

**Financial Statements**

**Lindo Mar  
Adventure Club, LTD.**

**For the Year Ended  
December 31, 2016**

# **Lindo Mar Adventure Club, LTD.**

## **Contents**

**December 31, 2016**

**(Summarized Totals for 2015)**

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## **Independent Accountants' Review Report**

Board of Directors  
Lindo Mar Adventure Club, LTD.  
Lake Forest, California

We have reviewed the accompanying financial statements of Lindo Mar Adventure Club LTD. as of December 31, 2016, which comprise of the balance sheet and the related statements of revenues, expenses, changes in fund balances, comprehensive income, cash flows and other operating expenses for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion on the Financial Statements**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

The Supplemental Information on Future Major Repairs and Replacements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

**Prior Year Financial Statements**

The prior year summarized comparative information has been derived from the Association's December 31, 2015 financial statements and, in our report dated April 22, 2016 we indicated that we were not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

FITZGERALD & ASSOCIATES, INC. CPAs

Redlands, California  
May 4, 2017

# Lindo Mar Adventure Club, LTD.

## Balance Sheet

December 31, 2016

(Summarized Totals for 2015)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Assets</b>				
Cash	\$ 1,444,230	\$ 413,905	\$ 1,858,135	\$ 1,430,390
Accounts receivable, net (Note 4)	26,767	-	26,767	31,478
Inventory (Note 5)	16,225	-	16,225	17,710
Prepaid expenses (Note 6)	73,120	-	73,120	82,613
Interfund balance	(382,993)	382,993	-	-
Total assets	<u>\$ 1,177,349</u>	<u>\$ 796,898</u>	<u>\$ 1,974,247</u>	<u>\$ 1,562,191</u>
<b>Liabilities and Fund Balances</b>				
Accounts payable	\$ 19,059	\$ -	\$ 19,059	\$ 19,854
Accrued expenses	4,982	-	4,982	7,066
Taxes payable, US	25,740	-	25,740	-
Taxes payable, Mexico	41,151	-	41,151	40,991
Prepaid assessments	986,417	-	986,417	1,049,847
Total liabilities	<u>1,077,349</u>	<u>-</u>	<u>1,077,349</u>	<u>1,117,758</u>
Fund balances	210,021	796,898	1,006,919	530,611
Accumulated other comprehensive income	<u>(110,021)</u>	<u>-</u>	<u>(110,021)</u>	<u>(86,178)</u>
Total liabilities and fund balances	<u>\$ 1,177,349</u>	<u>\$ 796,898</u>	<u>\$ 1,974,247</u>	<u>\$ 1,562,191</u>

See independent accountants' review report and accompanying notes to financial statements.

## Lindo Mar Adventure Club, LTD.

### Statement of Revenue, Expenses, and Changes in Fund Balances For the Year Ended December 31, 2016 (Summarized Totals for 2015)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Revenue</b>				
Regular assessments	\$ 1,203,293	\$ 150,333	\$ 1,353,626	\$ 1,239,051
Membership sales, net (Note 9)	58,283	-	58,283	30,950
Restaurant and bar income, net	122,408	-	122,408	74,347
Interest income	3,023	1,160	4,183	1,811
Rental income	111,386	-	111,386	84,906
Late fees and other	58,151	-	58,151	54,685
Total revenue	<u>1,556,544</u>	<u>151,493</u>	<u>1,708,037</u>	<u>1,485,750</u>
<b>Expenses</b>				
Bad debt expense	9,189	-	9,189	8,186
Facilities maintenance	111,244	-	111,244	118,332
Front desk and housekeeping	263,319	-	263,319	284,222
General and administrative (Schedule)	680,197	-	680,197	783,135
Income tax expense	51,703	-	51,703	42,440
Replacement expenditures	-	116,077	116,077	118,434
Total expenses	<u>1,115,652</u>	<u>116,077</u>	<u>1,231,729</u>	<u>1,354,749</u>
Excess revenue (expenses)	440,892	35,416	476,308	131,001
Fund balances, beginning of year	186,178	344,433	530,611	399,610
Fund transfers	<u>(417,049)</u>	<u>417,049</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 210,021</u>	<u>\$ 796,898</u>	<u>\$ 1,006,919</u>	<u>\$ 530,611</u>

See independent accountants' review report and accompanying notes to financial statements.

## Lindo Mar Adventure Club, LTD.

### Statement of Comprehensive Income For the Year Ended December 31, 2016 (Summarized Totals for 2015)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
Excess revenue (expenses)	\$ 440,892	\$ 35,416	\$ 476,308	\$ 131,001
Foreign currency translation adjustment	<u>(23,842)</u>	<u>-</u>	<u>(23,842)</u>	<u>(14,097)</u>
Comprehensive income	<u>\$ 417,050</u>	<u>\$ 35,416</u>	<u>\$ 452,466</u>	<u>\$ 116,904</u>

See independent accountants' review report and accompanying notes to financial statements.

## Lindo Mar Adventure Club, LTD.

### Statement of Cash Flows For the Year Ended December 31, 2016 (Summarized Totals for 2015)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Cash Flows From Operating Activities</b>				
Excess revenue (expenses)	\$ 440,892	\$ 35,416	\$ 476,308	\$ 131,001
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Changes in:				
Accounts receivable	4,711	-	4,711	7,419
Inventory	1,485	-	1,485	3,359
Prepaid expenses	9,493	-	9,493	(77,327)
Accounts payable	(795)	-	(795)	5,123
Accrued expenses	(2,084)	-	(2,084)	(14)
Taxes payable - US	25,740	-	25,740	(9,115)
Taxes payable - Mexico	160	-	160	(32,009)
Prepaid assessments	(63,431)	-	(63,431)	87,140
Net cash provided (used) by operating activities	<u>416,171</u>	<u>35,416</u>	<u>451,587</u>	<u>115,577</u>
Effect of exchange rate changes on cash	<u>(23,842)</u>	<u>-</u>	<u>(23,842)</u>	<u>(14,097)</u>
<b>Cash Flows from Financing Activities</b>				
Interfund balances	246,407	(246,407)		
Fund transfers	<u>(417,049)</u>	<u>417,049</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(170,642)</u>	<u>170,642</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	221,687	206,058	427,745	101,564
Cash, beginning of year	<u>1,222,543</u>	<u>207,847</u>	<u>1,430,390</u>	<u>1,328,826</u>
Cash, end of year	<u>\$ 1,444,230</u>	<u>\$ 413,905</u>	<u>\$ 1,858,135</u>	<u>\$ 1,430,390</u>

See independent accountants' review report and accompanying notes to financial statements.



## Lindo Mar Adventure Club, LTD.

### Statement of Other Operating Expenses For the Year Ended December 31, 2016 (Summarized Totals for 2015)

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	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
<b>General and Administrative</b>		
General and administrative	\$ 51,522	\$ 62,657
Bank and credit card fees	1,585	(188)
Directors expenses	7,809	9,928
Insurance expense	69,073	55,279
IVA and maintenance tax in Mexico	70,378	135,273
Legal fees	3,529	4,134
Management fees	214,056	214,056
Office expenses	6,574	8,066
Property taxes	2,877	3,431
Salaries and related expenses	238,723	272,283
Telephone expense	11,574	11,333
Travel and lodging	2,497	6,883
Total general and administrative services	<u>\$ 680,197</u>	<u>\$ 783,135</u>

See independent accountants' review report and accompanying notes to financial statements.

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

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### **1. Organization and Other Matters**

Lindo Mar Adventure Club, LTD. is a nonprofit mutual benefit corporation organized in Oregon in December 1986. The Club is responsible for the operation and maintenance of 46 condominium units in Puerto Vallarta, Mexico. The Club sells memberships in 52 weekly intervals.

In 2001 the Club purchased 97 percent of the building and land that the club occupies in Puerto Vallarta, Mexico. Title to this purchase is being held through LMM Trust, a Nevada entity, for which the members of the Club are the only beneficiaries.

### **2. Significant Accounting Policies**

#### *Comparative Information*

The financial statements include certain 2015 comparative information. With respect to the balance sheet, the statement of revenue, expenses and fund balances and the statement of cash flows, such prior year information is not presented by fund. Accordingly, such information should be read in conjunction with the Club's financial statement for the year ended December 31, 2015 from which the summarized information was derived.

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the reporting date and revenues, and expenses during the reporting period. Actual results could differ from those estimates.

#### *Foreign Currency Transactions*

The U.S. Dollar has been determined to be the appropriate functional currency for all operations of the Club. The Club bills and collects the assessments from members in U.S. Dollars and pays its expenses for operation of the property in Mexican Pesos. Management fees, insurance, legal and professional fees of the Club are paid in U.S. Dollars. The Club records the Peso transactions in its financial statements in U.S. Dollars using the average exchange rate for the month of the transaction.

#### *Fund Accounting*

The Club's governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Club maintains its records using fund accounting. They classify transactions for accounting and reporting purposes in funds established according to their nature and purpose.

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

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### **2. Significant Accounting Policies** (continued)

#### *Fund Accounting* (concluded)

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Club.

Replacement Fund - This fund is used to account for financial resources designated for future major repairs and replacements.

#### *Cash and Cash Equivalents*

The Club considers all temporary cash investments with maturity of three months or less to be cash equivalents.

#### *Other Comprehensive Income*

The Club accounts for comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." Statement No. 130 requires the reporting of comprehensive income in addition to excess revenues (expenses). Comprehensive income is a more inclusive financial reporting methodology that includes disclosures of certain financial information that historically has not been recognized in the calculation of excess revenues (expenses). For the reporting periods, the Club's comprehensive income consists of foreign currency translation adjustments.

#### *Member Assessments*

Members are subject to annual assessments to provide funds for operating expenses and future major repairs and replacements. The annual budget and assessments of owners are determined by the board of directors. Assessments receivable at the reporting dates represent amounts due from unit owners. The Club establishes an allowance for all unpaid accounts with delinquent balances outstanding for more than 90 days.

The Club's policy is to accrue interest on all amounts due, including delinquent assessments, reasonable collection costs and late charges commencing 30 days after assessments become due. Interest and related charges are recorded as income when billed to the owner. In addition, the Club's policies permit various collection remedies for delinquent assessments, which include filing liens, foreclosing on the unit owner, and obtaining judgment against the owner. Any excess assessments at year-end are retained by the Club for use in the succeeding year. See Note 4 for additional information on assessments receivable.

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

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### **2. Significant Accounting Policies** (concluded)

#### *Inventory*

Inventory is valued at the lower of cost or market using the first-in first-out method and consists entirely of supplies in Mexico. See Note 5 for additional information.

#### *Major Repairs and Replacements*

Members pay a portion of their Club dues for reserve expenses, generally major repairs and replacements. The Club deposits these funds in separate interest-bearing bank accounts. See Note 7 for a further discussion of reserves.

#### *Property and Equipment*

The Club conforms to industry practice in recognizing real property and common areas as assets. Based on this practice, the Club would only capitalize property to which it has title and to which the board of directors has discretion to dispose of the property and retain the proceeds for the Club's use. Since the real property and common areas are owned in common by the individual unit owners and not by the Club, they are not capitalized and presented in the financial statements of the Club. The acquisition costs and improvements to such properties are charged directly to current period replacements.

#### *Prepaid Assessments*

Prepaid assessments include amounts received in advance from owners. The Club bills the annual assessments in advance and some owners pay the amount due in advance. These amounts are deferred at year-end, and then recognized into income when they are earned during the next assessment period.

### **3. Income Taxes**

The Club may elect to be taxed in the United States either as a timeshare association or as a regular corporation. The Club elected to be taxed as a timeshare association in accordance with Internal Revenue Code Section 528 for the year ending December 31, 2016 and 2015. Under that Section, the Club is not taxed on assessments to members and other income received from Club members solely as a function of their membership in the Club. The Club is taxed at the rate of 32% on its nonexempt function income such as interest, rental, and bar and restaurant income.

The Club's state and federal income tax filings are subject to audit by various taxing authorities. While the Club currently has no income tax returns under audit, the open tax audit periods, for which the statute of limitations has not expired, are 2013 through 2016. For the years ending December 31, 2016 and 2015, the Club paid income tax interest and penalties of \$26 and \$0, respectively.

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

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### 4. Accounts Receivable

Accounts receivable at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Assessments from owners	\$15,264	\$13,601
Rental income	19,299	6,628
Guest receivables	6,374	10,818
Other accounts receivable	1,094	13,251
Allowance for doubtful accounts	<u>(15,264)</u>	<u>(12,820)</u>
Accounts receivable, net	<u>\$26,767</u>	<u>\$31,478</u>

### 5. Inventory

Inventory at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Bar and restaurant supplies	\$12,613	\$13,613
Cleaning and maintenance supplies	690	449
Office and other	<u>2,922</u>	<u>3,648</u>
Total inventory	<u>\$16,225</u>	<u>\$17,710</u>

### 6. Prepaid Expenses

Prepaid expenses at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Insurance	\$66,149	\$62,744
Income taxes	-0-	5,278
Deposits – Mexico	402	480
Other prepaid expenses in U. S.	-0-	2,470
Other prepaid expenses in Mexico	<u>6,569</u>	<u>11,641</u>
Total prepaid expenses	<u>\$73,120</u>	<u>\$82,613</u>

### 7. Future Major Repairs and Replacements

The Club's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

### 7. *Future Major Repairs and Replacements* (concluded)

Better Reserve Consultants conducted a study in December 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 2.5 percent and interest of 0.2 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the compiled supplementary information on Future Major Repairs and Replacements is based on the study.

In 2016 the board of directors decided to fund 100 percent of the amount recommended by the study. Accordingly, \$150,333 was included in the 2016 budget. For that reason, and because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Club has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The board of directors voted to transfer \$382,993 from the operating fund to the replacement fund as an additional reserve funding for the year ending December 31, 2016.

### 8. *Commitments and Contingencies*

The Club entered into a non-cancellable-operating lease of real property in the city of Puerto Vallarta, Jalisco for the operation of a restaurant. The term of the lease was from January 1, 2012 to December 31, 2016. The parties renewed the lease agreement for an additional five-year period through December 31, 2021. Rent expenses recorded in the financial statements under this lease were \$62,051 and \$61,942 for 2016 and 2015 respectively.

The future minimum obligations under the above lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2017	\$62,051
2018	62,051
2019	62,051
2020	62,051
2021	62,051
Thereafter	<u>-0-</u>
Total	<u>\$310,255</u>

# Lindo Mar Adventure Club, LTD.

## Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)

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### 8. Commitments and Contingencies (concluded)

The Club renewed a three-year management agreement with Trading Places International (TPI) which will expire December 31, 2018. The agreement increases annually by the Consumer Price Index, not to exceed 2 percent per year, and automatically renews for additional one-year terms unless either party has given written notice of non-renewal at least 90 days prior to the expiration of the then current term. Any such notice given by the Club shall require the vote or majority assent of all owners. TPI will provide administrative, financial and accounting services for the Club.

The future minimum obligations under the above agreement are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2017	214,056
2018	214,056
2019	-0-
2020	-0-
2021	-0-
Thereafter	-0-
Total	<u>\$428,112</u>

### 9. Membership Inventory

As of December 31, 2016 and 2015, the Club owned 46 condominium units representing 2,392 total membership intervals. Additional information on interval sales during the reporting periods is as follows:

	<u>2016</u>	<u>2015</u>
Gross membership sales	\$104,939	\$133,500
Commissions and fees paid	<u>(46,731)</u>	<u>(108,370)</u>
Net proceeds to the Club	\$58,208	\$25,130
Commission on Member to Member sales	<u>75</u>	<u>5,820</u>
Total	<u>\$58,283</u>	<u>\$30,950</u>

# **Lindo Mar Adventure Club, LTD.**

## **Notes to Financial Statements December 31, 2016 (Summarized Totals for 2015)**

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### ***10. Supplemental Cash Flow Disclosures***

Cash flows from operating activities include the payment of Federal income taxes amounting to \$6,813 in 2016 and \$34,277 in 2015.

### ***11. Financial Instruments***

The Association maintains operating accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in 2016 and 2015. The Association occasionally maintains deposits in excess of federally insured limits due to the timing of assessment cash receipts. At December 31, 2016 and 2015, the Association's uninsured cash balance totaled \$366,398 and \$426,722. Management frequently makes transfers to other financial institutions to stay within the FDIC limits. This is a temporary situation due to assessments to members being billed annually.

### ***12. Reclassification***

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

### ***13. Subsequent Events***

Management has evaluated subsequent events through May 4, 2017, the date which the financial statements were available for issue. Management has determined there are no subsequent events that require recognition or disclosure in these financial statements.



## Supplemental Information

## Lindo Mar Adventure Club, LTD.

### Supplemental Information on Future Major Repairs and Replacements (Compiled) December 31, 2016

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Better Reserve Consultants conducted a study in December 2016 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 2.5% and interest of 0.2%, net of taxes, on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property.

<b>Component</b>	<b>Estimated Remaining Useful Life (Years)</b>	<b>Estimated December 2016 Replacement Cost</b>	<b>Estimated 2017 Funding Requirement</b>	<b>Reserve Expenditures For the Year Ended 12/31/16</b>	<b>Replacement Fund Balance at 12/31/16</b>
Building exterior	3-29	\$ 26,450	\$ 6,060	\$ (5,762)	\$ 18,586
Building interior	0-29	338,350	77,519	(70,530)	237,751
Common area	0-20	2,700	619	-	1,897
Exercise room	0-7	27,750	6,358	-	19,499
Pool area	3-9	30,100	6,896	(3,218)	21,151
Units	1-30	1,312,500	300,705	(31,241)	922,266
Restaurant	0	-	-	(3,326)	-
Reserve study	0-1	8,050	1,844	(2,000)	5,657
Subtotal		1,745,900	400,000	(116,077)	1,226,807
Fund deficit		-	-	-	(429,909)
Totals		<u>\$ 1,745,900</u>	<u>\$ 400,000</u>	<u>\$ (116,077)</u>	<u>\$ 796,898</u>

*Estimated December 2016 Replacement Cost* - This column is an estimate of the cost to the Club if all of the components of the reserve study required replacement in December 2016.

See independent accountants' report.