

**INDEPENDENT AUDITOR'S REPORT**  
**FOR**  
**HMC MANAGEMENT - 2015**

**Table of Contents**

AUDITOR'S REPORT	PAGES 1 AND 2
BALANCE SHEET	PAGES 3 AND 4
STATEMENT OF REVENUES AND EXPENSES	PAGE 5
FUNCTIONAL EXPENSES STATEMENT	PAGE 6
STATEMENT OF CHANGES IN MEMBERS' EQUITY	PAGE 7
CASH FLOW STATEMENT	PAGE 8
SUPPLEMENTARY INFORMATION: RESERVE STUDY	PAGES 9 AND 10
NOTES TO FINANCIAL STATEMENTS	PAGES 11-15

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

May 6, 2016

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014**

ASSETS	2015	2014
<b>Current Assets</b>		
<b>Cash and Cash Equivalents (See Note A)</b>		
Checking (Operating Account)	\$ 324,865	\$ 256,415
Checking (Water Account)	31,868	31,675
Certificate of Deposit	1,057	1,057
<b>Total Cash and Cash Equivalents</b>	<b>357,790</b>	<b>289,147</b>
<b>Accounts Receivable (Current)</b>		
General Operating Assessments Receivable	8,109	4,691
Base Fees Receivable (Water System)	6,981	1,944
<b>Total Accounts Receivable</b>	<b>15,090</b>	<b>6,635</b>
<b>Total Current Assets</b>	<b>372,880</b>	<b>295,782</b>
<b>Long Term and Other Assets</b>		
Investment in Vanguard Funds (See Note B)	748,302	526,152
Land Acquired (use not determined)	30,000	30,000
Delinquent Members Assessments (See Note D) (Net Realizable Value)	82,505	77,936
Delinquent Water Department Receivables (Net Realizable Value)	16,468	16,216
Prepaid Drydock Expenses (See Note E)	37,734	75,398
Prepaid Engine Maintenance Expenses (See Note E)	121,235	151,543
<b>Total Long Term Assets</b>	<b>1,036,244</b>	<b>877,244</b>
<b>Plant, Property and Equipment</b>		
Land - Common Use (See Note A)	25,600	25,600
<b>Fixed Assets</b>		
Ferry/Docks	2,426,821	2,108,732
Water System	1,826,357	108,217
Water Distribution System (See Note C & I)		1,718,140
Small Boat Dock (Parks)	269,944	269,944
Roads	110,869	57,292
Office/Equipment	38,559	38,559
less Accumulated Depreciation	(1,847,079)	(1,739,165)
<b>Total Net Fixed Assets</b>	<b>2,825,471</b>	<b>2,561,719</b>
<b>Total Plant, Property, and Equipment, net</b>	<b>2,851,071</b>	<b>2,587,319</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,260,196</b>	<b>\$ 3,760,345</b>

Continued

Page 3

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

**HMC MANAGEMENT**  
**Balance Sheet**  
**As of September 30, 2015 and 2014**

**LIABILITIES AND MEMBERS' EQUITY**

	<b>2015</b>	<b>2014</b>
<b>LIABILITIES</b>		
<b>Short Term Liabilities</b>		
Accounts Payable - Trade	\$ 4,597	\$ 18,632
Short Term Portion of USDA Loan (See Note I)	20,823	20,605
Dock Repairs and Painting	298,883	-
Accrued Payables for Dolphin Project	24,371	-
Dry Dock Payable	-	75,398
Engine Maintenance Payable (See Note E)	-	56,647
Prepaid Assessments - General	26,064	21,048
Prepaid Assessments - Water System	5,674	2,807
Security Deposits	7,817	9,876
<b>Total Short Term Liabilities</b>	<b>388,230</b>	<b>205,012</b>
<b>Long Term Liability (See Note I)</b>		
USDA Loan for Water Distribution System less		
Short Term Portion	1,270,308	1,291,431
<b>Total Long Term Liability</b>	<b>1,270,308</b>	<b>1,291,431</b>
<b>TOTAL LIABILITIES</b>	<b>1,658,538</b>	<b>1,496,443</b>
<b>MEMBERS' EQUITY</b>		
Unrestricted Balance	1,694,390	1,542,965
Board Designated for Engine Maintenance	121,232	151,543
Board Designated for Dry Dock	37,734	75,398
Board Designated for Capital and Major Repairs and Maintenance (See Note B)	748,302	526,152
<b>TOTAL MEMBERS' EQUITY</b>	<b>2,601,658</b>	<b>2,296,058</b>
<b>PRIOR PERIOD ADJUSTMENT FOR USDA LOAN</b>	-	(32,156)
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 4,260,196</b>	<b>\$ 3,760,345</b>

Page 4

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

**HMC MANAGEMENT**  
**Statement of Activities**  
For the Years Ended September 30, 2015 and 2014

OPERATING and CAPITAL ACCOUNTS	<u>2015</u>	<u>2014</u>
<b>OPERATING REVENUES AND OTHER SUPPORT</b>		
Member Assessments, gross (See Note A)		
General Operations	\$ 607,554	\$ 611,582
Quarterly Water Assessments	100,269	99,981
Reserve Assessment	69,750	69,750
Total Assessments	<u>777,573</u>	<u>781,313</u>
Ferry Fees	183,083	174,200
Attorney Fee Invoicing, net	14,962	11,636
Miscellaneous Water Fees	2,892	858
Property Transfer Fees	3,958	3,675
HMC Interest & Handling Charges	17,382	17,165
Water Interest & Handling Charges	10,393	11,990
Miscellaneous HMC	2,671	5,008
Interest Earned (All Accounts)	148	47
<b>TOTAL OPERATING REVENUES AND OTHER SUPPORT</b>	<u>1,013,062</u>	<u>1,005,892</u>
<b>OPERATING EXPENSES BY DEPARTMENT (See Schedule 1)</b>		
Ferry	519,218	531,366
Ferry Docks	56,293	79,395
Administration	184,715	186,661
Water	107,964	114,321
Parks	23,086	20,550
Roads	29,733	29,287
<b>TOTAL OPERATING EXPENSES</b>	<u>921,009</u>	<u>961,580</u>
<b>OPERATING REVENUES EXCEEDING EXPENSES</b>	<u><u>92,053</u></u>	<u><u>44,313</u></u>
<b>OTHER INCOME/(EXPENSE), CAPITAL ACCOUNT</b>		
USDA Loan Semi-Annual Assessment	54,410	54,351
USDA Loan Interest, current year	(32,673)	(33,179)
Special Assessment (Ramps)	191,500	-
<b>TOTAL OTHER INCOME/(EXPENSE), CAPITAL ACCOUNT</b>	<u>213,237</u>	<u>21,172</u>
<b>TOTAL REVENUES EXCEEDING EXPENSES</b>	<u><u>\$ 305,290</u></u>	<u><u>\$ 65,485</u></u>

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

Page 5

## HMC MANAGEMENT

### Statement of Functional Expenses - Schedule 1 October 2014 - September 2015 with Comparative Totals for Prior Period (2014)

	2015 EXPENSE	Ferry	Ferry Docks	Administration	Water	Parks	Roads	2015 Total	2014 Total
<b>Payroll (See Note Below)</b>									
Wages	\$ 264,639	\$ 0	\$ 97,560	\$ 8,020	\$ 0	\$ 1,055	\$ 371,274	\$ 352,721	
Taxes	26,620	0	9,865	614	0	81	\$ 37,179	30,292	
Benefits (Retirement and Medical)	54,701	0	11,479				\$ 66,180	60,182	
<b>Total Payroll</b>	<b>345,960</b>	<b>0</b>	<b>118,904</b>	<b>8,634</b>	<b>0</b>	<b>1,136</b>	<b>474,633</b>	<b>443,195</b>	
<hr/>									
<b>Major Repairs and Maintenance:</b>									
Ferry Amortized (See Note E)	67,972							67,972	64,130
Other Major Repairs & Maintenance									54,244
Routine Repairs and Maintenance	8,365	7,604	9,009	2,675	2,984	10,579		-	51,594
Insurance	45,061	15,498	4,104			815	65,478		65,090
Ferry Fuel	45,237						45,237		54,014
Professional Services		24,371	35,065	4,339					79,580
Miscellaneous Service & Supplies	573	3,400	2,200	6,686	6,216	3,623	22,698		22,425
Taxes, Licenses, and DNR Lease	5,688	126	1,640	9,853					17,307
Postage, Printing, Copying			3,178	18					12,273
Utilities and Information Technology	362	1,591	3,966	2,705	661		3,196		6,350
Bad Debt Expense			6,000				9,285		15,817
							6,000		-
<hr/>									
<b>Total Expenses by Department before Depreciation</b>	<b>519,218</b>	<b>52,590</b>	<b>184,066</b>	<b>34,909</b>	<b>9,861</b>	<b>16,153</b>	<b>816,797</b>	<b>868,712</b>	
Depreciation	0	3,703	649	73,055	13,225	13,580	104,212	92,868	
<b>Total Expenses by Department after Depreciation</b>	<b>\$ 519,218</b>	<b>\$ 56,293</b>	<b>\$ 184,715</b>	<b>\$ 107,964</b>	<b>\$ 23,086</b>	<b>\$ 29,733</b>	<b>\$ 921,009</b>	<b>\$ 961,580</b>	

Note: No Administrative Payroll Costs have been allocated to any other department.

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 20, 2015 and 2014**

	Capital Account	Operating Account	2015	2014
<b>MEMBERS' EQUITY BEGINNING OF YEAR</b>	\$ 970,697	\$ 1,325,370	\$ 2,296,067	\$ 2,262,638
<b>ADJUSTMENT FOR PRIOR PERIOD USDA LOAN INTEREST</b>	-	-	-	(32,156)
<b>MEMBERS' EQUITY BEGINNING OF YEAR, ADJUSTED</b>	<b>970,697</b>	<b>1,325,370</b>	<b>2,296,067</b>	<b>2,230,482</b>
<b>Excess of Revenues over Expenses (Loss) before Other Income and Other Items</b>	<b>92,053</b>	<b>92,053</b>	<b>44,413</b>	
<b>Other Income</b>	<b>213,237</b>		<b>213,237</b>	<b>21,172</b>
<b>Transfers to Operating Account from Capital Account, net</b>	<b>(59,412)</b>	<b>59,412</b>	-	-
<b>MEMBERS' EQUITY END OF YEAR</b>	<b>\$ 1,124,522</b>	<b>\$ 1,476,835</b>	<b>\$ 2,601,357</b>	<b>\$ 2,296,067</b>

**HMC Management**  
**Statement of Cash Flows**  
For the Years Ended September 2015  
and 2014

	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 92,053	\$ 11,134
Adjustments to reconcile Net Income to net cash provided by operations:		
Increase/(Decrease)		
Depreciation	104,212	93,519
Delinquent Accounts Receivable (SEE NOTE D)	(4,821)	(25,000)
Assessments/Base Fees Receivable	3,418	3,120
Base Fees Receivable (Water System)	5,038	375
Prepaid Maintenance Expenses (See Note E)		(41,576)
Prepaid Engine Overhaul Expenses (See Note E)	30,308	30,308
Miscellaneous	(256)	1,073
Accounts Payable	(14,034)	15,369
Accrued Payables	24,371	-
Dock Repairs Payable (SEE NOTE H)	298,883	-
Dry Dock Maintenance Payable	(75,398)	75,398
Engine Maintenance Payable	(56,647)	-
Prepaid Assessments and Fees General	(5,017)	59
Prepaid Assessments and Fees Water	(2,867)	6,351
Prepaid Assessments and Fees	2,058	-
Net cash provided by Operating Activities	401,301	170,130
<b>INVESTING ACTIVITIES</b>		
Prepaid Periodic Engine Maintenance		(151,543)
Capital Additions/Improvements	(371,466)	(3,261)
Net cash used by Investing Activities	(371,466)	(154,804)
<b>FINANCING ACTIVITIES</b>		
Transfer from (to) Capital Account, net	59,412	(43,993)
Payment on Long Term Debt	(20,605)	(20,099)
Net cash provided by Financing Activities	38,807	(64,092)
Net cash increase(decrease) for period	68,642	(48,766)
Cash at beginning of period	289,148	337,913
Cash at end of period	\$ 357,790	\$ 289,148

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

Page 8

**HMC MANAGEMENT**  
**RESERVE STUDY - April 19, 2013**  
**for the period beginning October 1, 2015**

Dept.	Component	Useful Life	Remaining Useful Life	Current Avg.Cost	Future Avg.Cost
<b>Site/Grounds</b>					
	Ashpalt Roads - Repair/Resurface	30	10	\$ 24,500	\$ 33,684
	Gavel Roads/Lots - Maintenance	5	4	28,000	25,887
<b>Small Boat Marina</b>					
	Docks/Floats - Replace	30	16	120,000	199,185
	Docks Pilings - Replace	50	46	200,000	805,789
	Trestle/Ramp - Replace	30	16	82,000	134,067
	Gangway - Replace	30	16	7,250	11,917
<b>Picnic/Recreation</b>					
	Play Equipment - Replace	20	2	40,000	56,275
	Basketball Court - Repair/replace	25	23	18,000	40,656
	Pavilion Roof - Replace	25	13	7,400	11,139
<b>Community Building</b>					
	Siding - Replace	50	39	21,500	70,558
	Roof - Replace	40	27	17,000	38,176
	Septic - Replace	50	16	8,200	13,619
<b>Equipment</b>					
deleted?	Utility Tractor/Mower - Replace	10	3	13,500	14,762
	Dust/Water Truck - Replace	12	1	15,000	15,460
<b>Ferry System</b>					
	Ferry Terminals - Inspect/Repair	2	2	18,000	23,340
	Ferry Terminals - Paint	12	12	240,000	254,824
	Ferry Terminals Cables - Replace	6	5	27,500	35,535
	Ferry Terminal Structure - Replace	60	38	2,250,000	7,125,811
	Ferry Ramp Dolphins - Replace	50	3	2,000,000	1,039,243
	Ferry Ramp Generators - Replace	20	11	36,200	51,399
	Ferry Vessel - Shipyard	2	1	92,500	95,275
	Ferry Vessel - Overhaul Engines	5	3	36,500	40,575
	Ferry Vessel - Replace Engines	50	48	157,500	723,344
	Ferry Vessel - Overhaul Transmissior	5	3	13,500	15,071
	Ferry Vessel - Replace Transmissions	25	23	31,500	73,282
	Ferry Vessel - Replace	60	34	1,500,000	4,347,417
<u>Legal Contingency Fund</u>		NA	NA	\$ -	\$ 35,000

**HMC WATER SYSTEM**  
**RESERVE STUDY - March 17, 2014**  
**for the period beginning October 1, 2015**

Function Component	Remaining Useful Life	Current Avg.Cost	Future Avg.Cost
Useful Life	Useful Life	\$	\$
<b>Capacity</b>			
Well Pumps and Controls	30	27	\$ 20,650 \$ 45,759
<b>Storage</b>			
Storage Tank - Replace	80	70	200,000 1,614,761
Storage Tank - Clean	5	4	3,000 2,898
<b>Boost</b>			
Booster Pumps, 5 HP - Replace	20	17	15,500 25,536
Booster Pumps, 15 HP - Replace	40	37	21,000 61,496
Booster Pumps Control - Replace	20	17	15,500 25,536
<b>Distribution</b>			
Distribution Lines, 6"-8" - Replace	70	67	995,000 7,069,617
Distribution Lines, 2" - Replace	40	37	64,500 192,174
Service Connect/Lines - Replace	40	37	245,000 732,413
Service Meters - Replace	41	7	120,000 150,872
Service Meter Box/Setters - Replace	51	17	120,000 202,760
Pressure Reducing Valves - Replace	51	17	12,150 20,429
Blow-Out/Isolation Valves - Replace	61	27	36,500 80,993
Hydrants - Replace	40	37	150,000 434,928
<b>Building/Site</b>			
Builing Roofs - Replace	40	38	3,100 9,501
Storage Shed - Replace	20	18	2,600 4,384
Builing Electrical - Replace	30	27	10,100 22,879
Chain Link Fence - Replace	3.5	33	16,500 43,273
<b>Systems/Equipment</b>			
Generator Emergency - Replace	50	9	41,000 53,757
Meter Reader System - Replace	5	2	5,150 5,464
<b>Financial/Professional</b>			
SWSMP - Update	6	0	3650 3605
Sanitary Survey - Update	5	4	2500 2319

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2015

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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 383 "assessable" units. For the water service 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 \$257,000. Management accepts this risk because Key Bank 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 \$648,000. Management accepts this risk because Vanguard has not defaulted on any known accounts.

Page 11

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, 2015

**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 2015) to provide funds for general operating expenses, future capital acquisitions, and major repairs and replacements. Assessments for water connections are \$21 each per month. 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.

Page 12

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, 2015

Any excess assessments at year end are retained by the Association for future use. If assessments are not sufficient, the Board of Directors, subject to the limitations of their authority described in the Association's governing documents, may have to increase regular assessments or pass special assessments.

### **Special Assessments**

A special, one-time assessment (\$500 per unit) for 2016 was designated for ferry dock repainting and an additional, one-time \$402 for related reserves.

Another special assessment for 2016 was made for a projected shortfall of \$156 per unit for ramp painting which was completed in September 2015.

### **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.

**HMC MANAGEMENT**  
**Notes to Financial Statements**  
For the Fiscal Year Ended September 30, 2015

**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)

**Schedule of Board-Designated Reserves of September 30, 2015**

Docks and Dolphins	\$211,478	Water Truck	\$5,500
Ship Yard	108,000	Ferry Replacement	3,000
Legal	34,550	Community Buildings	4,000
Parks	12,116	Ramp Inspections	11,500
Roads	20,240	Ramp Cable Replacement	31,000
Water	193,925	Ramp Painting	86,500
Engine	\$21,250	Dividends Unallocated	\$244

Total Board Designated Reserves: \$748,302.

**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 2014 and 2015 HMC Management had 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.) These studies concluded the HMC Fund is 15 percent funded and the Water System Reserve Fund is 91 percent funded in 2015. 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 three-year period for scheduled, dry dock maintenance (\$37,664 for each FY 2013 and FY 2014) and over a six-year period for scheduled engine overhaul (\$30,308 for each FY 2013 and FY 2014). The FY 2015 prepaid scheduled maintenance included one year of dry dock maintenance for FY 2016 and four years of engine overhaul for FY2016-2019.

Page 14

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, 2015

**NOTE F – Retirement Contributions**

HMC Maintenance matches employees' contributions for their 401(k) retirement plan. In 2015 the company paid \$16,797 and in 2014, \$16,544 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**

HMC Management is actively seeking a second USDA Loan for \$2.5M for ferry dolphins replacement for both the island and mainland sides. This is in addition to the Reserve build up. The estimate includes engineering, permits, construction, construction oversight, sales taxes, loan/legal fees, and contingencies.

The payable for the docks and repainting was paid in full in October 2015.

No other subsequent events were identified as of the report date.

**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.

Loan amortization schedule through September 2020 follows:

Annual FY Payment	Amount	Interest	Principal	Ending Loan Balance	
2016	\$53,278	\$32,672.94	\$20,605.06	\$1,291,431.49	
2017	\$53,278	\$32,154.58	\$21,123.42	\$1,270,308.08	
2018	\$53,278	\$31,623.20	\$21,654.80	\$1,248,653.28	
2019	\$53,278	\$31,078.45	\$22,199.55	\$1,226,453.72	
2020	\$53,278	\$30,519.99	\$22,750.01	\$1,203,695.71	