

NIGUEL SHORES MID-YEAR FINANCIAL UPDATE

As of June 30, 2024

The Niguel Shores Finance Committee is comprised of volunteer homeowners that meet on a monthly basis to review, monitor and make recommendations on financial issues such as budgets, expenses, investments and reserves.

The current members of the Finance Committee are: Co-Chairs Jim Eckstaedt and Jeff Goldfarb, Martin Dedrick, David Goldberg and Malcolm O'Donnell. The Niguel Shores General Manager, John Muller, Niguel Shores Board of Director and CFO, Bob Berkery, and Robin Rangel from Enumerate Financial Services (who perform accounting services for the Association), also attend the Finance Committee meetings. We wish to thank Sue Kichline who resigned in May from the committee after over 10 years as member of the Finance Committee and Chairperson of the Committee. The Committee annually provides owners with a mid-year update on the financial results to date including comments on expected year-end variances from the budget and ongoing projects. This update includes revenue earned and expenses incurred compared to budget through June 30, 2023.

While the overall economy has improved post Covid, the dual impacts of higher interest rates and inflation continue to be challenging to businesses and individuals again this year. As a result, the economic conditions have impacted both our operating budget and the cost of replacing items that the Association has reserved for. For the first six months of 2024, expenses have exceeded revenue by \$75,662. As in previous years, much of this is due to the timing of expenses incurred. Although we will continue to try to limit any unnecessary expenses for the remainder of the year, it is likely that expenses may exceed revenue for the 2024 fiscal year.

Since we are just beginning the budget process for 2025, we cannot project whether there will be any dues increase in 2025, although the probability is increasing.

The Finance Committee welcomes questions and feedback on this mid-year update and invites you to submit comments/questions to the attention of the Finance Committee Chair at jmuller@niguelshores.org.

NIGUEL SHORES INVESTMENTS

The Niguel Shores investments are reviewed regularly at the Finance Committee meetings. Comerica Securities, Inc. invests funds for the Community to achieve the necessary laddering strategies and assists in identifying appropriate investments to protect principal while maximizing returns. NSCA's Investment Policy requires that funds be invested in instruments that are either obligations of or guaranteed by the US Government, such as FDIC (Federal Deposit Insurance Corp) backed bank accounts, money market funds and certificates of deposit.

Based on results through June 30 and projections for the balance of the year, it is anticipated that the full year 2024 interest income from investments in the operating cash accounts will be about \$30,000. The interest earned on the Reserve investments remains in the Reserve account and is not included in the operating income. Reserve funds are kept separate from operating funds and used for replacing worn out items, such as pool furniture and capital expenditures such as street resurfacing. Investment income on funds in the reserve accounts through June 30 was \$133,762. The current investment portfolio of \$6,139,775 includes \$505,519 in checking and money market accounts for short term expenditures.

REVENUE UPDATE

2024 Budget	Earned as of June 30, 2024	\$ Remaining anticipated revenue
\$4,512,500	\$ 2,471,170	\$2,041,330

Revenue is comprised primarily of quarterly homeowner fees, which is 95% of total income through June 30, 2024. The balance of revenue includes interest income, newsletter commercial ads, document response (ownership transfer) fees, architecture fees, gate access fees and other miscellaneous income.

Thus far in 2024, revenue has been slightly above the budgeted amount. Interest rates increased since last year so as certificate of deposits matured and were re-invested, our returns have continued to improve.

For the balance of 2024, it is expected that revenue will be close to budget.

MAINTENANCE BUDGET UPDATE

2024 Budget	Spent as of June 30, 2024	\$ Remaining
\$743,202	\$389,027	\$354,1751

The maintenance staff currently consists of the Facility Manager, three full-time and one part-time employees.

The Maintenance financial results are reviewed and monitored on a monthly basis to ensure the needs of the community are met and that costs of repairs are reasonable and within budget guidelines. As the community ages and the infrastructure is subject to increased usage, the Maintenance Committee and our maintenance staff are always faced with new challenges.

The actual expenditures for the first six months of this year are currently very close to budget. Expenditures for gas are currently below budget, however the costs of pool and janitorial supplies, and unforeseen maintenance for gate and sign repairs during the first half of the year exceeded budget by \$19,726.21. This is primarily offset by electricity savings of \$10,201.21 and concrete repairs being under budget by \$4,517 due to the timing of repairs being completed. Salaries and employee health benefits exceeded budget by \$6,581.07 due to a staffing changes and benefit costs.

LANDSCAPE BUDGET UPDATE

2024 Budget	Spent as of June 30, 2024	\$ Remaining
\$1,337,429	\$644,984.84	\$692,444.16

The primary expense in the Landscape Budget is the Harvest Landscape Maintenance contract. This contract has been extended through December 31, 2026. This contract covers landscape maintenance, including but not limited to mowing, edging, cleaning, weeding, drains, color changes, tree trimming and various other duties.

Water is another large cost in the landscape budget. Water is \$10,306.62 over budget for the first six months of 2024 primarily due to a large expense in June.

The landscape budget also includes other expenses such as pest control, irrigation repairs, tree removal and/or replacement, routine planting and slope maintenance.

The budget is managed by the General Manager with feedback and updates provided by the Landscape

Committee. The Committee representatives review their specific area and report any items of concern. The Landscape budget is slightly over budget for 2024 but it is anticipated to be close to budget by the end of the year.

TRAFFIC AND SAFETY BUDGET UPDATE

2024 Budget	Spent as of June 30, 2024	\$ Remaining
\$583,831	\$ 287,824.09	\$296,006.91

Patrol service accounts for over 90% of the Traffic and Safety budget, with spending for fobs, decals, surveillance equipment maintenance and access control software accounting for most of the remainder. Thus far in 2024, expenses are tracking slightly over budget and full year results are anticipated to be at or close to budget.

GENERAL AND ADMINISTRATIVE BUDGET UPDATE

2024 Budget	Spent as of June 30, 2024	\$ Remaining
\$1,848,038	\$1,224,996	\$623,042

General and Administrative (G&A) expenses includes the amounts transferred to reserves during the year as well as payroll and employee benefits for the staff, legal expenses, insurance, taxes, printing, postage, computers and other services required to manage the Association. Additionally, Amenity Project costs are included in this category.

Actual expenses are running over budget primarily due to legal and software/IT costs, and salary expenses. Salary expense is exceeding budget due to the prior NSCA General Manager overlapping with the new General Manager

NIGUEL SHORES RESERVE STUDY UPDATE

A detailed review of the Association's reserves is required every three years by an independent contracted consultant. The independent consultant specializes in performing reserve analysis and provides recommendations. The last detailed independent study on site was completed for 2021. In 2023, that study was updated for 2024 by a review prepared by the independent consultant. The Niguel Shores General Manager, Facility Manager and representatives of the Finance Committee also provide input to the consultant during the analysis. The final report, approved by the Niguel Shores Board of Directors, will be distributed to Association Members in the fall.

The purpose of the reserve analysis is to identify the assets in the common areas of Niguel Shores and determine when they will need to be repaired or replaced. Since the cost to repair or replace these assets may be expensive, the reserve analysis identifies and determines the cost to repair or replace and determines a financial plan to accumulate the needed funds.

A partial list of assets identified in the reserve analysis is: street resurfacing, fencing, lighting/electrical, pool/spa, tennis courts, club house (interior and exterior), irrigation and slope repair.

Reserve funds, excluding Breakers Isle, spent from January 1 to June 30, 2024, totaled \$582,661. The funds were used primarily for resurfacing streets, improvements in Entrance Gates, Pool Area, and lighting /

electrical.

As of June 30, 2024, the balance in the reserve funds, excluding reserves for Breakers Isle, was \$5,609,167. As of June 30, 2024, the balance in the Breakers Isle reserve was \$220,072. The Breakers Isle reserve primarily covers the vehicle entrance area, gate house, vehicle gates, and fencing.

Amenities Project Summary

While the Amenities Project is managed by the Board of Directors, here is a summary of the Amenities Project. The Amenity Project was funded by two Homeowner Assessments which totaled \$921,600 plus \$32,274 of interest income on investing cash from both Homeowner Assessments until the cash was used. Total Amenity Project spend since the inception of the project to date has been \$1,055,895. The project is over budget by \$102,021.