

March 28, 2019

Dear Members:

The Board and management have recently received, or have been forwarded, a series of questions or concerns from Members. Factual responses and clarifications on the Club's structure and processes can be found below. You may also find useful information in the Owners' Information Guide, available to all Members on the Club Cascadas website.

1. The Cascadas de Baja Association (CBA), the Club, is not a Home Owners Association (HOA) in the commonly understood style. It is a Delaware, non-profit, non-stock Corporation that has Members who own memberships that can be transferred or sold. Members are not homeowners. The Bylaws clearly define the rights of Members. The Bylaws also describe what happens in 2052 when the current Trust for the land requires renewal. Current Memberships will be extended beyond 2052 for the duration of any renewed trust should the Members choose to.
 - a. Members are entitled to one vote per membership in Club elections. Unsold memberships do not vote in Board elections. Proxies given to the Board by Members are voted by decision of the Board.
2. Each year the Board approves a detailed budget for CBA for the upcoming calendar year. There are hundreds of line items. Over the past several years, the line items have repeatedly changed, been combined, and/or been reallocated in order to provide better oversight to the Board of Directors of Management's recommendations and requests and there is more transparency and accountability. Thus, it is quite difficult to compare one year with the previous year at the detailed level. Actual results are compared to the budget for that same year, and periodically, actual results against results from the previous year.
3. The budgets are prepared conservatively, and every year in the recent past our expenses have been less than budgeted. Bear in mind the US/Mexico exchange rate has a direct impact to our operations and the devaluation of the Mexican currency has in the past provided for an additional unpredictable operating surplus. Each year's operating surplus has been added to the capital funds used to pay for the villa remodels and improvements to the common areas.
 - a. An example is the Electricity budget for 2019. It is very conservative, but we have had a very bad experience with uncontrollable rate increases the past two years. There is an ongoing legal case regarding these increases but they are real and not contrived.
4. Every month, the Board reviews financial reports from management which provide a detailed accounting of income and expenses for all line-items including all variances from the adopted budget. The latest report, for January 2019, indicates that expenses are running below budget.
5. At year end, the Club hires a CPA in the US to prepare the annual financial statements for the Club. The 2018 statement will include the financial effects of the operations of Cascadas

Vacations Inc (CVI) selling and utilizing the units turned over to the Club by the Giddings on 1 January 2018, and other CVI income related to Member villas.

6. Each year, we have learned from the previous year how much remodeling can be accomplished efficiently and without unduly diminishing the vacation experiences of our members. The units chosen for remodeling have been approved by the entire Board using several criteria. At the last Board meeting, a revised potential plan that finishes all the remodels in 2024 was presented, but it is subject to modification as needs and priorities evolve.
 - a. Previously elected board members Marty Russell, Richard Bort and Larry Greenberg assumed leadership of the board on January 1, 2018, as a result of the turnover and mandated resignation of Developer Board Members David Giddings, Mark Giddings and Patricia Giddings. Prior to that date, no decisions could be approved without the Developers agreement, as they held 3 of the 6 possible votes. At the June 2018 annual meeting, two additional board members, Mark Giddings and Glen Brush, were elected by the members and added to the board completing the five-member board who are all members. There is no longer a board member appointed by the Giddings.
7. In the early years of the remodel, the budgeted line-item values accounted only for costs spent by the main construction contractor, while the costs for fans, air conditioners, lighting, appliances, etc., were in other line-items. In recent years, the budgeted remodel costs now include all such items. This change is the major cause of the apparent increase in cost of the remodel program.
8. CBA has two profit-making subsidiaries. CBA owns CVI completely. CVI is a Delaware corporation and operates a Mexican office in Cabo. CBA and CVI share ownership of Bellavista el Medano (a Mexican corporation, see below).
 - a. All issued CVI shares, are owned by the Cascadas de Baja Association.
 - b. All employees of CVI are independent contractors. Sales staff are paid on commission; administrative staff are on salary.
9. All Board Members are unpaid volunteers who only get reimbursement for costs associated with attending meetings. The Board Members of CBA have equivalent roles in the management of both CVI and Bellavista and receive no compensation nor benefit deriving from the for-profit subsidiaries.
 - a. Mark Giddings is President of CVI; Larry Greenberg is Secretary; the others are Board Members.
 - b. Bellavista doesn't have directors; all CBA Board Members are on its Management Council.
 - c. Mauricio Quezada, is a CBA employee, not a Board Member and is COO of all three organizations.
 - d. Mark Giddings is also employed by CBA as an independent contractor to oversee the remodeling program.

10. The club's profit-making sales subsidiary, CVI, had a very successful 2018.
 - a. It paid nearly \$900,000 to the Club for Maintenance Fees on the unsold Inventory.
 - i. As a result of sales, the inventory on 31 December was 83 units smaller than the 1130 units turned over to the Club on 1 January, and the Fees to be paid in 2019 will reflect the smaller inventory.
 - b. It contributed to the remodel of Buildings 21, 22, and 24.
 - c. It refunded about \$1,800,000 to Members.
 - d. It showed a net profit and paid Mexican and US taxes.
 - e. It has retained earnings that at some future time will be distributed to CBA and added to the Club's capital reserves. In 2019, it will loan start-up funds to Bellavista.

11. On 1 March 2019, Club's second profit-making subsidiary, Bellavista el Medano, a Mexican corporation, took over operations of the spa, restaurant, mini-market, concierge service, and Clubhouse Too from our long-time concessionaire. After paying for the 2019 remodel of the kitchen, profits from the operations of Bellavista will also be transmitted to the Club as additional revenue. Both CBA and CVI are making loans to Bellavista to provide start-up funds.
 - a. Nearly all Remimar employees became Bellavista employees.
 - b. The restaurant price adjustments in 2018 were likely raised by the concessionaire in response to the increase in Mexican costs for products imported from the U.S. or from Mexico's mainland. The current prices and food/quality remains competitive and fair with market conditions.

12. The Club's Capital Replacement Fund is healthier than ever despite the significant, ongoing remodel expenses. It is expected that at the end of 2019, it will be larger than it was on January 1, 2019.

13. Maintenance Fees have not been increased since 2015 following Hurricane Odile in 2014, despite the significant expenditures on the remodel. Our fees are low by Cabo standards. In the 19 years since 2000, the fees have risen at a compound rate of only 5.2%.

Should you have any additional questions or comments, please use the official channels and let us know through TPI Owner Services department or write an email to info@clubcascadas.com

Thank you for your review of these important matters.

Cascadas de Baja Association
Board of Directors