

**The Lake Chapala Society, A.C.**

**Financial statements**

**December 31, 2023 and 2022**



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# THE LAKE CHAPALA SOCIETY, A.C.

## Statement of financial position

As of December 31, 2023 and 2022

(Stated in Mexican Pesos)

	Notes	2023			2022
		Unrestricted	Restricted	Total	Total
<b>ASSETS</b>					
<b>Short term:</b>					
Cash & cash equivalents	4	\$ 1,718,695	\$ 8,624,001	\$ 10,342,696	\$ 12,175,503
Donations receivable		10,860	-	10,860	56,803
<b>Total short term assets</b>		<u>1,729,555</u>	<u>8,624,001</u>	<u>10,353,556</u>	<u>12,232,306</u>
<b>Long term:</b>					
Properties & equipment, net	5	24,970,561	-	24,970,561	24,245,992
<b>Total assets</b>		<u>\$ 26,700,117</u>	<u>\$ 8,624,001</u>	<u>\$ 35,324,118</u>	<u>\$ 36,478,298</u>
<b>LIABILITIES</b>					
<b>Short term:</b>					
Accounts payable & accrued liabilities	6	\$ 341,333	\$ -	\$ 341,333	\$ 270,215
Income tax payable	9	363,689	-	363,689	623,850
<b>Total short term liabilities</b>		<u>705,022</u>	<u>-</u>	<u>705,022</u>	<u>894,065</u>
<b>Long term:</b>					
Employee benefits	7	485,724	-	485,724	610,225
		-	-	-	-
<b>Total long term liabilities</b>		<u>485,724</u>	<u>-</u>	<u>485,724</u>	<u>610,225</u>
<b>Total liabilities</b>		<u>1,190,745</u>	<u>-</u>	<u>1,190,745</u>	<u>1,504,290</u>
<b>PATRIMONY</b>					
	8				
Accumulated surplus		25,509,372		25,509,372	25,710,875
Accumulated restricted donations		-	7,624,001	7,624,001	8,413,133
Reserve fund		-	1,000,000	1,000,000	850,000
<b>Total patrimony</b>		<u>25,509,372</u>	<u>8,624,001</u>	<u>34,133,373</u>	<u>34,974,008</u>
<b>Total patrimony &amp; liabilities</b>		<u>\$ 26,700,117</u>	<u>\$ 8,624,001</u>	<u>\$ 35,324,118</u>	<u>\$ 36,478,298</u>

The accompanying notes are an integral part of these financial statements

# THE LAKE CHAPALA SOCIETY, A.C.

## Statement of activities

For the years ended December 31, 2023 and 2022

(Stated in Mexican Pesos)

	Note	2023			2022
		Unrestricted	Restricted	Total	Total
<b>Revenue:</b>					
Memberships		\$ 2,041,738	\$ -	\$ 2,041,738	\$ 2,154,546
Donations in cash		2,731,391	293,831	3,025,222	8,520,352
Sales of articles		483,865	-	483,865	521,072
Other income		1,702,115	-	1,702,115	1,675,494
<b>Total revenue</b>		<u>6,959,109</u>	<u>293,831</u>	<u>7,252,940</u>	<u>12,871,464</u>
<b>Operating expenses:</b>					
Payroll expenses		3,888,599	-	3,888,599	3,550,644
Administrative expenses		1,399,058	-	1,399,058	893,149
Services expenses		2,028,315	18,463	2,046,778	2,307,560
Student aid		-	364,500	364,500	412,500
Maintenance expenses		932,127	-	932,127	1,034,225
Professional services		151,063	-	151,063	191,575
Depreciation		269,419	-	269,419	259,452
Federal zone fees		86,437	-	86,437	66,488
<b>Total operating expenses</b>		<u>8,755,018</u>	<u>382,963</u>	<u>9,137,981</u>	<u>8,715,592</u>
<b>Comprehensive financial result:</b>					
Interest income		1,044,405	-	1,044,405	566,191
Exchange (loss) gain		-	-	-	-
<b>Total comprehensive financial result</b>		<u>1,044,405</u>	<u>-</u>	<u>1,044,405</u>	<u>566,191</u>
<b>Surplus (deficit) for the year</b>		<u>\$ (751,503)</u>	<u>\$ (89,132)</u>	<u>\$ (840,635)</u>	<u>\$ 4,722,062</u>

### Changes in patrimony

	Unrestricted	Restricted		Total
		Donations	Reserve Fund	
<b>As of December 31, 2022</b>	\$ 25,710,875	\$ 8,413,133	\$ 850,000	\$ 34,974,008
Surplus (deficit) for the year	(751,503)	(89,132)	-	(840,635)
Temporary restricted patrimony applied	700,000	(700,000)	-	-
Increase in reserve fund	(150,000)	-	150,000	-
<b>As of December 31, 2023</b>	<u>\$ 25,509,372</u>	<u>\$ 7,624,001</u>	<u>\$ 1,000,000</u>	<u>\$ 34,133,373</u>

The accompanying notes are an integral part of these financial statements

# THE LAKE CHAPALA SOCIETY, A.C.

## Statement of cash flows

For the years ended December 31, 2023 and 2022

(Stated in Mexican Pesos)

	<u>2023</u>	<u>2022</u>
<b>OPERATING ACTIVITIES</b>		
Surplus (deficit) for the year	\$ (840,636)	\$ 4,722,062
Items associated with investment activities		
Depreciation	269,419	259,452
Employee benefits provision	(124,501)	532,773
Interest income	<u>(1,044,405)</u>	<u>(566,191)</u>
	(1,740,123)	4,948,096
Donations receivable	45,943	(29,476)
Accounts payable & accrued liabilities	71,118	(130,727)
Revenue from memberships to render	-	(52,420)
Taxes paid	<u>(260,161)</u>	<u>-</u>
Net cash flows from operating activities	<u>(1,883,224)</u>	<u>4,735,473</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of properties & equipment	(993,988)	-
Interest income	<u>1,044,405</u>	<u>566,191</u>
Net cash flows from investing activities	<u>50,417</u>	<u>566,191</u>
Increase (decrease) in cash and cash equivalents	(1,832,807)	5,301,663
Cash & cash equivalents beginning of year	<u>12,175,503</u>	<u>6,873,840</u>
Cash & cash equivalents end of year	<u>\$ 10,342,696</u>	<u>\$ 12,175,503</u>

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

# Notes to the financial statements

December 31, 2023 and 2022

(Amounts stated in Mexican Pesos)

## 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.

## 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 Mr. Stephen Irvin Balfour (President) and Mr. Andrew Timothy Boardman (Treasurer) on February 26, 2024, 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, 2024.

## 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 2022, 2021, and 2020 was 7.82%, 7.63% and 3.39% , respectively; therefore, accumulated inflation for the prior three year period was 18.84%.

The financial statements as of December 31, 2023 and 2022 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 properties located at Calle Ribera del Lago #50 and Ramon Corona #16 are valued at their 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 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.

Other revenue generated by the Association, such as services rendered, is recognized when these have been provided and accepted by the Association.

### **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. 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, 2023 and 2022

, cash and cash equivalents are analyzed as follows:

	<u>2023</u>	<u>2022</u>
Petty cash and banks	824,167	748,113
Short-term investments temporarily restricted	8,624,001	9,263,133
Short-term investments not restricted	894,528	2,164,257
	<u>10,342,696</u>	<u>12,175,503</u>

As of December 31, 2023 and 2022, the amounts of temporarily restricted investments with a defined objective were \$ 7,624,001 and \$ 8,413,133 , respectively. Likewise, the amounts corresponding to a reserve fund was in the amount of \$ 1,000,000 and \$ 850,000 .

During the years ended December 31, 2023, and 2022 interest generated by investments were \$1,044,405 and \$566,191, respectively, which are presented as part of interest income in the statements of activities.

#### 5. PROPERTIES AND EQUIPMENT

As of December 31, 2023 and 2022, Properties and equipment are detailed as shown below:

	<u>2023</u>	<u>2022</u>
Buildings	10,046,406	9,126,192
Office equipment	145,018	71,245
Other equipment	475,000	475,000
	<u>10,666,424</u>	<u>9,672,437</u>
Less – Accumulated depreciation	5,909,144	5,637,726
	<u>4,757,280</u>	<u>4,034,711</u>
Land	20,213,281	20,213,281
	<u>24,970,562</u>	<u>24,245,992</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.

During 2023, major renovations were undertaken to the cafe area, these have been capitalized.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2023 and 2022, accounts payable and accrued liabilities are analyzed as follows:

	<u>2023</u>	<u>2022</u>
Sundry creditors	160,938	220,215
Taxes payable	180,395	50,000
	<u>341,333</u>	<u>270,215</u>

## 7. EMPLOYEE BENEFITS

As of December 31, 2023 and 2022, employee benefits are summarized as follows:

### Severance and Retirement Payments-

At December 31, 2023 and December 31, 2022, 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, 2023 and December 31, 2022 the Association has seniority premium reserves of \$ 485,724 and \$ 610,225 respectively. The related seniority premium expense for 2023 was \$82,773 and \$ 227,685 for 2022.

## 8. 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.

## **9. 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.

## **10. SUBSEQUENT EVENTS**

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