

CONSTRUCTION UPDATES

The renovation work continues, and though it seems to be progressing slowly, please be assured that great effort is being expended keeping the process well managed and efficient. If you would like to better understand this process, please note that you as residents may attend,

- Building Committee Meetings (next to last Wednesday of each month at 7p.m. at the Social Room).
- Board Meetings (last Monday of each month at 5p.m. in the Social Room).

There is also a “Current Operations” meeting every other week in the card room at 10a.m. This meeting consists of our structural engineering firm (Biller Reinhardt), our general contractor (Restoration Technologies Inc.), our project manager (E. Cocina Consulting), our II manager and maintenance manager, Building Committee Chairman, our President, and a number of our Board of Directors. All discussions to be limited to these individuals.

POOL

We have contracted BRS (Beach Resort Services) to complete renovation of our pool. Work begins August 29, 2022. They are entrusted to bring our pool “back to its original” aesthetic condition. Cant’ wait to use it again!





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NEW RESIDENTS

Please welcome our new resident neighbors to Biltmore II!

Roderick Petrey
Ginny Shwedel

TREASURER'S REPORT

(July 2022)

Income/Expense

The month of July shows a loss of **-\$8,072** (difference income less expenses). Contributing to the loss are the following items; as outlined before, the Board's decision to **include the forecasted surplus by reducing the budgeted Maintenance Fee accordingly** is of course adversely impacted the income side as well – see also my explanatory notes include in the September Newsletter. The other item impacting the negative variance is due to no billings yet to any owner for the EV Infrastructure Charges. Increased income from parking fees have reduced the negative variances. In total, the Income side (Maintenance Fee, Reserve Contribution etc.) shows a negative variance of **-\$6,527**.

On the positive site, lower expenses for Human Resources Expenses, Professional Fees, Utility Expenses and Maintenance Expenses had a positive impact on the monthly result. This was partially offset, by negative variance in the area of Misc. Administrative Expenses and roof repair, waste removal and the cost for the Nightly Contractor. Insurance expenses were lower than budget in the amount of \$2,403, however, the new insurance premium was not considered and will be corrected next month.

The previous provided forecast deficit of minus **-\$118,000** will need to be revised. The failure of all elevators last Wednesday has resulted from multiple electrical switchgear failures. The damaged equipment needs to be replaced, control panel

and wiring need to be repaired. In addition, a forensic expert is being engaged to determine the root causes for such drastic equipment failure. Overall, the repair/ replacement will result in unexpected costs of approx. \$120,000. Hopefully, there will be some coverage by the Association's insurance; worst case scenario: the amount of \$120,000 will fully hit operational expenses thus driving the annual deficit up to an amount of minus **-\$238,000**. Should the worst case become reality, the Association will need to recover these costs from the unit owners in addition to the current monthly maintenance fee.

Collections

Collection of the normal Maintenance Fee continues without major outstanding payments. The overdue receivables of Special Assessment remain on the same level of \$3,000+. I like to ask the five (5) remaining owners to pay their

dues in all fairness to all other owners!

Funding at the end of July

The funds in our operating bank accounts including petty cash show an amount of \$512,000. Reserves continue to be on a very high level of \$2,136,000 and Special Assessment funds amount to \$1,327,000. However, given the spending expected funds for Reserves and Special Assessments will be below \$1,000,000 by year end.

Reserves Study 2023

The Association has undertaken a review of projects included in the 2022 Reserve Study. As a result, new projects and increases in cost (e.g., change orders from RTI, additional expenses for the pool contract with BRS, costs for replacement of the East A/C Air Handler Unit, 40 Ton, additional expenses for project management etc.) have been added. The scope of work associated with the 50-year Recertification was reviewed. The outcome has been forwarded to Dreux Isaac, a Florida based consulting firm specialized in performing reserve studies, to establish the Reserve Study for 2023 and to determine the annual contribution to the Reserves to be included in the Association's budget for 2023.



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TREASURER’S COMMENT

In the monthly Treasurer’s report, I have highlighted the Board’s decision to include in the budget for 2022 the impact of the 2021 forecasted surplus. This decision resulted in a reduced budgeted Maintenance Fee.

Given various feedback, I have received, it seems that the information provided has given room for misunderstanding. Therefore, I would like to provide you with a more detailed commentary which, hopefully, outlines how a forecasted surplus impacts the budgeted Maintenance Fee. I will also address the difference between operational and Reserve project expenses and the funding of Reserves.

Biltmore II, like any other Association, has to fully cover operational expenses planned for any fiscal year by using the total operational expense amount for establishing billings to all unit owners. In order to do so, the total operational expenses planned are divided by the unit owner shares in the Association and the number of months. The result is the monthly Maintenance Fee billed to each unit owner.

Let me highlight this with a fictitious example:

Assuming the total budget for operational expenses amounts to \$1,800,000 and there are 200 units having the same %age of shares in the Association, each unit owner will have to pay a monthly maintenance fee of \$750 (\$1,800,000 divided by 200 units and divided by 12 months).

Furthermore, any surplus in a given year needs to be returned to the unit owners, any deficit in any given year needs to be recovered from the unit owners. If there is a surplus, that surplus will be used to reduce the monthly maintenance fee of the next fiscal year.

Let me highlight the impact of a surplus with another fictitious example using the same numbers as before:

Assuming the total budget for operational expenses amounts to \$1,800,000 and the forecasted surplus would be \$240,000. In such a case, the basis for the calculation of the maintenance fee would be reduced to \$1,560,000.

Given the same 200 units having the same %age of shares in the Association, each unit owner will have to pay a monthly Maintenance Fee of \$650 (\$1,560,000 divided by 200 units and divided by 12 months).

What does this mean in reality? In 2021 a surplus of \$58,498 was forecasted for the year 2021 with planned operational expenses of \$2,138,408 for the year 2022. In order to return the 2021 surplus to the owners, the Board had decided not to use the \$2,138,408 as the basis for the Maintenance Fee, but to deduct the forecasted surplus of \$58,498 from the total operational expenses. That resulted in a reduced amount of \$2,079,909 as “planned operational expenses”.

The reduced amount of \$2,079,909 (plus the Capital Expenditure for the EV Infrastructure project and plus the Contribution to the Regular Reserves) has formed the basis for the maintenance fee of which the monthly Maintenance Fee for each unit owner was determined.

Consequently, in 2022 every unit owner of Biltmore II came into the benefit of the normal Maintenance Fee through a reduction of the planned operational expenses of \$2,138,408 by 2,7%. Please be aware that the reduced Maintenance Fee as explained before will lead to a planned deficit of \$ 58,498.

Continued on page 5



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Treasurer's Comment *(cont. from page 4)*

Should you wonder why the maintenance fee was reduced even though the Association is now incurring many additional expenses in 2022, please keep the following in mind:

At budget time, the operational expenses are planned with all the knowledge at the time. Any unforeseen item during the operation in any given year will have an adverse impact on the Association's income statement and will, in normal circumstances, lead to a deficit.

Due to the actual, not forecasted, operational surplus in 2021, the Association is in a, relatively speaking, good position. The actual operational surplus in 2021 was about double the forecasted surplus. The final number, however, will only be available once the Association's auditors have finalized the 2021 audit.

As a result, the higher actual surplus will enable the Association to cover unforeseen and unexpected operational expenses in 2022. A positive side effect: the Association does not need to ask unit owners for additional payments, but is instead in a position to cover actual higher and unforeseen operational expenses with the actual higher surplus of 2021.

I would also like to take the opportunity and explain the difference between OPERATIONAL and PROJECT EXPENSES. Operational Expenses cover expenses the Association incurs through its normal operational activities. Project Expenses are incurred during the execution of projects included in the annual Reserve Study.

The Reserve Study, like the one for 2022, is based upon all projects and associated expenses known at the time of budgeting by the Building Committee, the Finance Committee and the Board. This information is forwarded to Dreux Isaac (a Florida based consulting firm specialized in performing reserve studies) to establish the Reserve Study for an upcoming year and to determine the annual contribution to the Reserves. The contribution (and any Special Assessment), so determined, will be included in the annual budget in order to establish the total payment a unit owner will be billed in any given year.

Expenses for any unforeseen project or for any additional project work (which arises after the Reserve Study has been approved and the resulting contribution has been accepted) in 2022 or in the years to come, will have an adverse impact on the contribution to the Reserves in the upcoming years. What do I mean with that point? That impact of such unforeseen project expenses or expenses for any additional work will lead to higher contribution to the Reserves in the following years.

Just a cautionary note: If in a running year the project expenses would exceed the available funds of that year, the Association would have to request additional payments from unit owners to overcome any such a shortfall. (Comment: This is, as of today, not the case, just an additional remark).

How are Reserves funded? Reserves are typically funded either by using a "pooling" method or by a "straight-line" method. Under the straight-line method, each reserve component must be separately funded and must appear as a separate line item in the reserve schedule, which is part of the budget. Any such separate fund can only be used for that particular reserve item. Only a majority vote of the unit owners can change the use of any of these funds.

Under the pooling or cash-flow method, the funds for each reserve item are still separately determined but the money is put into one account. A pooled reserve fund can then be used for any reserve item as the need arises, creating more flexibility for the board. Biltmore II Association had decided years ago to establish a "pooled" method with regard to Reserves and this decision is still valid today.

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Social Club Presents Juliana Simone

The Social Club was pleased to present a very talented resident, Juliana Simone, and her band on Sunday, August 21st. It was a very enjoyable musical evening attended by approximately 30 residents and guests.



Juliana's breezy track "California" marks the first single in her music journey and will be available in Spotify, Apple Music, iTunes, Amazon Music, and SoundCloud on August 19, 2022. This fall she will be releasing a collection of new music on the way in 2022.

Let us all as neighbors wish her great happiness and success!

Elvira Casal, Social Club

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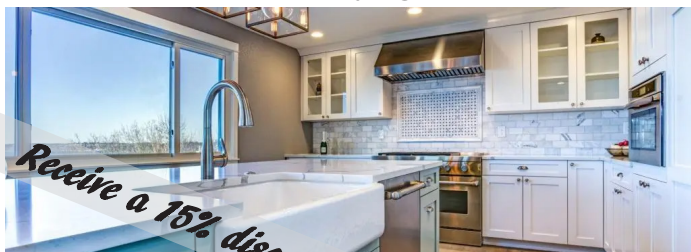
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