTE B – Board Designated Savings Reserves

These reserves are board designated and consist of investments to be held for the purpose of capital projects, major repairs and improvements (docks, ferry, roads, water), and legal and insurance reserves. At the end of the budget year, unexpended funds may be transferred to the reserve accounts. These assets are held in a Vanguard Money Market account specified for those purposes. (See Note A)

HMC MANAGEMENT
Notes to Financial Statements
For the Fiscal Year Ended September 30, 2014

Schedule of Board-Designated Reserves of September 30, 2014

Docks and Dolphins	\$117,478	Engine	\$15,000
Ship Yard	68,000	Water Truck	3,500
Legal	34,550	Ferry Replacement	2,000
Parks	11,116	Community Buildings	2,500
Roads	45,240	Ramp Inspections	9,000
Water	\$140,173	Ramp Cable Replacement	\$25,000

Total Board Designated Reserves: \$526,057.

NOTE C – Future Major Repairs and Replacements

HMC Management's budget includes a portion for reserves to finance estimated future major repairs and replacements. In 2013 and 2014 HMC Management had these studies completed to determine the remaining useful lives of the components of all common property and future associated costs of major repairs and replacement, including the water system. (See supplemental financial data for inventory listing.) This study concluded the HMC Reserve Fund is 13.1 percent funded and the Water System Reserve Fund is 88.3 percent funded in 2014. See Note H.

NOTE D – Delinquent Accounts

The position of the Board of Directors is that the Association will ultimately prevail against the remaining homeowners whose assessments and accounts are delinquent (without lien filings). Accordingly, these accounts are reported at net realizable value.

NOTE E – Recurring Scheduled Maintenance

Recurring ferry maintenance is amortized over a two-year period for scheduled, dry dock maintenance (\$33,822 for each FY2013 and FY2014) and over a three-year period for scheduled engine overhaul (\$11,508 for each FY2011, FY2012 and FY2013). The FY2012 Prepaid Scheduled maintenance included two years of dry dock maintenance for FY2013 and FY2014 and one year of engine overhaul for FY2013. The FY2013 Prepaid Scheduled Maintenance included one year of dry dock maintenance (\$33,822.)

Also, the FY2013 Prepaid Scheduled Maintenance includes a one-time Engine Overhaul Maintenance estimated to cover the next six years beginning FY2014. (\$181,851) This was fully paid by October, 2013, largely as a result of the special engine assessment.

HMC MANAGEMENT
Notes to Financial Statements
For the Fiscal Year Ended September 30, 2014

NOTE F – Retirement Contributions

HMC Maintenance matches employees' contributions for their 401(k) retirement plan. In 2014 the company paid \$16,544 and in 2013, \$13,595 for these employee benefits.

NOTE G – Federal and State Taxes

In general, the association's tax returns may be selected for examination by tax authorities subject to a three-year statute of limitations for federal returns and four years for state excise tax returns.

NOTE H – Subsequent Events

Replacement for the dolphins is scheduled for late 2015 or early 2016 per the Reserve Study. Funding for this project is under consideration from USDA Rural Development at an estimated cost of \$1.5 to \$3.2 million, depending upon the option selected. Owners/members will be levied a special assessment and/or increased regular assessments for this project.

A Special Assessment for owners/members was approved for the ramp painting project which is in progress. Estimated cost is \$250,000. The amount of the special assessment is \$500 per member.

No other subsequent events were identified as of April 25, 2015.

NOTE I – USDA Loan

HMC signed a promissory note on March 22, 2013, with USDA for financing a new water distribution system to comply with state regulations. The note is payable semi-annually (beginning September 2013) at 2.5 percent interest over 40 years. The amount payable semi-annually is \$26,639 which includes interest and principle. The note is for \$1,342,000 adjusted for one-time payments (\$410,780) and is secured by HMC property which includes land, roads, and improvements. This property is recorded as community property and does not have an associated value in Pierce County public assessor records. Therefore, this property does not appear on HMC financial statements.