



Salles Sainz

**Grant Thornton**

Financial statements and independent  
auditor's report

The Lake Chapala Society, A.C.

December 31, 2021 and 2020

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## Independent auditor's report

To the members of the Association of

The Lake Chapala Society, A.C.:

### Opinion

We have audited the financial statements of The Lake Chapala Society, A.C. (the Association), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of activities, and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Lake Chapala Society, A.C., as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended, in accordance with Mexican Financial Reporting Standards (NIF *for its acronym in Spanish*).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report, and the following 'Exhibit'. We are independent of the Association in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Mexico in accordance with the Instituto Mexicano de Contadores Públicos A.C.'s Code of Professional Ethics (IMCP Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and IMCP Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with NIF, and for such internal control as of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Association's ability to continue as a going concern and using the going concern basis of accounting, or otherwise, making the appropriate disclosures.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of The Lake Chapala Society, A.C. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

SALLES, SAINZ – GRANT THORNTON, S.C.



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C.P.A. Alejandro O. Juarez Becerra  
Partner

February 28, 2022.  
Guadalajara, Jalisco, México.

## Exhibit of the Independent auditor's Report

### **Additional description of our responsibilities on the audit of the financial statements**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management of the Association.
- Conclude on the appropriateness of Management of the Association's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management of the Association regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statements of financial position  
As of December 31, 2021 and 2020  
(Stated in Mexican Pesos)

	Notes	2021			2020
		Unrestricted	Temporarily restricted	Total	Total
<b>ASSETS</b>					
<b>Current</b>					
Cash and cash equivalents	4	\$ 1,634,976	\$ 5,238,863	\$ 6,873,839	\$ 6,661,202
Donation receivable		27,327	-	27,327	16,455
<b>Total current assets</b>		<b>1,662,303</b>	<b>5,238,863</b>	<b>6,901,166</b>	<b>6,677,657</b>
<b>Non-current</b>					
Properties and equipment, net	5	24,505,444	-	24,505,444	19,323,129
<b>Total assets</b>		<b>\$ 26,167,747</b>	<b>\$ 5,238,863</b>	<b>\$ 31,406,610</b>	<b>\$ 26,000,786</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable and accrued liabilities	6	\$ 574,792	\$ -	\$ 574,792	\$ 361,536
Revenue from memberships to render	7	52,420	-	52,420	192,210
<b>Total current liabilities</b>		<b>627,212</b>	<b>-</b>	<b>627,212</b>	<b>553,746</b>
<b>Long-term liabilities</b>					
Employee benefits	8	527,452	-	527,452	299,767
Revenue from memberships to render	7	-	-	-	10,160
<b>Total long-term liabilities</b>		<b>527,452</b>	<b>-</b>	<b>527,452</b>	<b>309,927</b>
<b>Total liabilities</b>		<b>1,154,664</b>	<b>-</b>	<b>1,154,664</b>	<b>863,673</b>
<b>PATRIMONY</b>					
Accumulated surplus	9	25,013,083	-	25,013,083	19,710,247
Accumulated donations		-	4,388,863	4,388,863	4,576,866
Reserve fund		-	850,000	850,000	850,000
<b>Total patrimony</b>		<b>25,013,083</b>	<b>5,238,863</b>	<b>30,251,946</b>	<b>25,137,113</b>
<b>Total liabilities and patrimony</b>		<b>\$ 26,167,747</b>	<b>\$ 5,238,863</b>	<b>\$ 31,406,610</b>	<b>\$ 26,000,786</b>

The accompanying notes are an integral part of these statements of financial position.



Stephen Irvin Balfour  
President



Andrew Timothy Boardman  
Treasurer

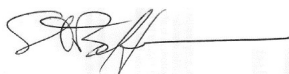
Statements of activities

For the years ended December 31, 2021 and 2020

(Stated in Mexican Pesos)

	2021			2020
	Unrestricted	Temporarily restricted	Total	Total
<b>Revenue:</b>				
Memberships	\$ 1,899,611	\$ -	\$ 1,899,611	\$ 1,552,428
Donations in cash	3,253,592	5,518,728	8,772,320	2,727,627
Sales of articles	402,174	-	402,174	359,497
Other income	1,017,750	-	1,017,750	1,003,815
<b>Total revenue</b>	<b>6,573,127</b>	<b>5,518,728</b>	<b>12,091,855</b>	<b>5,643,367</b>
<b>Operating expenses:</b>				
Payroll expenses	3,551,022	-	3,551,022	3,554,820
Administrative expenses	839,562	-	839,562	463,812
Services expenses	1,541,436	-	1,541,436	520,725
Student aid	-	389,500	389,500	385,000
Maintenance expenses	549,722	-	549,722	952,719
Professional services	193,409	-	193,409	173,877
Depreciation	138,146	-	138,146	124,719
Federal zone fees	57,970	-	57,970	58,989
<b>Total operating expenses</b>	<b>6,871,267</b>	<b>389,500</b>	<b>7,260,767</b>	<b>6,234,661</b>
<b>Comprehensive result of financing:</b>				
Interest income	230,158	-	230,158	216,236
Foreign exchange gain	53,587	-	53,587	43,712
<b>Total comprehensive result of financing</b>	<b>283,745</b>	<b>-</b>	<b>283,745</b>	<b>259,948</b>
<b>Surplus (deficit) for the year</b>	<b>\$ (14,395)</b>	<b>\$ 5,129,228</b>	<b>\$ 5,114,833</b>	<b>\$ (331,346)</b>
<b>Changes in patrimony-</b>				
	<b>Unrestricted</b>	<b>Temporarily restricted</b>		<b>Total</b>
		<b>Donations</b>	<b>Reserve Fund</b>	
Balances as of December 31, 2020	\$ 19,710,247	\$ 4,576,866	\$ 850,000	\$ 25,137,113
Surplus for the year	(14,395)	5,129,228	-	5,114,833
Temporary restricted patrimony applied	5,317,231	(5,317,231)	-	-
<b>Balances as of December 31, 2021</b>	<b>\$ 25,013,083</b>	<b>\$ 4,388,863</b>	<b>\$ 850,000</b>	<b>\$ 30,251,946</b>

The accompanying notes are an integral part of these statements.



Stephen Irvin Balfour  
President

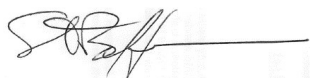


Andrew Timothy Boardman  
Treasurer

**Statements of cash flows**  
**For the years ended December 31, 2021 and 2020**  
 (Stated in Mexican Pesos)

	<u>2021</u>	<u>2020</u>
<b>OPERATION:</b>		
Surplus (deficit) for the year	\$ 5,114,833	\$ (331,346)
Items from investment activities:		
Depreciation	138,146	124,719
Interest income	<u>(230,158)</u>	<u>(216,236)</u>
	5,022,821	(422,863)
Donation receivable	(10,872)	(503)
Accounts payable and accrued liabilities	213,256	(110,508)
Employee benefits provision	227,685	54,138
Revenue from memberships to render	<u>(149,950)</u>	<u>136,782</u>
Net cash flows from operating activities	<u>5,302,940</u>	<u>(342,954)</u>
<b>INVESTMENT:</b>		
Acquisition of properties and office equipment	(5,320,461)	(11,534)
Interest gained	230,158	216,236
Net cash flows used in investment activities	<u>(5,090,303)</u>	<u>204,702</u>
Increase (decrease) in cash and cash equivalents	212,637	(138,252)
Cash and cash equivalents, beginning of year	6,661,202	6,799,454
Cash and cash equivalents, end of year	<u>\$ 6,873,839</u>	<u>\$ 6,661,202</u>

The accompanying notes are an integral part of these statements.



**Stephen Irvin Balfour**  
 President



**Andrew Timothy Boardman**  
 Treasurer



# Notes to the financial statements

## December 31, 2021 and 2020

(Amounts stated in Mexican pesos)

### 1. NATURE OF OPERATIONS

The corporate purpose of The Lake Chapala Society, A.C. (the "Association" or "LCS") is to advocate for an improvement of the standard of living in the community, promote the development of artistic and cultural activities, and facilitate regular meetings to promote friendship and camaraderie among its members and promulgate social activities.

LCS is a Mexican Nonprofit Association that was incorporated on December 5, 1979.

The Association has its head office at 16 de Septiembre St. #16A in Ajijic, Jalisco, México.

On March 11, 2020, the World Health Organization ('WHO') declared COVID-19 a pandemic, governments worldwide, including Mexico, have implemented a series of policies and actions to combat it. The Association managed to stay in business and meet its financial obligations thanks to donations from the membership, when a plan was made to promote donations and obtain other resources to face the operating costs. The staff payroll was maintained, with no requirement for staff reductions or reductions in salaries. As of the date of authorization of the issuance of the financial statements, all the resource generating activities have been reactivated slowly, so the current main focus is to keep promoting donations to enable the Association to continue its normal operations. In some cases there were national travel restrictions that affected the membership renewals.

### 2. APPROVAL AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with the Mexican Financial Reporting Standards (NIF *for its Acronym in Spanish*) issued by the Mexican Board of Financial Reporting Standards (CINIF *for its Acronym in Spanish*). Likewise, they have been prepared under the assumption that the Company operates on a going concern basis.

The accompanying financial statements and their notes were authorized to be issued by Mr. Stephen Irvin Balfour (President) and Mr. Andrew Timothy Boardman (Treasurer) on February 28, 2022. Consequently, they do not reflect events beyond that date.

The accompanying financial statements will be submitted for approval at the Association's Annual General Meeting (AAGM) to be held on March 15, 2022.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used for the preparation of these financial statements are summarized below:

#### **a. Foreign currency translation**

##### **Functional and presentation currency**

The financial statements are presented in the currency “peso”, which is also the functional currency of the Association.

The functional currency is the one in which the Association primarily generates and uses its cash flows corresponding to its sales, costs and expenses, as well as the financing obtained and other transactions.

##### **Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

#### **b. Non profit entity**

The Association is a nonprofit entity and is subject to NIF (the acronym for Mexican Financial reporting standards) applicable for nonprofit entities.

#### **c. Statements of activities**

The statements of activities presenting costs and expenses are appropriately classified as agreed upon with the Association.

#### **d. Statements of cash flows**

The Association has decided to present the statements of cash flows using the indirect method, which consist of presenting the surplus or (deficit) of income less expenses of the year first, and subsequently the changes in working capital and, finally, financing activities.

#### **e. Impact of inflation**

The Association operates in a non-inflationary environment, as defined under Mexican Financial Reporting Standards, since accumulated inflation for the three years prior to the date of the financial statements is lower than 26%.

Annual inflation in 2020, 2019 and 2018 was 3.15%, 2.83% and 4.83%, respectively. Accumulated inflation for the prior three year period was 11.19%.

The financial statements as of December 31, 2021 and 2020, are prepared under historical cost basis; therefore, they do not recognize the effects of inflation on the financial information up to December 31, 2007. Such effects are deemed not being material to the financial statements taken as a whole.

**f. Cash and cash equivalents**

Cash and cash equivalents are comprised of cash on hand and bank deposits in checking accounts and highly liquid investments that are easily convertible into cash, and not subject to material risk of changes in value.

**g. Investments in securities**

Investments in securities are measured at amortized cost.

The Association has temporarily restricted investments with a defined objective corresponding to donations received for specific purposes such as, student aid and buying books for the library of the Association. Likewise, the Association has an investment corresponding to a reserve fund established in the Constitution of the Association and intended for emergency repairs, payment of severance and other uses at the discretion of the membership that are determined during the Annual General Meeting of the members of the Association.

The Association has decided not to invest in financial instruments of risk; all investments are non-derivative financial assets in investment funds rated AAA investing in CETES, government securities and government debt. Investments may be made for up to 365 days provided the funds can be withdrawn before maturity in whole or in part on three business days' notice and with no penalty other than the loss of any interest up to the time of such early withdrawal.

**h. Properties and equipment**

Office equipment and other equipment are carried at cost, fixed assets received as donations are recognized at fair value at the time of the donation; depreciation of buildings, office equipment and other equipment is calculated based on the value of fixed assets under the straight-line method, according to their useful life at the following annual rates shown below:

Buildings	5%
Office equipment	20%
Other equipment	4%

As a result of the Association adopting Mexican Financial Reporting Standards, it was necessary to establish the fair value or current market value of the properties owned by the Association that are located at 16 de Septiembre St. # 16 and Galeana # 18 St. ("The Wilkes Center"). Two real estate brokers familiar with the Lakeside area were asked to provide these valuations. In keeping with the principles of applying conservative accounting standards, the values reflected in the financial statements are the lower of those valuations. The property located at Ribera del Lago St. # 50 and Ramón Corona St. # 12, are valued at its purchase price.

**i. Employee benefits**

The Federal Labor Law establishes the basis for payments to employees and workers whose employment has been terminated. The Association has recorded any such payments as follows:

**Severance and Retirement Payments-**

The payments, other than retirement, made to personnel terminated without cause, other than as a result of a corporate reorganization, are charged to expense for the period when they are paid. In addition, generally speaking, a reserve should be established based on the weighted average of related payments made in a three to five-year period, taking into account the probability of having to make such payments.

**Seniority Premium-**

The liability for seniority premiums payable by withdrawal payment to employees who have or expected to have, fifteen or more years of service as established by the Federal Labor Law, has been determined using the methodology established by Mexican Federal Labor Law. Notwithstanding that the obligation for seniority premium was not determined based on actuarial calculations; the related balance shown in Note 8 below is estimated to be sufficient to cover such obligation.

**j. Record of revenue and expenses**

Donations received are recorded when cash is collected, and expenditures are recognized at the time they occur. Donations receivable are recognized when they are earned, are legally enforceable and there is sufficient assurance that these will be collected, as required by NIF E-2 of the financial reporting standards, "Donations received or granted by entities with non-profit purposes".

Other revenue generated by the Association, such as services rendered, is recognized when these have been provided and accepted by the Association, revenue generated by the sales of the Thrift Shop used to be accounted for as donations.

**k. Operating expenses**

Operating expenses are recognized in surplus or deficit upon utilization of the service or as incurred.

## I. Significant management judgement in applying accounting policies and estimation uncertainty

### Significant management judgements

The following are the judgements made by management in applying the accounting policies of the Association that have the most significant effect on the financial statements.

### Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. The uncertainty in these estimates derives from technical obsolescence, physical conditions and use that may modify the expected utility.

## 4. CASH AND CASH EQUIVALENTS

	<u>2021</u>	<u>2020</u>
Petty cash and banks	\$ 231,422	\$ 480,075
Short-term investments temporarily restricted	5,238,863	5,426,866
Short-term investments not restricted	1,403,554	754,261
	<u>\$ 6,873,839</u>	<u>\$ 6,661,202</u>

As of December 31, 2021 and 2020, the amounts of temporarily restricted investments with a defined objective were \$ 4,388,863 and \$ 4,576,866, respectively. Likewise, the amounts corresponding to a reserve fund were in the amount of \$ 850,000 in both years.

During the years ended December 31, 2021 and 2020, interest generated by investments were \$ 230,158 and \$ 216,236, respectively, which are presented as part of interest income in the statements of activities.

## 5. PROPERTIES AND EQUIPMENT

	<u>2021</u>	<u>2020</u>
Buildings	\$ 9,126,192	\$ 6,479,730
Office equipment	71,245	71,245
Other equipment	475,000	475,000
	<u>9,672,437</u>	<u>7,025,975</u>
Less - Accumulated depreciation	(5,380,273)	(5,242,127)
	<u>4,292,164</u>	<u>1,783,848</u>
Land	20,213,280	17,539,281
	<u>\$ 24,505,444</u>	<u>\$ 19,323,129</u>

In prior years the Association received as a donation without restrictions two properties of 4,497 square meters and 741 square meters respectively, located at 16 de Septiembre St. # 16, Ajijic and Galeana St. # 18, Ajijic, both of which contain the Association's offices and other facilities including libraries. The property located at Ribera del Lago St. # 50 was acquired in 2015 and is recorded at cost.

On November 17, 2021 the Association acquired a property located at Ramon Corona St. # 12 for a purchase price of \$ 5,200,000. Of this total amount \$ 1,200,000 was paid on October 29, 2021, and the final payment of \$ 4,000,000 was made on November 17, 2021, on the same date there were also additional closing costs paid in the amount of \$ 120,461, in accordance with the appraisal performed it was determined a capitalization distribution of 50.26% and 49.74% for buildings and land respectively. Donations in the amount of \$ 5,320,461 were used to acquire the property.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2021</u>	<u>2020</u>
Sundry creditors	\$ 424,318	\$ 194,301
Taxes payable	150,474	167,235
	<u>\$ 574,792</u>	<u>\$ 361,536</u>

## 7. REVENUE FROM MEMBERSHIPS TO RENDER

During 2021 and 2020, to assist the Association several members renewed their memberships for more than 1 year. These prepayments received are being recognized as revenue on a monthly basis as if the member had renewed on their birthday.

The amount pending amortization of prepaid membership dues revenue at December 31, 2021 and 2020, amounted to \$ 52,420 and \$ 202,370, respectively.

## 8. EMPLOYEE BENEFITS

### Severance and Retirement Payments

At December 31, 2021 and December 31, 2020, no specific reserve for severance and retirement payments has been established. The lack of such a reserve is not material, as historically the Association has not dismissed employees without cause, nor is it the Association's practice to make such dismissals.

### Seniority Premium

As of December 31, 2021 and December 31, 2020 the Association has seniority premium reserves of \$ 527,452 and \$ 299,767, respectively. The related seniority premium expense in 2021 and 2020 was \$ 227,685 and \$ 54,138, respectively.

In 2021, an additional reserve of \$ 100,000 was established in a precautionary manner by the Association to cover those employees who are already beginning to have seniority of more than 15 years.

## **9. PATRIMONY**

The Association's Patrimony is comprised of the remaining balances of revenues over costs and expenses of each year, in conformity with the Association's bylaws.

The Association's Patrimony has been classified as follows:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

- (a) Unrestricted Net Assets- Net assets that are not subject to donor-imposed stipulations or where the donor-imposed stipulations are met in the year of the contribution.
- (b) Temporarily restricted Net Assets - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Both the Gillespie Fund and the Student Aid Funds are purpose-restricted funds that fall under this classification.
- (c) Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned or any related investments for general or specific purposes.

## **10. INCOME TAX**

The Association is considered as a non-profit legal entity as provided for in section XVII of Article 79 of the Income Tax Law. However, the second to the last paragraph of Article 79 sets forth that the amount of improperly recorded omitted income or unrealized purchases will be considered a distributable remaining balance, and the disbursements made are not deductible as provided for in Title IV of the Income Tax law, even when the foregoing has not been delivered to its members or associates in cash or goods. However at December 31, 2021 and 2020, the Association did not have a distributable remaining balance as defined under the Income Tax law.

## **11. SUBSEQUENT EVENTS**

Management permanently monitors the development of the COVID-19 pandemic and its impact on the Association; resulting from said monitoring, no significant event related to the pandemic has been identified between the reporting date and the date of authorization of the accompanying financial statements that require any adjustment or disclosure.

The Association has commenced re-introducing revenue generating activities, as and when Government regulations allow such activities to resume to pre-pandemic levels.



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Stephen Irvin Balfour  
President



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Andrew Timothy Boardman  
Treasurer