



Salles Sainz  
**Grant Thornton**

Financial statements and Independent auditor's report

The Lake Chapala Society, A.C.

December 31, 2018 and 2017

**IMPORTANT NOTE:** This is a translation of the official Spanish version of the Financial Statements and Independent Auditor's Report and accompanying Notes. Reasonable efforts have been made to do this as accurately as possible but, in the event of a conflict, the official Spanish version will prevail.



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## Independent Auditor’s Report

To the members of the Association of  
The Lake Chapala Society, A.C.:

### **Unqualified Opinion**

We have audited the accompanying financial statements of **The Lake Chapala Society, A.C.** (the Association), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of activities and 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 of December 31, 2018 and 2017, 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 Instituto Mexicano de Contadores Públicos A.C.’s Code of Professional Ethics and we have fulfilled our other ethical responsibilities in accordance with such code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Directors responsibility for the Financial Statements**

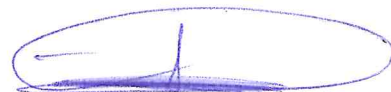
The directors of the Association are responsible for the preparation and fair presentation of these financial statements in accordance with NIF, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement,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

In preparing the financial statements, the directors of the Association are 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.C. Alejandro O. Juarez Becerra  
Partner

Guadalajara, Jalisco  
February 28, 2019

## 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 no longer 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 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.

# THE LAKE CHAPALA SOCIETY, A.C.

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## Statements of financial position

As of December 31, 2018 and 2017

(Amounts stated in Mexican pesos)

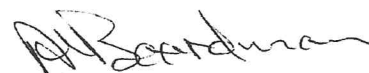
(Translation of financial statements originally issued in Spanish)

	Note	2018			2017
		Unrestricted	Temporarily restricted	Total	Total
<b>ASSETS</b>					
<b>Short term:</b>					
Cash and cash equivalents	4	\$ 1,766,182	\$ 5,840,049	\$ 7,606,231	\$ 7,255,079
Donation receivable		51,448	-	51,448	42,251
<b>Total short term assets</b>		<u>1,817,630</u>	<u>5,840,049</u>	<u>7,657,679</u>	<u>7,297,330</u>
<b>Long term:</b>					
Properties and equipment, net	5	19,557,250	-	19,557,250	19,649,440
<b>Total assets</b>		<u>\$ 21,374,880</u>	<u>\$ 5,840,049</u>	<u>\$ 27,214,929</u>	<u>\$ 26,946,770</u>
<b>LIABILITIES</b>					
<b>Short term:</b>					
Accounts payable and accrued liabilities	6	\$ 341,382	\$ -	\$ 341,382	\$ 168,830
Loan payable	7	-	-	-	411,677
Revenue from memberships to render	8	206,557	-	206,557	-
<b>Total short term liabilities</b>		<u>547,939</u>	<u>-</u>	<u>547,939</u>	<u>580,507</u>
<b>Long term:</b>					
Employee benefits	9	281,600	-	281,600	231,797
Revenue from memberships to render	8	191,008	-	191,008	-
<b>Total long term liabilities</b>		<u>472,608</u>	<u>-</u>	<u>472,608</u>	<u>231,797</u>
<b>Total liabilities</b>		<u>1,020,547</u>	<u>-</u>	<u>1,020,547</u>	<u>812,304</u>
<b>PATRIMONY</b>					
Accumulated surplus	10	20,354,333	-	20,354,333	20,135,868
Accumulated donations		-	5,090,049	5,090,049	5,348,598
Reserve fund		-	750,000	750,000	650,000
<b>Total patrimony</b>		<u>20,354,333</u>	<u>5,840,049</u>	<u>26,194,382</u>	<u>26,134,466</u>
<b>Total patrimony and liabilities</b>		<u>\$ 21,374,880</u>	<u>\$ 5,840,049</u>	<u>\$ 27,214,929</u>	<u>\$ 26,946,770</u>

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



Carole Jeanne Wolff  
President



Andrew Timothy Boardman  
Treasurer

Statements of activities

For the years ended December 31, 2018 and 2017

(Amounts stated in Mexican pesos)

(Translation of financial statements originally issued in Spanish)

	2018			2017
	Unrestricted	Temporarily restricted	Total	Total
<b>Revenue:</b>				
Memberships	\$ 1,657,439	\$ -	\$ 1,657,439	\$ 1,387,926
Donations in cash	1,679,200	284,264	1,963,464	5,630,394
Sales of articles	773,793	-	773,793	590,905
Other income	1,039,822	-	1,039,822	736,037
<b>Total revenue</b>	<b>5,150,254</b>	<b>284,264</b>	<b>5,434,518</b>	<b>8,345,262</b>
<b>Operating expenses:</b>				
Payroll expenses	2,828,620	-	2,828,620	2,573,520
Administrative expenses	561,386	-	561,386	580,901
Services expenses	890,476	-	890,476	618,160
Student aid	190,000	-	190,000	133,500
Maintenance expenses	335,537	-	335,537	206,329
Professional services	168,414	-	168,414	201,580
Depreciation	120,936	-	120,936	109,514
Federal zone fees	46,617	-	46,617	42,516
<b>Total operating expenses</b>	<b>5,141,986</b>	<b>-</b>	<b>5,141,986</b>	<b>4,466,020</b>
<b>Comprehensive financial result:</b>				
Interest income	457,916	-	457,916	191,368
Exchange (loss) gain	(147,719)	-	(147,719)	183,364
<b>Total comprehensive financial result</b>	<b>310,197</b>	<b>-</b>	<b>310,197</b>	<b>374,732</b>
<b>Surplus for the year</b>	<b>\$ 318,465</b>	<b>\$ 284,264</b>	<b>\$ 602,729</b>	<b>\$ 4,253,974</b>
<b>Changes in patrimony-</b>				
	Unrestricted	Temporarily restricted		Total
		Donations	Reserve Fund	
As of December 31, 2017	\$ 20,135,868	\$ 5,348,598	\$ 650,000	\$ 26,134,466
Surplus for the year	318,465	284,264	-	602,729
Temporarily restricted patrimony applied	-	(542,813)	-	(542,813)
Increase to the reserve fund	(100,000)	-	100,000	-
<b>As of December 31, 2018</b>	<b>\$ 20,354,333</b>	<b>\$ 5,090,049</b>	<b>\$ 750,000</b>	<b>\$ 26,194,382</b>

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



Carole Jeanne Wolff  
President



Andrew Timothy Boardman  
Treasurer

# THE LAKE CHAPALA SOCIETY, A.C.

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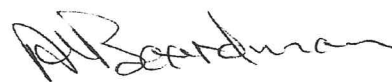
## Statements of cash flows For the years ended December 31, 2018 and 2017 (Amounts stated in Mexican pesos) (Translation of financial statements originally issued in Spanish)

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Surplus for the year	\$ 602,729	\$ 4,253,974
Items associated with investment activities:		
Depreciation	120,936	109,514
Employee benefits provision	49,803	39,381
Interest income	(457,916)	(191,368)
Items associated with financing activities:		
Temporarily restricted patrimony applied	(542,813)	(317,780)
Exchange loss from loan payable	(14,398)	(38,523)
	<u>(241,659)</u>	<u>3,855,198</u>
Donation receivable	(9,197)	(18,744)
Accounts payable and accrued liabilities	172,552	44,054
Revenue from memberships to render	397,565	-
Net cash flows from operating activities	<u>560,920</u>	<u>25,310</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of building and office equipment	(28,746)	(268,500)
Interest gained	457,916	191,368
Net cash flows from investing activities	<u>429,170</u>	<u>(77,132)</u>
<b>FINANCING ACTIVITIES</b>		
Loan paid	(397,279)	(170,000)
Net cash flows from financing activities	<u>(397,279)</u>	<u>(170,000)</u>
Increase in cash and cash equivalents	351,152	3,633,376
Cash and cash equivalents at beginning of year	7,255,079	3,621,703
Cash and cash equivalents at end of year	<u>\$ 7,606,231</u>	<u>\$ 7,255,079</u>

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



**Carole Jeanne Wolff**  
President



**Andrew Timothy Boardman**  
Treasurer



## Notes to the financial statements

December 31, 2018 and 2017

(Amounts stated in Mexican pesos)

(Translation of financial statements originally issued in Spanish)

### 1. NATURE OF OPERATIONS AND SIGNIFICANT ACTIVITIES

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 Calle 16 de Septiembre #16A in Ajijic, Jalisco Mexico.

In September of 2016, LCS opened a Thrift Shop, ¡QUÉ GANGA!. The Thrift Shop accepts donations of clothing & merchandise and resells these items to the public.

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

The accompanying financial statements have been prepared in accordance with the 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 Association operates on a going concern basis.

The accompanying financial statements were authorized to be issued by Ms. Carole Jeanne Wolff (President) and Mr. Andrew Timothy Boardman (Treasurer) on February 28, 2019, consequently, they do not reflect events occurring subsequent to that date.

The accompanying financial statements will be submitted for approval at the Association's Annual General Meeting (AAGM) to be held on March 19, 2019.

### **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.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction dates).

#### **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 2017, 2016, and 2015 was 6.7730%, 3.3603% and 2.1308%, respectively; therefore, accumulated inflation for the prior three year period was 12.7124%.

The financial statements as of December 31, 2018 and 2017, 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 recorded at market value.

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:

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 Calle 16 de Septiembre #16 and Calle Galeana #18 (“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 Calle Ribera del Lago #50, is 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 Federal Labor Law states that 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-

Federal Labor Law requires that financial statements reflect a liability for seniority premiums payable to employees who have, or are expected to have, fifteen or more years of service as established by the Federal Labor Law. This reserve 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 9 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.

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 is accounted for as donations.

**k. Operating expenses**

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

**1. 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. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

**4. CASH AND CASH EQUIVALENTS**

As of December 31, 2018 and 2017, cash and cash equivalents are analyzed as follows:

	2018	2017
Petty cash and banks	\$ 117,881	\$ 136,543
Short-term investments temporarily restricted	5,840,049	5,998,598
Short-term investments not restricted	1,648,301	1,119,938
	<u>\$ 7,606,231</u>	<u>\$ 7,255,079</u>

As of December 31, 2018 and 2017, the amounts of temporarily restricted investments with a defined objective were \$ 5,090,049 and \$ 5,348,598, respectively. Likewise, the amounts corresponding to a reserve fund were in the amounts of \$ 750,000 and \$ 650,000 respectively.

During the years ended December 31, 2018 and 2017 interest generated by investments were \$ 457,916 and \$ 191,368 respectively, which are presented as part of interest income in the statements of activities.

**5. PROPERTIES AND EQUIPMENT**

As of December 31, 2018 and 2017, Properties and equipment are detailed as shown in next page:

	2018	2017
Buildings	\$ 6,479,730	\$ 6,479,730
Office equipment	66,884	38,138
Other equipment	475,000	475,000
	<u>7,021,614</u>	<u>6,992,868</u>
Less - Accumulated depreciation	5,003,645	4,882,709
	<u>2,017,969</u>	<u>2,110,159</u>
Land	17,539,281	17,539,281
	<u>\$ 19,557,250</u>	<u>\$ 19,649,440</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 Calle 16 de Septiembre #16, Ajijic and Calle Galeana # 18, Ajijic, both of which contain the Association's offices and other facilities including libraries.

#### **6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As of December 31, 2018 and 2017, accounts payable and accrued liabilities are analyzed as follows:

	2018	2017
Sundry creditors	\$ 221,728	\$ 33,695
Taxes payable	119,654	135,135
	<u>\$ 341,382</u>	<u>\$ 168,830</u>

#### **7. LOAN PAYABLE**

Unsecured short-term loan paid in full in December 2018, to a former member of the Association in US dollars in the amount of \$ 30,000 USD, as of December 31, 2017, (\$ 411,677 mxp).

#### **8. REVENUE FROM MEMBERSHIPS TO RENDER**

The AAGM in March 2018, increased full annual membership dues from \$ 540 to \$ 700. Members were allowed to prepay up to 2 years of membership dues at the old membership rates prior to April 30, 2018.

This resulted in a prepayment of membership dues revenue, over and above normal renewals of \$ 408,000.

This prepayment received is being recognized as revenue on a monthly basis as if the member had renewed on their birthday.

The amount received of prepaid membership dues revenue at December 31, 2018 amounted to \$ 397,555.

## 9. EMPLOYEE BENEFITS

As of December 31, 2018 and 2017, employee benefits are summarized as follows:

### Severance and Retirement Payments-

At December 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017 the Association has seniority premium reserves of \$ 281,600 and \$ 231,797, respectively. The related seniority premium expense for 2018 was \$ 49,803 and \$ 39,381 for 2017.

## 10. 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.

## 11. 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, 2018 and 2017, the Association did not have a distributable remaining balance as defined under the Income Tax law.

## **12. SUBSEQUENT EVENTS**

No adjusting or significant non-adjusting events have occurred between the 31 December reporting date and the date of authorization.