



**CONDOMINIO VILLAS AT EMBARC ZIHUATANEJO A.C.
Jun 18th 2020 VILLAS BOARD OF DIRECTORS MEETING**

In Vancouver, British Columbia, Canada at 11:00am (PST) on Thursday June 18th 2020

Present: Robert Reyes, (Via Telecom) Dolores Heisinger (Via Telecom), Scot Hein (via Telecom), Jorge Irra (via Telecom), Will Rogers (via Telecom). Francisco Gonzalez (via Telecom) Areli Fierro (via Telecom).

Meeting called to order at 11:01 am. Roll call: Dolores Heisinger, Scot Hein, Jorge Irra, and Robert Reyes. There is Quorum

Representing the management, Francisco Gonzalez, Areli Fierro, Will Rogers and Jaqueline Silva.

Robert asked for a motion to adopt the Agenda, moved by Dolores Heisinger and second by Scott Hein, none opposed. Motion is carried

Robert asked Will Rogers to proceed with the Audited Financial Statements 2018 and 2019 to get an approval.

Will Rogers commented, we have the final audited statements for both years, the auditors were able to express their opinion that the financials are presented fairly.

I will go ahead through the numbers, starting with 2018 audit, looking in the balance sheet we begin our year with 4.4 million pesos fund balance, and by the end of the year, with a 2.6 million pesos fund balance, that brings down to a deficit of 1.7 million in our operating funds and a surplus of 4.3 million in our reserve funds. The grates changes from our previous year on the balance sheet were an increases in the cash over 640 thousands and a decrease on our related parties' receivable that was over 2.2 million

Will Rogers asked if there are any questions on the balance sheet,

He continuous, we will move to the next page to our 2018 Audited statements. Looking into our income statements we have a deficit of 1.8 million pesos an in breaks down to a 1.7 million in our operating fund and 85 thousand in the reserve fund, our revenue 10.3 million that means 245 thousand more than the previous year.

Our expenses came to 12 million that is 2 million more from the previous year. The main drivers are two things, first the utilities that were very much higher in this year, but when you see the next couple of years you will notice that we get to the same level, and the second is our capital replacement 640 thousand over and that is just the projects we have over that year. Everything else on this year was relative flat year over year.

Will Rogers asked if there are any questions on the income statements.

He continued, moving to audited statements for cash flows 2018. You can see our cash position did go up by 650 thousand pesos and that is a result of the deficit of 1.8 million by the decrease on our receivable 2.26 million year,

The rest of the audited financials are the notes and most of them are self-explanatory, the most informative is the note related parties and receivables that shows who related parties are and what the expenses corresponds.

Will Rogers asked if there are any questions?

Scott commented, we will probably go over these when we see 2019, but I am curious about the insurances for the overall Diamond asset, we have seen a spike in condominium insurances, I don't know if the world of the resorts are seeing similar trends, in terms of insurability, I was wondering if we can discuss that and consider for or future budgets.

Robert Commented, yes we are seeing the same trend, probably not at the same level that is happening at Vancouver, we have cover all our Diamond resort and Embarc as well, and yes we are aware of those rates are going up overall.

Will Rogers commented, we are seeing an increase overall, a lot of the increase we are seeing are specifically to some of or properties that are close to a beach or any kind of water, even when you haven't had an hurricane or storm in Zihuatanejo in years and years, just for the simple fact that you are classified as being next to the water you are going to see a jump there, that is the most relevant in this situation here.

Scott commented, I trust your advice, and just to ask how we anticipate for that cost for the next 5 years.

Robert commented, I think is always good to mention, being part of a large corporation we get more benefit than if we go individually.

Will Rogers commented we will go over 2019, this audit were very well.

Running through our balance sheet, we started with a balance of 2.6 million fund that we saw at the end of the last year, and then we see a 3.3 million increase during 2019, surpluses 1.1 million on the operating fund and a surpluses of 2.2 reserve funds. The main changes over the last year is a decrease of cash 530 thousand, Increase on related parties on receivable and payable for 685 thousands increase, and them a decrease in our AP for 475 thousand.

Robert commented I would like to point that in both years 2018 and 2019 if you look at the net assets in this two years we are seeing a positive.

Will Rogers confirmed, yes we are looking healthy which is the more important

Moving to our income statement. Surpluses of the year of 700 thousands pesos broken down in 1.1 million surpluses in operating funds and a deficit of 440 thousands in our reserve funds. Our revenues came in 10.2 million that is 80 thousand less down than the previous year, that is mainly for the maintenance fees reduction 2019 and that's overseeing there on the reduction of our revenues. Our expenses come in in 9.5 million that is 2.5 million more from the previous year

The main drivers of those reductions are a decrease in accounting and that's mainly a re-mapping and reorganization, I don't know if you were aware, back in March 2019 Nancy the accounting manager in Zihua left the company and her roll was absorbed by Maritza's team, so what we are seeing here is a less direct cost on the accounting line and more indirect cost and the other line items.

The maintenance lines decrease 480 thousands and that is because Repairs needed in the resort were less in 2019 than there was in 2018. Another line item that decrease overall is Admin were legal fees, and tax consulting fees that caused a reduction in the administration in this year

Dolores asked are those last items that you mentioned expected to go back up.

Will commented on the legal fees and tax consulting could potentially, depending on particular situations, if we need to consult anything legal, depending on the situation that we are going through.

Moving to Statement Cash Flows, you can see our cash position went down over the course of 2019, 530 thousands as a result of surpluses of 700 thousands increase in our receivables.

And then the remaining pages are our notes, the most important will be page 7 that has a description of related parties receivable and payable and who they are. One thing that I would like to mention is that the number is pretty high at the end of 2019 and Maritza and her team did a great job in 2020 bringing those numbers down, clearing the related parties, having them paid to us or getting them paid out from us. So we could clear those items. So you will see on the 2020 year to date statements an important decrease in or balance sheet receivable payable related parties over 10 million pesos drop. We still have work to do there but we are going in the right direction.

Robert asked for motion to approve the Audited Financial statements for the Villas at Embarc Zihuatanejo for 2018 and 2019.

Moved by Scott Hein and Seconded by Dolores Heisinger. No further discussion and no oppose, the motion is carried.

Will Rogers commented we can now move to the Year to date unaudited financial statements.

I want to start by saying that we are looking in a year to day surpluses over 1.1 million pesos which is relatively flat and that is a good thing. And I would like to talk about a couple of things that may look a little odd and that we are working to get some final numbers, the biggest one is the reserve component in there. The reserve expenses so far this year have been split with Embarc, so we are working in the correct allocation. It may populate in the upcoming months when we can get the accurate numbers.

And the second is housekeeping cost this is specifically to the common areas, we are also working on the allocation there, trying to make sure that we get the right numbers with the Villas specific cost.

Revenues are in line with our budget 4.3 million and that is simply a registration of our maintenance fees this year.

In our Payroll is under budget for 133 thousand we have some saving in maintenance and front desk and we also see housekeeping.

Robert Reyes commented, I would like to mention some information for Scott and Dolores, one of the mandates that the Mexican government sent out during the closure is the fact that we had to paid our Team members, that is the reason why we don't see much of a decrease in terms of salaries because but you would see it more at the expense line.

Dolores asked if the Team members were paid while they took a furlough.

Robert commented the term furlough is not probably the best word, in Mexico is different, but yes they were paid even when they there were out.

Dolores commented but they were workers whose contract expired and they were not retained, correct? So was there a drop in payroll, correct?

Robert commented, not really because this was already budgeted.

Jorge confirmed there are some Team Member that are contracted only for the season, so even without the COVID they would be leaving anyway.

The Team Members with permanent contract were taking vacation or having permission with no pay and the rest as mandate by the government they were staying at home but they continue receiving their payment. We did make an effort to help Team Members that were out.

Will Rogers continued. moving down to our operating expenses, were we have some savings and the main driver is the reserve that I mentioned earlier, but also we are pointing out the maintenance line there is a big AC purchase and service that occurred early in the year, that is the main driver in that.

Our administration line item is under budget, a couple of things there, first the audit fees are included in that line but we haven't paid yet we will see that reflected in June, and also some savings 48 thousand in our legal fees we haven't need it use that services so far this year and also some savings in the trustees fees.

Moving down we go to utilities, because of the closure we see some savings about 20% from the budgeted line item. Are there any questions for the year to date financials?

Dolores mentioned, I noticed that security is over budget.

Will Rogers commented, the reason behind that is a severance pay to pay a Team Member that is no longer with us.

Robert commented that is not the only item there, as expected we tried to maintain the security, and also as mentioned before even with closure we still have to pay the Team Members. That is why you are not seeing savings there.

Dolores asked what about the security under operating expenses.

Robert clarified those are two different items. Payroll and operating expenses.

Dolores commented I should not read the maintenance line increase and assume that there was more maintenance done than the normal, correct?

Robert commented, yes there was more maintenance, we took advantage of the Villas not being occupied to do more maintenance but that's not driving the increase, as indicated there was an AC system purchase, we are researching if they are in the correct line. That is not the final number you will see that number changing for the June statement.

Dolores asked, another question regarding maintenance, what kind of things were happening at this time that you were able to take advantage of the time?

Jorge added, I can mention a couple of things, we were painting pools and decks and repairing floors that were cracked, we are also painting some on the areas of the resort. We are working on the wood, mostly maintenance inside the Vacation Homes.

Dolores asked another question, was maintenance manager ever hired?

Jorge confirmed yes we have contracted a maintenance manager his name is Antolin.

Rogers commented the last thing to review is balance sheet, if we go over the last page of that document we can see our assets are under 30 million, our cash equivalents are over 5 million, and related parties receivable are over 24 million. 25 million in liability. A matter of timing. 4.4 million Fund balance. Any questions?

Robert mentioned we don't need an approval for the year to date statements so we can go for the next item in the agenda

As you see a surplus in the financial statements it is worth talking about Villa fees.

Robert indicated that we had received feedback from an owner who wanted to inquire about a refund on his Villas fees as he was denied access for his reserved week. As representatives on the board we try to save money. With exception of payroll due to the government mandate, all team members must continue to be paid during the closure so the association is not saving much on labor.

Having said that, we will most likely have a surplus and there are really three options that the Board can consider as a refund is not possible nor advised. The first would be to reforecast the costs from July to December and based on costs we can potentially reduce the fees for the last two quarters of 2020.

Robert stated that while this is an option it is one that he and Will do not recommend as it could also put the association in a deficit position if we actually experience greater occupancy or an unforeseen increase in costs and supplies. The second option, if we did have a surplus at the end of the year would be to forward this surplus to 2021 which would help reduce the fees for that year. This option shares any savings that are realized with all the owners albeit that it will be for next year. The third option would be to follow what we have done in the past, which would be to place any surplus to the Capital Reserve.

Robert recommended that we go with the second option which at least will potentially provide lower fees next year for the Villa owners. After further discussion and clarification the Board agreed that the second option would be best for the association.

Dolores mentions that she has not received any questions from any other Villa Owner, and asked if anyone else has receive anything,

Members of the board confirmed that they have not received any comments from other Owners.

Dolores mentions that it should be included in a communication to the Villa Owners that as by government mandate the Team Member were paid during their time off. This will help to the owners to better understand the situation.

Dolores commented that it will help that the staff has not gone hungry because the Mexican government required that we keep the team on the payroll that will help. And if there is a surplus at the end of the year we can try to reduce the 2021 fees.

Scott commented that he agree, and he suggested to also mention the Mexican mandate of keeping the team on payroll along with that the management has implement a strategy to take full advantage of this time and do some projects and maintenance. And that we need to wait until the end of the year to know how exactly the COVID as affected the 2020 and we will reflect that and then made proper decisions for 2021 Villas dues.

Dolores commented that one of the reasons she asked about maintenance earlier is because that when she saw the maintenance fee increase, here initial thought was that money was moved from one place to another in order to use it for maintenance, but that is not the case.

Robert confirmed that more maintenance was done while the resort has been closed.

Robert mentions that the Villa Owner, Bruce, requested refund of Villas fees for not having access to his villa, which might be understood as the Owner not knowing exactly what is owned. What fractional owner is.

Robert confirmed, we move over to the next agenda item COVID 19 closure.

Regarding the COVID 19 closures we were hopeful to be able to re-open in June 15th a couple of weeks ago, but as the positive cases continues to increase in Guerrero we had the feeling that the closure will be extended by the government so we went ahead and extended the closure to June 27th prior to the official announcement, and that is partly and just for your information. We find out that the information from the federal government is so at the very last minute, and for anyone traveling to Mexico would need more notice than a 2 days notification, so while we were waiting for the formal notification for June 15th we went ahead end extend, but they have actually extended it to June 30 with a potential re-opening date July 1st but to be re-valuated.

The way it works in Mexico is if you are in Red it means you need to continue to be closed. If you become an orange state you can open, for example the other resort we have in Mexico is Cabo. They were targeted to reopen July 1st, but they change to orange status last week so they were able to re-open June 16th.

Zihuatanejo is currently in red status we will continue to monitor and wait for the government mandate.

Dolores asked if there are flights coming into Zihuatanejo?

Areli confirms that there are.

Scott asked if there are flight getting into Zihuatanejo.

Areli confirms there is an international flight from LAX once a week and flight from Mexico City.

Scott asked how many cases are there in Zihuatanejo.

Jorge mentioned that the more of the cases are actually in Acapulco and Chilpancingo but there have been a recent increase in the cases in Zihuatanejo as well. We currently have 47 confirmed accumulated positive cases and 50 suspicious cases waiting for confirmation and 5 confirmed deaths.

Dolores stated that for a while Zihuatanejo was isolated from Covid.

Scot mentioned that it must be difficult to get from the States to Zihuatanejo, correct? We should monitor.

Robert stated, we are ready to open. We have implemented the Embarc cleaning control plan, that applies to all the Embarc properties and it covers all the aspects, to protect our Team Members, Members and Villa Owners.

Dolores asked, how we are going to access the destination exchange program. I did see a segment that says exchange program, is that done? Will that be done by next couple of months?

Robert commented it is still in progress, this will be under the extraordinary escapes program and not all of our owners are not part of this program, so we are trying to program that the Villa Owner does not have to buy an extraordinary escapes, so the way it's being done is to program so the owners have access to that portion without having to pay another membership, So the programmers are working on that, but because they still have a lot of team members in furlough in the US they still don't have the manpower to do it, but Areli is following up on that with the programmers to monitor the progress.

Dolores asked, so once is done we are going to be notified? And advice on how it will work.

Robert confirmed, yes that is correct.

Robert asked a motion to terminated the meeting, moved by Dolores seconded by Scott

Meeting is terminated