



**CONDOMINIO VILLAS AT EMBARC ZIHUATANEJO A.C.  
Nov 21<sup>st</sup>, 2019 VILLAS BOARD OF DIRECTORS MEETING**

**In Vancouver, British Columbia, Canada at 10:30am (PST) on Thursday November 21<sup>st</sup>, 2019**

**Present:** Robert Reyes, Dolores Heisinger, (via Telecom) Scot Hein (via Telecom), Jorge Irra (via Telecom), Maritza de Leon (via Telecom) Cody Peters (via Telecom) Will Rogers (via Telecom).

Meeting called to order at 11:02 am. Roll call: Dolores Heisinger, Scot Hein, Jorge Irra, Maritza de Leon and Robert Reyes. There is Quorum  
Representing the management, Francisco Gonzalez, Areli Fierro, Cody Peters, listening on the call, Tommy Dupuis, Jackie Silva.

Robert mentioned that for the past three years we have gone through various changes in accounting personnel. While there have been changes in senior leadership, individuals such as Maritza has been involved since 2016. Cody Peters in Vancouver moved over from Embarc finance, so there is continuity there.

Robert asked for a motion to add an Agenda Item, “discuss and set the dates for the Board of directors meeting for 2020” Robert ask for motion to move to adopt the agenda with the added agenda item, moved by Dolores and second by Jorge Irra, none opposed. Carried

Next item in the agenda is the financial section, first discussion is the 2018 financial audit.

Will Rogers commented, the audit was not completed within the time of frame previously discussed with the board, we have provided all the information to KPMG and they are currently working on their standard procedures, completion date will be second week of December. Upon completion of the audit, we will sent the statements and we will go through the numbers with you at that time.

Robert, moving to review the 2019 YTD statements

Will commented that for year to date we are looking into a surplus of \$489,000, this is primarily reserve expenses that are still to go though.

Will Rogers explained to the Board, this is a different format from the versions you have seen in the past, this format is more in alignment with the format that we use to present financials for our other associations. There is a lot of benefits in using this format apart from helping to have consistency in the information across the different associations. For example, Jorge and the team

receives a few different statements per month one for Embarc, one for Villas and one for F&B so this allows them to use the same tool to manage the Resort.

Revenue section is pretty much in line with the budget. The maintenance fees is the greatest component there. Other revenue is related to interest we are receiving for our bank deposits.

Moving down to the payroll and operating section. One of the challenges to get from the previous format to this format was trying to look at numbers that were together in the previous format and move them into specific accounts in this new format.

We use to have an administration line that covers both payroll and operating expenses and tried to put them in specific accounts in order to help the Team manage their finances through this. Payroll is in line with the budget but we need to understand that the allocation is our best estimation on how the cost should be split between payroll and operating when we took the previous format and molded it into this new format.

The one line that stands out is the admin operating expenses. That item has some specific categories such as telephone coming \$27,000 under budget. Audit fees coming in \$28,000 under budget and legal fees, \$42,000, also under budget. But things like administrative supplies, technology costs dues and subscriptions will also be covered in that section and we will see some saving in those items as well.

Scot questioned if we are staffing at the same level that we anticipated when we built the budget?

Jorge states, yes we have the same Team Members in each department.

The major impact was the increase of the minimum wage, this year at 16-21%

Robert. Are you asking specifically for admin or in general?

Scot. Yes a general question.

Robert. We will touch on this when we go through the budget.

Will Rogers. Moving on to the final sections or other operating Expenses we see, Utilities showing significant fluctuation all across Mexico and continue to be a challenge.

Regarding trustee fees, the biggest different is the exchange rate. These fees are charged in US dollars, and we have a different exchange rate than the one we had anticipated.

Property taxes continues to increase every year and we are over budget on that particular item.

Insurance expenses are up a little as well, the area is prone to hurricanes and earthquakes causing premiums to increase.

Finally, you will see some savings on the reserve expenses line, but that is more of a timing matter as stated before.

Dolores, the report shown is from September 19, are we anticipating finishing out the year on budget?

Will comments, yes the way it looks right now we can anticipate that we are going to be pretty close to be right in line to the budget

Dolores my second questions is, what happens if there is a surplus or deficit at the end of the year?

Will Rogers any surpluses or deficit we will just slide it over to the reserve funds.

Dolores and if we are short?

Rogers, same thing.

Robert confirms that this has been generally the practice. Doesn't mean that we need to continue. It can be dropped into the operating budget.

Scot Hein mentioned, this is probably an AGM question, but what is the possibility of solar? I wonder if there is an Embarc interest on this, if so Zihuatanejo can be a pilot project.

Robert commented this may be a larger discussion for the AGM, part of the challenge may be the area and it's susceptibility to hurricanes but we will review.

Scot, will leave it with you and if this is something that we can discuss at the AGM.

Robert confirms that we can discuss at the AGM and in the meantime we can get more information about potential costs and benefits because the utilities rates continues to increase.

Dolores stated that every time that she comes back there is more and more solar around, I hope that we can move forward along with it.

Scot commented that this was a helpful explanation of the 2019 actual and budget and thanked the team.

Robert, next item on the agenda: approval of the 2020 Villas budget

Robert stated that Will already talked about the two formats. I will describe for you part of the reason why we moved to this new format. Part of the reason is because when we moved from Intrawest to Diamond we used different systems for each association so when we were mapping from one system to the other they just didn't really line up. At that time we made the decision to keep the budget format similar to what the Villa Owners were used to seeing and we only worked on the larger Embarc budget first to begin. We just continued with that practice for the following years, but this became harder for us in terms of providing easy reporting and maintaining the old format, that is actually part of the reasons why we were unable to deliver some reports due to the manual process. By moving to this new format, we eliminate the manual process and make it a true electronic process that makes it a lot of easier to produce reports.

When we were looking at the 2020 budget, the first strategy was just to inform the BOD and move to the new format in 2021, but as we were working through the budget it made more sense to move to the new format now and walk you all through it and at the AGM if other owners want us to walk it through with them.

Dolores, before we get into the budget. I am curious why under Expenses, you have Admin, Front Desk and Maintenance and that it is all repeated in Operating Expenses, what would be the differences?

Robert, when you are looking at the old budget format, we never split payroll and general expenses but in reality there is a big component that is payroll and the other component that is general expenses. Payroll will be everything related to payroll, for example under Payroll Admin there is an allocation for anyone that falls under administration group so a portion of their salary has been allocated there. We also have Front Desk, Maintenance and Common Area Team Members. When we talk about operating expenses, it is literally all other expenses related to

that department, for example office supplies. Generally, any expenses not related to wages and benefits goes to operating expenses.

Dolores, ok it makes sense.

Scot, have we contributed a percentage to the construction of the new bridge in the reception area?

Robert, yes the Villas pays their proportion of anything within the common areas. Regarding the first comment, one thing I will highlight, for this first year, it will be more difficult to compare the old budget to the new version because the payroll and admin expenses use to be combined and now they are being separated. So overall, the 2020 budget reflects an increase of 1.97% or almost 2%. One line that stands out is Admin because of the decrease in payroll and operating expenses. When we were working on this budget we also took the opportunity to take a closer look at the allocations to the Villas, what I mean by that is that most of the expenses are an allocation based on square footage, 25.5%, so when we were looking at payroll I asked the team to think if this was really the best way to allocate the salaries for Admin. How much work does each individual do for the Villas? We all agreed to reduce the allocation to more accurately reflect the work that is now being done for the Villas. And for operating costs, the reason for the decrease is really the reclassification of expenses. Front Desk, you will see an increase of 10.2% and I'd like to add that the commission for minimum wages in Mexico is still considering an increase on the minimum wages this year. As you may recall last year the increase was 16%. And they are looking to increase the wages again between 14% and 28%. We came with a similar proposal of 16%, which is on the lower end. This is something that we would like to discuss with you. We can leave it like that or increase it now. I wanted to open that up to the both of you.

Dolores comments, my initial reaction is to wait and see and we can either adjust the budget later or let it go like this and take it out next year from the reserve funds.

Dolores asks, what I would like to know is, what are the reasons of the particular increase in front desk salaries?

Jorge comments that to work at the front desk you need to be bilingual, have computer skills and also service focused to the services and then the bellman are also required to be bilingual and in our case they need to know how to drive the golf cars.

Robert commented that Utilities continue to increase the trustee fees are going up due to the exchange rate. Insurance expense is seeing a substantial increase related to the location where we are and the susceptibility to storms and earthquakes. Property taxes also continues to increase.

Dolores, so by this time every year we have received a property tax statement that will allow us to know how much it is going up?

Maritza, commented that we are usually provided a number before the end of the year. But we will have a more accurate forecast maybe next month

Dolores, under management fees, what was collapsed into that was the HOA and SFOE Management Fees. What is the SFOE management?

Robert, this is the Shared Facilities Operating Expenses. The management fees will not change.

Scot, talking about the trustee fees, I have sent my information about KYC but I never heard back from Deutsche Bank. So I didn't even know if it has been accepted or not. Is this something that will keep going? Also, can we add to the AGM agenda, how are we feeling, do we have any options or not, you know with the trustee fees going that high.

Robert commented, yes but first of all the increase in the trustee fee is due to the exchange rate as stated before. We can definitely talk about it on the AGM, but I can tell you that in the research that we have done, not only in Mexico but in the USA, and Canada as well, money laundering is a big issue and so the requirements of the know your customer does not only apply in Mexico, some of the requirements are also in the US and Canada. The legal counsel advised us that we always have the opportunity to look into other options but as a reminder, when Enrique worked on this he stated that there was only 2 entities interested. The warning or comment we received is that if we decided to change to another trustee is that the KYC is a requirement by law so the difference could be that the other companies may actually have a harder process than Deutsche bank.

Robert commented that what Deutsche Bank and our lawyers have said is that as a Villa Owner, you can choose not to fill out the information. However, when you want to transact and you do not have the updated information you may not be able to facilitate what you want to do.

Dolores commented, could someone ask Deutsche Bank what is the status of the information that we have sent to them, is it accepted? At least an acknowledgement of receipt.

Robert asked Jorge to please touch base with TP legal and get them to communicate with Deutsche Bank and follow up.

Robert, are there any further questions?

Dolores I am always impressed that the staff can do a good job and still have the budget with a minimum increase

Robert asked for motion to approve the operating budget for the Villas.

Scot moved and seconded by Dolores no further discussion, none opposed. Carried

Robert, next item is proposed capital projects for 2020.

Francisco commented on capital projects starting with the previously approved that will continue. Bathroom sink countertops redesign will be deferred to 2021.

Replacement and Repair of rooftops terraces and entrances, this will be year three of five. We have made progress. We are at about 50% complete.

Appliance replacement being deferred to 2021. The fractioned Villas already have most appliance replacement complete.

Kitchen sink replacement will continue.

Chilled water line will continue. This will be year three of five.

Regarding proposed projects we have the following:

Floor maintenance and re-grouting. This is mostly for terraces with the most damage. We will start with the fractioned Villas. Two this coming year and two the following year.

The second proposed project is the replacement of shower handles, shower heads and vanity faucets and handles. We will also begin with the fractioned Villas.

Dolores asked why two projects are being deferred? Because of money or workload?

Robert stated that it is a combination of both. We don't have the funds total on the document but we have seen a discrepancy that we are clarifying. With that in mind we decided to get approved what we needed to get approved. Also we are trying to get into the fractioned Villas first and the deferment is more for the Embarc Villas.

Scot asked about the status of the air conditioning systems? Longevity?

Jorge, we replaced the two chillers, approximately five or six years ago. So we still have approximately three years of life.

Scot asks about the fans. Not the ceiling fans, the mechanical fans.

Jorge commented on the maintenance provided to the a/c units and that this is applied to operating expenses.

Francisco commented on the contingency projects.

The Fire Hydrant System project is in progress. Contractor is replacing fire hydrants, pumps and piping. We have this scheduled to finish within the first two months of the year.

Commercial washer and dryer project is a two year project. This year we purchased a new dryer and this following year we will look to purchase a washer.

A new project for contingency is the voice and data cabling. We have had some situations with the cabling in building four and five.

Robert asked for a motion to approve the capital and contingency projects for 2020.

Dolores asked if this will do any serious harm to our reserve account.

Robert commented that we do not believe so but this is why some have been deferred to ensure that we maintain our reserve account.

Dolores moved and seconded by Scot, no opposed. Carried

Robert, the next item is setting the date for the Annual General Meeting of the Association. Robert opened the discussion for this topic.

The Board confirmed that the date agreed is Monday, February 10th 2020

Next item is setting dates for Board of Directors meetings in 2020

Robert suggested and all agreed to the following dates:

First Board of Directors meeting, May 19th 2020.

Second Board of Directors meeting, August 20th

Third Board of Directors meeting, Nov 17th

Dolores asked about adding more money into the capital reserves and contingency funds.

Robert commented on keeping it how it is and looking at this in 2021.

Robert asked for a motion to terminate meeting at 12:15 p.m.

Dolores moved and seconded by Scot. Carried. Robert thanked everyone.