

**INDEPENDENT AUDITOR'S REPORT**  
**FOR**  
**HMC MANAGEMENT - FY2012**

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HMC FINANCIAL STATEMENTS AUDITED BY:

MICHAEL KANDER CPA

# MICHAEL KANDER CPA

7406 27<sup>TH</sup> Street West Suite 14, University Place, WA 98466

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
HMC Management  
Herron Island, WA

We have audited the accompanying statement of financial position of HMC Management (a Washington State nonprofit organization) as of September 30, 2012, and the related statements of activities (including functional expenses) and changes in net assets, and cash flows for the fiscal year then ended. These financial statements are the responsibility of the HMC Management. Our responsibility is to express an opinion on these financial statements based on our audit.

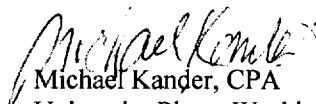
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assuring the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of HMC Management as of September 30, 2012, and the changes in its net assets and its cash flow for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2013 on our consideration of HMC Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion in the basic financial statements of HMC Management taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

HMC Management has recently replaced a significant amount of infra-structure, but the remaining lives and costs of all common property were not presented. Accounting principles generally accepted in the United States of America require this information supplement, although not required to be part of, the basic financial statements. (See Note C.)

  
Michael Kander, CPA  
University Place, Washington  
February 20, 2013

**HMC MANAGEMENT**  
**Statement of Financial Position**  
**As of September 30, 2012 and 2011**

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>Current Assets</b>		
Cash and Cash Equivalents (See Note A)		
Checking (Operating Account)	\$ 132,842	\$ 103,788
Checking (Water Account)	27,428	-
Certificate of Deposit	1,056	1,055
Total Cash and Cash Equivalents	<u>161,326</u>	<u>104,844</u>
Accounts Receivable		
Assessments Receivable	24,294	5,950
Base Fees Receivable (Water System)	2,054	
Other Receivable for Capital Expenditures	123,093	
Total Accounts Receivable	<u>149,441</u>	<u>5,950</u>
<b>Total Current Assets</b>	<u>310,767</u>	<u>110,794</u>
<b>Long Term and Other Assets</b>		
Investment in Vanguard Funds (See Note B)	332,676	391,246
Land Acquired (use not determined)	40,000	40,000
Delinquent Members Receivables (See Note D)	10,297	5,679
Prepaid Maintenance Expenses (See Note E)	79,152	68,990
Prepaid Expenses for Water Project	7,416	29,933
<b>Total Long Term Assets</b>	<u>469,542</u>	<u>535,848</u>
<b>Plant, Property and Equipment</b>		
Land - Common Use (See Note A)	27,300	27,300
Fixed Assets		
Ferry/Docks	2,108,732	2,108,732
Water System	108,217	108,217
Water Distribution System (See Notes C & H)	1,265,420	-
Small Boat Dock (Parks)	249,799	65,003
Roads	31,895	31,895
Office/Equipment	38,559	38,559
less Accumulated Depreciation	<u>(1,512,540)</u>	<u>(1,454,580)</u>
Total Net Fixed Assets	<u>2,290,082</u>	<u>897,826</u>
<b>Total Plant, Property, and Equipment, net</b>	<u>2,317,382</u>	<u>925,126</u>
<b>TOTAL ASSETS</b>	<u><u>3,097,691</u></u>	<u><u>1,571,768</u></u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES</b>		
Short Term Liabilities		
Accounts Payable - Trade	20,146	15,159
Union	288	
Dry Dock Maintenance Payable (See Note E)	67,644	
Prepaid Assessments	14,432	26,930
Security Deposits	3,525	6,413
Total Short Term Liabilities	<u>\$ 106,035</u>	<u>\$ 48,503</u>

**HMC MANAGEMENT**  
**Statement of Financial Position**  
**As of September 30, 2012 and 2011**

Continued

	<u>2012</u>	<u>2011</u>
Long Term Liability (See Note C)		
USDA Interim Financing	\$ 1,388,513	-
Total Long Term Liability	<u>1,388,513</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,494,548</b></u>	<u><b>\$ 48,503</b></u>
 <b>MEMBERS' EQUITY</b>		
Unrestricted Balance	1,270,467	1,084,873
Board Designated for Capital and Major Repairs and Maintenance (See Note B)	<u>332,676</u>	<u>438,392</u>
 <b>TOTAL MEMBERS' EQUITY</b>	<u><b>1,603,143</b></u>	<u><b>1,523,265</b></u>
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u><b>\$ 3,097,691</b></u>	<u><b>\$ 1,571,768</b></u>

**HMC MANAGEMENT**  
**Statement of Activities**  
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>REVENUES AND OTHER SUPPORT</b>		
Member Assessments, gross (See Note A)		
Operations	\$ 561,550	\$ 593,575
Water Assessments	95,030	-
Water Handling Fee	7,620	-
Reserves	59,000	59,000
<b>Total Assessments</b>	<u>723,200</u>	<u>652,575</u>
 Ferry Fees	 191,464	 193,462
Attorney Fee Invoicing	10,366	17,035
Delinquent Accounts (Other Charges)	9,195	8,931
HMC Interest & Handling Charges	2,892	5,047
Miscellaneous	2,450	2,021
Interest Earned (All Accounts)	379	429
<b>TOTAL REVENUES AND OTHER SUPPORT</b>	<u>939,946</u>	<u>879,500</u>
 <b>EXPENSES BY DEPARTMENT (See Schedule 1)</b>		
Ferry	543,538	544,198
Ferry Docks	45,975	51,639
Administration	158,078	176,263
Water	70,649	9,842
Parks	21,557	15,085
Roads	20,271	18,739
<b>TOTAL EXPENSES</b>	<u>860,067</u>	<u>815,766</u>
 <b>REVENUES EXCEEDING EXPENSES (LOSS)</b>	 <u>\$ 79,878</u>	 <u>\$ 63,734</u>
Ordinary Net Income		

**HMC MANAGEMENT**  
**Statement of Functional Expenses - Schedule 1**  
**October 2011 - September 2012 with Comparative Totals for Prior Period (2011)**

<b>2012 EXPENSE</b>	<b>Ferry</b>	<b>Ferry Docks</b>	<b>--Department-- Administration</b>	<b>Water</b>	<b>Parks</b>	<b>Roads</b>	<b>2012 Total</b>	<b>2011 Total</b>
<b>Payroll:</b>								
Wages	\$ 239,979		\$ 81,270	\$ 28,221	\$ 1,463		\$ 350,933	\$ 288,868
Taxes	18,767		6,746	2,772	199		28,484	28,514
Benefits (Retirement and Medical)	52,888		12,624				65,512	58,849
<b>Total Payroll</b>	<b>311,634</b>		<b>100,640</b>	<b>30,993</b>	<b>1,662</b>		<b>444,929</b>	<b>376,231</b>
<b>Major Repairs and Maintenance</b>								
Amoritized (See Note E)	57,842						57,842	83,233
Routine Repairs and Maintenance	7,379	19,563	3,480	10,000	3,326	11,957	55,705	
Insurance	48,290	12,977	8,085			6,719	76,071	62,839
Ferry Fuel	72,199						72,199	64,559
Professional Services		3,817	30,792	8,698			43,307	118,506
Miscellaneous Service & Supplies	8,724	3,196	4,881	11,083	4,239		32,124	31,314
Taxes and DNR Lease	2,271	222	3,492	2,021			8,005	12,891
Postage, Printing, Copying			4,687	416			5,103	7,249
Utilities		1,764	1,370	3,109	578		6,822	9,645
<b>Total Expenses by Department before Depreciation</b>	<b>508,339</b>	<b>41,539</b>	<b>157,428</b>	<b>66,320</b>	<b>9,805</b>	<b>18,676</b>	<b>802,107</b>	<b>766,467</b>
<b>Depreciation</b>	<b>35,199</b>	<b>4,436</b>	<b>649</b>	<b>4,329</b>	<b>11,752</b>	<b>1,595</b>	<b>57,960</b>	<b>49,299</b>
<b>Total Expenses by Department after Depreciation</b>	<b>\$ 543,538</b>	<b>\$ 45,975</b>	<b>\$ 158,077</b>	<b>\$ 70,649</b>	<b>\$ 21,557</b>	<b>\$ 20,271</b>	<b>\$ 860,067</b>	<b>\$ 815,766</b>

**HMC Management**  
**Statement of Cash Flows**  
For the Years Ended September 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 79,878	\$ 63,734
Adjustments to reconcile Net Income to net cash provided by operations: (Increase)/(Decrease)		
Depreciation	57,960	49,299
Delinquent Accounts Receivable (SEE NOTE D)	(4,619)	15,075
Assessments/Base Fees Receivable	(20,398)	(5,274)
Prepaid Maintenance Expenses (See Note E)	(10,162)	(78,699)
Prepaid Expenses for Water Project, Miscellaneous	22,517	-
Accounts Payable	201	(1,427)
Dry Dock Maintenance Payable	5,275	(1,173)
Prepaid Assessments and Fees	67,444	-
Security Deposits, net	(12,498)	8,282
	(2,888)	5,113
Net cash provided by Operating Activities	<u>182,709</u>	<u>54,931</u>
<b>INVESTING ACTIVITIES</b>		
Land Acquired (Exchange)	-	(10,000)
Water Distribution System in Progress	1,265,420	
Capital Additions/Improvements	184,796	3,246
Net cash used by Investing Activities	<u>1,450,216</u>	<u>(6,754)</u>
<b>FINANCING ACTIVITIES</b>		
Transfer from Capital Account	58,570	31,889
Other Receivable for Capital Expenditures	(123,094)	
Acquisition of Debt (See Notes C and H)	1,388,513	-
Net cash provided by Financing Activities	<u>1,323,989</u>	<u>31,889</u>
Net cash increase(decrease) for period	<u>56,482</u>	<u>80,066</u>
Cash at beginning of period	<u>104,844</u>	<u>99,778</u>
Cash at end of period	<u>\$ 161,326</u>	<u>\$ 104,844</u>

**HMC MANAGEMENT**  
**Statement of Changes in Members' Equity**  
**As of September 30, 2012 and 2011**

	<u>Total Members' Equity</u>			
	Capital Account	Operating Account	2012	2011
<b>MEMBERS' EQUITY</b>				
<b>BEGINNING OF YEAR</b>	\$ 438,392	\$ 1,085,224	\$ 1,523,616	\$ 1,459,882
 Excess of Revenues over Expenses (Loss) before Other Income and Other Items	 -	 79,878	 79,878	 63,734
 Board Designated Transfers to Operating Account from Capital Account, net	 (105,716)	 105,716	 -	 -
 <b>MEMBERS' EQUITY</b>	 \$ 332,676	 \$ 1,270,818	 1,603,494	 \$ 1,523,616
<b>END OF YEAR</b>				



**HMC MANAGEMENT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

SEE NOTE C

FEDERAL GRANTOR	FEDERAL CFDA NUMBER	INTERIM FINANCING BANK	LOAN IDENTIFYING NUMBER	AMOUNT
USDA: Water and Waste Disposal Systems for Rural Communities	10.760	KEY BANK	000001001	\$1,388,514

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2012

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**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 394 "assessable" units. (Assessable units are adjacent, 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.

**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 \$82,000. Management accepts this risk because Vanguard has not defaulted on any accounts.

**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.

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2012

**Land**

HMC Management owns 16 lots that are for common use by the organization and by members. 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 (\$1575 per assessable unit in 2012) 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 due from owners. Delinquent owners' accounts are reported separately. HMC Management considers these receivables as fully collectable and, accordingly, does not deem it necessary to establish an allowance for uncollectable accounts (active members). 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.

A special water assessment in 2012 included \$240 per unit. Members' one-time assessment for the water distribution project has not been finalized but is expected to be approximately \$4475. Members may elect to pay \$15 monthly over the 40 year loan period..

**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.

**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.

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2012

**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. These assets are held in a Vanguard Money Market account specified for those purposes. (See Note A)

**NOTE C – Future Major Repairs and Replacements**

HMC Management's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. However, the budget includes a portion for reserves. HMC Management has not completed a study to determine the remaining useful lives of the components of all common property and future associated costs of major repairs and replacement. However, a study is planned to be completed by the end of the FY2013 budget year in order to comply with Washington State law.

To fund future projects, HMC Management maintains reserves designated by the board for specific purposes. (See Note B) Whether these funds are sufficient to finance future major repairs and replacements, either directly or through borrowing, has not been determined.

A project to modernize the water distribution system was begun in February 2012, in order to comply with recent Washington State laws. The project is financed by a forty-year USDA loan for \$2.3 million. The interim lender (Key Bank) has provided HMC a non-revolving line of credit to complete this project. The interim lender holds an encumbrance on these assets until the project is completed and the permanent financing is finalized with USDA. HMC Management will continue to manage the water system.

**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, no provision for doubtful accounts was made in 2012.

**NOTE E – Recurring Scheduled Maintenance**

Recurring ferry maintenance is amortized over a two-year period for scheduled, dry dock maintenance (\$45,974 for FY2012) and over a three-year period for scheduled engine overhaul (\$11,508 for each FY2012 and FY2013). Included in the prepaid dry dock scheduled maintenance for FY2012 is the maintenance (\$67,644) for FY2013 and FY2014, because this maintenance occurred in September 2012 which was paid in December 2012. The FY2011 Prepaid Schedule maintenance includes one year of dry dock maintenance and two years of engine overhaul.

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2012

**NOTE F – Retirement Contributions**

HMC Maintenance matches employees' contributions for their 401(k) retirement plan. In 2012 the company paid \$ 15,611 and in 2011, \$15,722 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**

The construction of the water distribution system and loan conversion should be completed in March 2013 at a total cost of approximately \$1,728,000. (\$1,388,514 was expended as of September 2012). No other events affecting the financials were reported as of the report date.

# MICHAEL KANDER CPA

7406 27<sup>TH</sup> Street West Suite 14, University Place, WA 98466

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## INDEPENDENT AUDITOR'S REPORT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of  
HMC MANAGEMENT  
Herron Island, WA

We have audited the financial statements of HMC Management (a Washington State non-profit organization) as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control over Financial Reporting

HMC Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HMC Management's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HMC Management's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

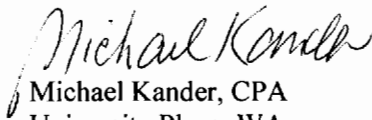
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether HMC Management's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Michael Kander, CPA  
University Place, WA  
February 20, 2012

MICHAEL KANDER CPA

7406 27<sup>TH</sup> Street West Suite 14, University Place, WA 98466

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INDEPENDENT AUDITOR'S REPORT

REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

Board of Trustees of  
HMC Management

**Compliance**

We have audited the compliance of HMC Management with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to the federal program for the year ended September 30, 2012. HMC Management's sole federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and question costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the federal program is the responsibility of HMC Management. Our responsibility is to express an opinion on the association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the federal program occurred. An audit includes examining, on a test basis, evidence about the association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HMC Management's compliance with those requirements.

In our opinion, HMC Management complied, in all material respects, with the requirements referred to above that are applicable to its federal program for the fiscal year ended September 30, 2012. The results of our auditing procedures did not disclose any instances of noncompliance with those requirements, which would be required to be reported in accordance with OMB Circular A-133 and described in the accompanying schedule of findings and questions costs.

Report on Compliance Continued



## Report on Compliance Continued

### Internal Control Over Compliance

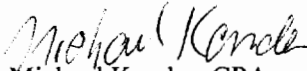
HMC Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HMC Management's internal control over compliance with the requirements that could have a direct and material effect on the federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the association's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or a combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Michael Kander, CPA  
University Place, WA  
February 20, 2013

**HMC MANAGEMENT**  
**Schedule of Findings and Questioned Costs - 2012**

**Section I – Summary of Auditor's Results**

***Financial Statements***

**Unqualified Report**

**Internal control over financial reporting**

- |  |               |
|--|---------------|
| • Material Weaknesses Identified?  | None          |
| • Significant weaknesses identified that<br>Are not considered to be material weaknesses | None reported |

Noncompliance material to financial statements noted?	None
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***Federal Awards***

**Internal control over major program**

- |  |               |
|--|---------------|
| • Material weaknesses identified?  | None          |
| • Significant weaknesses identified that<br>Are not considered to be material weaknesses | None reported |

**Unqualified Report**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB circular A-133?	None
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Identification of only major program: Rural Development (USDA)

CFDA Number: 10-760

Dollar threshold used to distinguish between type A and type B programs	\$500,000
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Auditee qualified as low-risk auditee? (Not previously audited)	No
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**Section II – Financial Statement Findings**

**None**

**Section III – Federal Award Findings and Questioned Costs**

**None**