

# ANNUAL MEETING REPORT OF THE ROYAL ISLANDER ADVISORY COUNCIL *October 20, 2015*

*Advisory Council Members: Robert Fisher, Charles Gardes Tamasi, Patricia Havard (alternate), William Rudolph, William P. Wergin*

The annual meeting of the Advisory Council for The Royal Islander was held in Cancún on Tuesday, October 20, 2015. Patricia Havard attended the meeting in the absence of Arthur A. Kinsey.

Prior to the meeting, Council members toured the resort and one of the villas where they were able to see projects that were completed in 2015.

After the tour, Council members met with Chief Financial Officer Fernando López, Vice President of Resort Operations Armando Millet and members of their staff in the boardroom at The Royal Sands. CFO López explained the 2015 financial statements in detail. The Income Statement Comparison accompanying this summary shows budgeted and actual (forecast) income and expenses as of September 30, 2015 with estimates to the end of the year. The 2016 budget was unanimously approved and is also shown.

In 2015, the performance of the exchange rate had a positive impact on resort operating expenses. However, as such variables are beyond the control of the administration and fluctuate during the year, Management will continue to budget conservatively.

The budget compilation process begins with preliminary budgets denominated in pesos submitted by each department to Operations Director Millet. Once approved, a collective budget is prepared and converted to US dollars using a projected average exchange rate. The 2015 budget was based on a projected average exchange rate of \$13.27/US\$1. However, the actual average is approximately \$15.78/US\$1, resulting in a currency exchange gain of US\$1,095,844.

Repairs and replacement items approved by Council in 2014 and completed in 2015 include:

### Resort Improvements

- Upgrade of elevator electrical system in Building 1 or 7
- Replacement of steel pipes in the reverse osmosis system
- One washing machine for the internal laundry
- Installation of smoke detectors in villas
- Repair cracks in buildings and public areas
- Repairs to the booster pump in the reverse osmosis system

### Villa Improvements

- Corrective maintenance in 20 villas
- Replacement of marble floors in five villas with ceramic tiles
- Replacement of aluminum sliding doors in two villas
- Replace T-bars on the false ceiling in 10 villas
- Replacement of Fan & Coil set in three villas

### Fixed Assets and Major Repairs approved in 2014 and Additional Items authorized in 2015

- New terrace furniture for 90 villas (1/2)
- New phones for 179 villas (546 sets)
- Waterproofing for the cistern
- Air-conditioning and a lint trap for the internal laundry
- Renovation of the pool bridge with railings
- Submersible pump for the reverse osmosis system
- Installation of 3 CCTV in public areas
- Air-conditioning for Sports Services

### APPROVED FOR 2016

- Replace corridor floor tiles on levels 10, 11 and 12
- Elevator project (Elevator 1 and 7 ongoing project)
- Purchase and installation of a PC-470K Ti Heat Recovery plant for the chiller machine in the water preheating system
- Replacement triplex pump parts in the reverse osmosis system

- Repair superficial wall cracks in buildings and public areas
- Submersible pump for the well supplying water to the reverse osmosis system
- Repairs to the gables in Buildings 3 and 4, floors 5, 6, 7 and 8
- Replacement of chain mesh fencing and repainting of the net posts on the tennis courts
- Repair kit for the chiller machine in the air-conditioning system
- Change of active carbon used in the water treatment system
- Construction and shade netting for the Garden nursery
- Oil change for three air-conditioning chiller machines
- Two fiberglass railings in the walkway connecting Buildings 6 and 7, floors 5 and 6
- Replacement of aluminum railings in the walkway on floor 5, Building 3
- New machine house metal door
- Two fiberglass railings in the walkway connecting Buildings 1 and 2, floors 5 and 6
- Replacement of non-slip floor in the pool area guest restrooms
- New boiler chimney in the machine house
- Non-slip teka covering for the access ramp to the beach
- Diffuser filter kit 72 plg for the pool filter system
- Two bilge pumps for the sump in the pool filter room
- Replacement of fan and coil set no. 12 in the lobby area
- New pump for the irrigation system in the machine house
- Storeroom for Housekeeping department
- Extractor fan in the furniture painting area
- New tumble dryer for the internal laundry

### Villa Improvements

- New terrace furniture for 90 villas (2/2)
- Corrective maintenance in 20 villas
- Replacement of aluminum sliding doors in 10 villas
- Replacement of marble floors with ceramic tiles in five villas
- Purchase of fabric for villa couches, living and dining room chairs and dressing room stools
- Replace T-bars on the false ceiling in 10 villas
- Electrical work in 20 villas to make the switchboard panels independent
- Fan & Coil set replacement in three villas
- New non-slip floors for terrace in five villas

In addition to the aforementioned villa improvements, Council approved a Management proposal to add an amenity package to the units starting January 1, 2016. This will include a roll of paper towels, dishwashing liquid and a welcome pack of regular and decaf coffee in the kitchen and locally made Yucatan honey shampoo, conditioner and body lotion in the bathrooms.

The purchase of the amenities in member units is included in the Housekeeping Services budget and the Rental department will cover the cost of the package for units occupied by rental guests.

In the accompanying budget comparison, Total Operating Expenses for 2015 are 12.7 percent less than budgeted, largely due to the exchange rate variation but with some departments registering significant savings. The resort paid 34.8 percent less for electricity due to a reduction in the rate charged and the exchange rate impact.

In contrast, Water and Sewage costs rose in 2015 because of a rate increase, leakage and the implementation of new sanitary norms that require resorts to change pool water more frequently. Fixed Assets and Major Repairs expenditure also increased as a result of projects such as the purchase of new terrace furniture for 90 villas, the replacement of the villa phones and resort maintenance projects.

The Housekeeping Services, Front Desk, Fixed Assets and Major Repairs and the Courtesy Shuttle line items show increases in the 2016 budget. The Housekeeping Services and Front Desk rise in expenditure can be explained by the need to hire additional staff. The Courtesy Shuttle shows variation due to the purchase of a new bus (shared cost). Fixed Assets and Major Repairs includes important improvements such as the completion of the walkway retiling project, the Elevator project and terrace furniture for the remaining 89 villas.

As part of a strategy to capitalize on the favorable exchange rate in 2015, the resort is making changes to the villas that members will enjoy in 2016. This includes the terrace furniture and new fabric for sofas chairs and dressing area stools.

As shown on the accompanying statement, The Royal Islander receives income from sources other than Club Service Fees. Interest earned on bank accounts, a fee for certain ISCO transactions, guest laundry services, late checkout fees, kitchen cleaning fees and other charges, and commissions on telephone use are credited to income accounts.

The Royal Islander has healthy finances with an anticipated Club Cash Reserve of US\$2,979,586 and a Hurricane Cash Reserve of US\$2,016,733 by the end of 2015. As of September 30, 2015, the resort's total net worth was US\$4,579,745.

The number of members who are delinquent in their Club Service Fee payments or membership payments has risen in recent years. There is a Forced Resale program for units in this situation, but the Resort still has to make a provision for this cash shortfall when budgeting. The Rental Program has seen increased demand for The Royal Islander in 2015 and this has helped some members who would otherwise have fallen behind with payments. As an alternative, the Voluntary Relinquishment Turnover program has been implemented to recover units from Members who are not in good standing with their Club Service Fees and villa payments. They receive a repossession letter that they sign and their unit goes into company inventory. The Developer pays the Club Service Fees for company units. As a result of increased rentals and the turnover program, Resort Operations has been able to make a lower Non cash provision for Uncollectible Accounts, budgeting it at US\$65,064 for 2016. Nevertheless, Members who are in arrears are urged to fulfill their financial obligations.

After reviewing the budget, the Council voted unanimously to accept Management's proposal not to raise the Club Service Fee for 2016.

### The Club Service Fee for 2016 will be US\$1,037.00 and the breakdown is as follows:

Villa	
CSF	871.43
VAT 16%	139.43
Occupancy tax 3%	26.14
<b>CSF + Taxes</b>	<b>1,037.00</b>

In a private session, the Advisory Council chose Patricia Havard to replace retiring member Robert Fisher.

In closing, the Advisory Council thanked management for maintaining The Royal Islander at the highest levels of excellence while keeping the Club Service Fee lower than similar resorts in Cancún and elsewhere.

THE ROYAL ISLANDER		INCOME STATEMENT COMPARISON BETWEEN 2015 AND 2016 (US Dlls.)					NUMBER OF INTERVALS	9,129
Club Service Fee	\$871					Club Service Fee	\$871	
V.A. Tax	\$139					V.A. Tax	\$139	
Occupancy Tax	\$26					Occupancy Tax	\$26	
Total	\$1,037					Total	\$1,037	
2015		% DIF.	DESCRIPTION	2016		% DIF. VS. FORECAST '15	% Vert.	\$/INTVAL.
BUDGET	FORECAST			BUDGET				
<b>GENERAL REVENUE</b>								
9,464,833	9,464,833	0.0%	Dues Income	9,464,833	0.0%	99.5%	1,036.79	
11,875	13,622	14.7%	Other	11,875	-12.8%	0.1%	1.30	
<b>9,476,708</b>	<b>9,478,455</b>	<b>0.0%</b>	<b>Subtotal</b>	<b>9,476,708</b>	<b>-0.02%</b>	<b>99.6%</b>	<b>1,038.09</b>	
<b>RESORT REVENUE</b>								
25,329	24,136	-4.7%	Guest Laundry	27,820	15.3%	0.3%	3.05	
13,569	10,115	-25.5%	Other Income	10,527	4.1%	0.1%	1.15	
<b>38,898</b>	<b>34,251</b>	<b>-11.9%</b>	<b>Subtotal</b>	<b>38,347</b>	<b>12.0%</b>	<b>0.4%</b>	<b>4.20</b>	
<b>9,515,606</b>	<b>9,512,706</b>	<b>0.0%</b>	<b>Total Revenue</b>	<b>9,515,055</b>	<b>0.02%</b>	<b>100.0%</b>	<b>1,042.29</b>	
<b>RESORT OPERATING EXPENSES</b>								
1,032,911	852,263	-17.5%	Housekeeping Services	967,663	13.5%	10.2%	106.00	
396,365	329,979	-16.7%	Housekeeping Maintenance	322,953	-2.1%	3.4%	35.38	
900,473	587,305	-34.8%	Electricity	584,583	-0.5%	6.1%	64.04	
955,282	864,785	-9.5%	Maintenance & Machine House	850,914	-1.6%	8.9%	93.21	
285,046	320,679	12.5%	Water & Sewage	326,287	1.7%	3.4%	35.74	
377,489	315,189	-16.5%	Security	306,058	-2.9%	3.2%	33.53	
347,977	291,225	-16.3%	Front Desk	319,596	9.7%	3.4%	35.01	
201,106	176,097	-12.4%	Int. & Guest Laundry	180,149	2.3%	1.9%	19.73	
365,453	497,989	36.3%	Fixed Assets & Major Repairs	992,199	99.2%	10.4%	108.69	
143,024	120,217	-15.9%	Landscaping	124,082	3.2%	1.3%	13.59	
84,953	87,645	3.2%	Sport Services	79,059	-9.8%	0.8%	8.66	
62,137	64,218	3.3%	Telephone (Net Result)	60,685	-5.5%	0.6%	6.65	
105,634	83,944	-20.5%	Social Activities	84,127	0.2%	0.9%	9.22	
39,886	38,606	-3.2%	Operational Services	38,451	-0.4%	0.4%	4.21	
26,208	35,538	35.6%	Resort Insurance	17,404	-51.0%	0.2%	1.91	
57,688	42,181	-26.9%	Courtesy Shuttle	54,434	29.0%	0.6%	5.96	
74,482	57,212	-23.2%	High Speed WiFi in Villas	62,032	8.4%	0.7%	6.80	
<b>5,456,114</b>	<b>4,765,074</b>	<b>-12.7%</b>	<b>Total Operating Expenses</b>	<b>5,370,676</b>	<b>12.71%</b>	<b>56.4%</b>	<b>588.31</b>	
<b>GENERAL &amp; ADMIN EXPENSES</b>								
795,364	795,364	0.0%	Management Fee	795,364	0.0%	8.4%	87.13	
435,853	360,628	-17.3%	Corporate Services	365,094	1.2%	3.8%	39.99	
164,284	137,056	-16.6%	Accounting	139,878	2.1%	1.5%	15.32	
116,708	93,984	-19.5%	Administration	95,190	1.3%	1.0%	10.43	
23,059	14,984	-35.0%	Training	15,095	0.7%	0.2%	1.65	
49,342	44,197	-10.4%	Human Resources	45,272	2.4%	0.5%	4.96	
28,073	31,166	11.0%	Other Expenses	23,519	-24.5%	0.2%	2.58	
26,911	19,736	-26.7%	Auditing	20,503	3.9%	0.2%	2.25	
269,839	253,113	-6.2%	Membership Services	262,766	3.8%	2.8%	28.78	
<b>1,909,433</b>	<b>1,750,229</b>	<b>-8.3%</b>	<b>Total General &amp; Admin Expenses</b>	<b>1,762,681</b>	<b>0.7%</b>	<b>18.5%</b>	<b>193.09</b>	
<b>2,150,059</b>	<b>2,997,403</b>	<b>39.4%</b>	<b>Operating Income</b>	<b>2,381,698</b>	<b>-20.5%</b>	<b>25.0%</b>	<b>260.89</b>	
<b>FINANCIAL EXPENSES/INCOME</b>								
-4,695	-5,078	8.2%	Interest Earned	-5,970	17.6%	-0.1%	-0.65	
85,245	82,565	-3.1%	Credit Card Commission CSF	95,045	15.1%	1.0%	10.41	
<b>80,550</b>	<b>77,486</b>	<b>-3.8%</b>	<b>Total Financial Expenses/Income</b>	<b>89,075</b>	<b>15.0%</b>	<b>0.9%</b>	<b>9.76</b>	
<b>2,069,510</b>	<b>2,919,916</b>	<b>41.1%</b>	<b>Income Before Taxes</b>	<b>2,292,623</b>	<b>-21.5%</b>	<b>24.1%</b>	<b>251.14</b>	
<b>TAXES</b>								
1,272,583	1,280,385	0.6%	V.A. Tax	1,272,583	-0.6%	13.4%	139.40	
238,609	238,609	0.0%	Occupancy Tax	238,609	0.0%	2.5%	26.14	
139,200	448,174	222.0%	Income Tax & Others	505,120	12.7%	5.3%	55.33	
133,865	98,875	-26.1%	Property Tax & Other Exp.	123,049	24.4%	1.3%	13.48	
<b>1,784,257</b>	<b>2,066,044</b>	<b>15.8%</b>	<b>Total Taxes</b>	<b>2,139,360</b>	<b>3.5%</b>	<b>22.5%</b>	<b>234.35</b>	
<b>285,253</b>	<b>853,872</b>	<b>199.3%</b>	<b>Net Income</b>	<b>153,262</b>	<b>-82.1%</b>	<b>1.6%</b>	<b>16.79</b>	
	<b>1,095,844</b>		<b>Peso Exchange Adjustment</b>					
<b>285,253</b>	<b>(241,971)</b>	<b>-184.8%</b>	<b>Net Income Operation</b>	<b>153,262</b>	<b>163.3%</b>	<b>1.6%</b>	<b>16.79</b>	
<b>-330,079</b>	<b>-125,754</b>		<b>Provision for Uncollectible Accounts</b>	<b>-65,064</b>				
<b>(44,826)</b>	<b>728,118</b>		<b>Net Income After Provision</b>	<b>88,199</b>				
<b>4,116,480</b>	<b>5,015,349</b>		<b>Accounting Reserves</b>	<b>5,103,548</b>				
<b>2,000,200</b>	<b>2,016,733</b>		<b>Hurricane Cash Reserve</b>	<b>2,004,408</b>				
<b>1,925,862</b>	<b>2,979,586</b>		<b>Club Cash Reserve</b>	<b>3,037,916</b>				