

LINDO MAR ADVENTURE CLUB, LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2017

WITH

ACCOUNTANT'S REVIEW REPORT
AND SUPPLEMENTARY INFORMATION

LINDO MAR ADVENTURE CLUB, LTD.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Owners
Lindo Mar Adventure Club, LTD.

We have reviewed the accompanying balance sheet of Lindo Mar Adventure Club, LTD., an Oregon non-profit mutual benefit corporation, which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended and the related notes to financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review 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 statement 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

Based upon 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.

Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. Such information was not audited or reviewed by us and, accordingly, we do not express an opinion or provide any assurance on it.


SCHONWIT & ASSOCIATES
Costa Mesa, California

March 12, 2018

LINDO MAR ADVENTURE CLUB, LTD.
BALANCE SHEET
AS OF DECEMBER 31, 2017
(unaudited)

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents [Note 6]	\$ 1,115,650	\$ 150,437	\$ 1,266,087
Assessments and other receivables, net of allowance for doubtful collection of \$27,010	41,335	--	41,335
Investments [Note 7]	100,000	855,000	955,000
Inventory	18,000	--	18,000
Accrued interest receivable	3,821	--	3,821
Prepaid expenses	61,586	--	61,586
Deposits	421	--	421
Due (to)/from fund	(155,266)	155,266	-
Total Assets	\$ 1,185,547	\$ 1,160,703	\$ 2,346,250
 LIABILITIES			
Accounts payable	\$ 46,651	\$ --	\$ 46,651
Other accrued expenses & liabilities	12,997	--	12,997
Taxes payable, U.S.	11,180	--	11,180
Taxes payable, Mexico	42,492	--	42,492
Prepaid assessments	972,227	--	972,227
Total Liabilities	1,085,547	--	1,085,547
Fund Balances	213,713	1,160,703	1,374,416
Accumulated other comprehensive income	(113,713)	--	(113,713)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,185,547	\$ 1,160,703	\$ 2,346,250

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

LINDO MAR ADVENTURE CLUB, LTD.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017
(unaudited)

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 909,021	\$ 390,917	\$ 1,299,938
Timeshare sales	117,147	-	117,147
Restaurant and bar income	838,760	-	838,760
Interest income	11,736	--	11,736
Rental income & related	186,482	--	186,482
Late fees & other income	38,824	--	38,824
Total Revenues	<u>2,101,970</u>	<u>390,917</u>	<u>2,492,887</u>
EXPENSES			
Cost of sales: restaurant and bar	267,171	--	267,171
Restaurant/bar: other costs (supplementary information)	422,825	--	422,825
Front desk & housekeeping costs (supplementary information)	301,856	--	301,856
Maintenance (supplementary information)	113,039	--	113,039
Administrative & security (supplementary information)	426,868	--	426,868
Replacement fund expenses (supplementary information)	--	182,378	182,378
Income taxes	82,558	--	82,558
U.S operating expenses (supplementary information)	312,870	--	312,870
Bad debt expense	15,825	--	15,825
Total Expenses	<u>1,943,012</u>	<u>182,378</u>	<u>2,125,390</u>
Excess of revenues over expenses	158,958	208,539	367,497
Beginning Fund Balances	210,021	796,898	1,006,919
Interfund Transfers	<u>(155,266)</u>	<u>155,266</u>	<u>--</u>
Ending Fund Balances	<u>\$ 213,713</u>	<u>\$ 1,160,703</u>	<u>\$ 1,374,416</u>

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

LINDO MAR ADVENTURE CLUB, LTD.
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (unaudited)

	Operating Fund	Replacement Fund	Total
Excess of revenues over expenses	\$ 158,958	\$ 208,539	\$ 367,497
Foreign currency translation adjustment	(3,692)	--	(3,692)
Comprehensive income	\$ 155,266	\$ 208,539	\$ 363,805

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

LINDO MAR ADVENTURE CLUB, LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(unaudited)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess of revenues over expenses:	\$ 158,958	\$ 208,539	\$ 367,497
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:			
Increase in member assessments receivable	(14,568)	--	(14,568)
Increase in inventory	(1,775)	--	(1,775)
Decrease in prepaid expenses	11,534	--	11,534
Increase in accrued interest receivable	(3,821)	--	(3,821)
Increase in deposits	(421)	--	(421)
Increase in accounts payable	27,592	--	27,592
Increase in accrued expenses & other liabilities	8,015	--	8,015
Decrease in taxes payable, U.S.	(14,560)	--	(14,560)
Increase in taxes payable, Mexico	1,341	--	1,341
Decrease in prepaid assessments	(14,190)	--	(14,190)
Change in due to/(from) fund	<u>(227,727)</u>	<u>227,727</u>	<u>--</u>
Net cash provided/(used) by operating activities	(69,622)	436,266	366,644
Cash provided/(used) by investing activities:			
Acquisition of certificates of deposit	<u>(100,000)</u>	<u>(855,000)</u>	<u>(955,000)</u>
Net cash flows from investing activities	<u>(100,000)</u>	<u>(855,000)</u>	<u>(955,000)</u>
Cash provided/(used) by financing activities:			
Net effect of exchange rate on cash	(3,692)	--	(3,692)
Interfund transfers	<u>(155,266)</u>	<u>155,266</u>	<u>--</u>
Net cash flows from financing activities	<u>(158,958)</u>	<u>155,266</u>	<u>(3,692)</u>
Net decrease in cash	(328,580)	(263,468)	(592,048)
Cash at beginning of year	<u>1,444,230</u>	<u>413,905</u>	<u>1,858,135</u>

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

LINDO MAR ADVENTURE CLUB, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. ORGANIZATION

Lindo Mar Adventure Club, LTD. [the Club] is an Oregon nonprofit mutual benefit corporation which was organized in December 1986. The primary purpose of the Club is to provide for the operations and maintenance of the defined common areas of the time-share complex located in Puerto Vallarta, Mexico.

The Club includes 46 condominium units, and intervals are sold in 52 membership weeks. In 2001 the Club purchased 97 percent of the building and land that the Club occupies in Puerto Vallarta. Title to this purchase is held through LMM Trust, a Nevada entity, for which the members of the Club are the only beneficiary.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Club are maintained on the accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation - In accordance with industry standards, the Club has not capitalized in the financial statements the real property because the sole beneficiary of the trust (see Note 1 above) is the Club and its beneficiary rights belong to the club members in the form of club memberships.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful lives using the straight-line method of depreciation. There were no significant personal property additions during the year.

(c) Fund Accounting - The Club's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into two categories; the operating fund and the replacement fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

(d) Investment Income - The Board's policy is to allocate interest earned on replacement fund cash accounts and investments to the operating fund, and to pay for income taxes out of the operating fund.

(e) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

See independent accountant's review report.

LINDO MAR ADVENTURE CLUB, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Currency - The U.S. dollar has been determined to be the appropriate functional currency for all operations of the Club. The Club bills and collects assessments from members in U.S. dollars. Although certain administrative expenses are paid in U.S. dollars (such as management fees, certain professional fees, insurance, and U.S. income taxes) most of the property operating expenses are paid in Mexico Pesos. The Club records the Peso transaction in its financial statements in U.S. dollars using the average exchange rate for the month of transaction.

(g) Subsequent Events – Subsequent events have been evaluated through March 12, 2018, which is the date the financial statements were available to be issued.

(h) Comprehensive Income and Foreign Currency- The Club accounts for comprehensive income in accordance with Accounting Standards Codification 220 (formerly FASB Statement 130), which requires the reporting of comprehensive income in addition to excess revenues over/(under) 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 over/(under) expenses. For the reporting period herein, the Club's comprehensive income consists of net foreign currency translation adjustments.

NOTE 3. INCOME TAXES

The Club may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a timeshare Club [under Internal Revenue Code Section 528]. For the year ended December 31, 2017, the Club elected to file as a timeshare Club, where generally the Club is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For the year ended December 31, 2017, the federal income tax liability totaled \$43,180.

The Club utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Club's assets and liabilities, the Club has not recorded any deferred tax assets or liabilities.

The Club has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an Club. Management believes that all of the positions taken by the Club in its federal and state income tax returns are more likely than not to be sustained upon examination. The Club's tax returns are subject to examination by the Internal Revenue generally for three years after they are filed.

See independent accountant's review report.

LINDO MAR ADVENTURE CLUB, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Club members are subject to paying assessments to fund the Club's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at December 31, 2017 includes delinquent assessments and other fees due from owners and an allowance for doubtful collection of \$27,010 has been provided for at December 31, 2017.

Prepaid assessments consist of membership assessments collected in advance and are recognized as income in the period earned

NOTE 5. REPLACEMENT FUNDING PROGRAM

In accordance with the Club's governing documents, which require that funds be accumulated for future major repairs and replacements, the Club has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

A study of the Club's replacement funding program was conducted in December 2017. The table included in the unaudited supplementary information on future major repairs and replacements is based on the 2017 study. For the year ended December 31, 2017, the Club funded \$390,317 from assessments to the replacement fund and has budgeted to fund this same amount for 2018.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds 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 the Club's governing documents, to pass special assessments, increase annual assessments, or delay replacement until funds are available.

See independent accountant's review report.

LINDO MAR ADVENTURE CLUB, LTD.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 6. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At December 31, 2017, the Club maintained cash balances at the following institutions:

Operating Fund:

US Bank-checking	\$ 384,327
US Bank-checking	34
Wells Fargo Advisors-money funds	181,332
Merchant Bank-1.45%, 3/28/18	130,000
Starion Bank-1.4%, 3/28/18	200,000
Citizens Business Bank-savings	169,072
Mexico bank accounts *	48,808
Petty cash	2,077
Total Cash - Operating Fund	\$ 1,115,650

*Reported in U.S. dollars

Replacement Fund:

Citizens Business Bank-savings	\$ 51,035
Wells Fargo Advisors-money funds	99,402
Total Cash - Replacement Fund	\$ 150,437

NOTE 7. INVESTMENTS

The Club's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. The investments are considered to be held to maturity and are carried at amortized cost, which approximates the fair value. At December 31, 2017, the Club held a \$100,000 certificate of deposit in its operating fund with a remaining maturity date of 4 months and with an interest rate of 1.35%. At December 31, 2017, the Club held \$855,000 of certificates of deposits with interest rates ranging from 1.2% to 1.3%, and remaining maturities ranging from 1 month to 4 months.

NOTE 8. MANAGEMENT

The Club is managed by a professional management company, Trading Places International, a California Corporation. Management fees are based upon an approved management contract and approved annual budget.

LINDO MAR ADVENTURE CLUB, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9. CONCENTRATION OF RISK

The Club maintains bank accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC), which at December 31, 2017, generally provided for insurance up to \$250,000 per institution (per depositor). Due to the Club's operating requirements, account balances may periodically exceed the FDIC limit. Depending upon the timing of cash flows, this condition is often temporary but necessary to meet routine operating requirements. The Board of Directors reviews the financial statements monthly and takes steps to correct this condition whenever it occurs.

At December 31, 2017, \$134,361 was temporarily exposed to uninsured funds.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for federal income taxes totaled \$57,774 for the year ended December 31, 2017. There were no non-cash investing or financing transactions during the year.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Club entered into a non-cancellable operating lease of real property for the operation of the restaurant. The lease was renewed in 2016 to extend through December 2021.

The future minimum lease obligations under this lease are as follows:

Fiscal year
Ending December 31

2018	\$ 62,051
2019	62,051
2020	62,051
2021	<u>62,051</u>
Total future minimum lease obligations	<u>\$248,204</u>

The Club also renewed a three-year management contract with Trading Places International (TPI) which expires in December 2018.

The future minimum management obligations under this contract are as follow:

Fiscal year
Ending December 31

2018	<u>\$214,056</u>
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See independent accountant's review report.

INDEPENDENT ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on the reviewed financial statements of Lindo Mar Adventure Club, LTD. for the year ended December 31, 2017 appears on pages 3 and 4. That review was made for the purpose of expressing limited assurance that there are no 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.

The supplementary information of expenses on pages 15 and 16 is not a required part of the basic financial statements and has been presented for the purpose of additional analysis. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the required supplementary information without audit or review, and, accordingly, we do not express an opinion or provide any assurance on it.


SCHONWIT & ASSOCIATES

March 12, 2018

LINDO MAR ADVENTURE CLUB, LTD.
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

Restaurant and Bar Costs

Salaries and related	\$ 261,443
Cleaning supplies	5,050
Guest supplies	7,891
Entertainment	7,414
Equipment repairs	11,706
Rent	66,603
Linen cleaning	4,456
Utilities	21,613
Dishware/silverware/glassware	2,035
Credit card discount fees	16,706
Other expenses	17,908
Total restaurant and bar costs	<u>\$ 422,825</u>

Front Desk & Housekeeping Costs

Front desk salaries and related	\$ 54,584
Housekeeping salaries and related	98,980
Guest activities & supplies	8,660
Cleaning supplies	9,722
Laundry	18,129
Linens	6,802
Office supplies	3,418
TV/cable	3,752
Room equipment and repairs	18,772
Pottery	2,651
Utilities	69,678
Other expenses	6,708
Total front desk & housekeeping expenses	<u>\$ 301,856</u>

Maintenance

Salaries and related	\$ 81,823
HVAC and boiler maintenance	7,330
Elevator repair	6,208
Plumbing	2,718
Pool chemicals	2,812
Materials/supplies/small tools	3,384
Painting	1,961
Electrical and lighting	2,675
Other expenses	4,128
Total maintenance expenses	<u>\$ 113,039</u>

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

LINDO MAR ADVENTURE CLUB, LTD.
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

Administrative and Security

Salaries and related-administrative	\$ 197,794
Salaries and related-security	48,039
Office supplies	3,248
Bank charges	1,763
Computer software	1,289
Dues & subscriptions	1,671
Fiscal supervision	4,087
Professional fees	8,678
Lodging tax-Mexico	10,245
Federal zone payments	5,774
IVA tax	110,181
Telephone	13,520
Union fees	2,934
Storage rent	2,078
Property tax	2,543
Equipment maintenance	4,245
Insurance-Mexico	215
Other expenses	8,564
Total administrative and security expenses	<u>\$ 426,868</u>

U.S. Operating Expenses

Audit and tax preparation	\$ 4,250
Directors' expense-U.S.	8,097
Insurance	71,738
Management fees	218,337
Printing	2,785
Postage & delivery	3,815
Web site	1,200
Other expenses	2,648
Total U.S. operating expenses	<u>\$ 312,870</u>

Replacement Fund Expenses

Elevator installation	\$ 84,181
Kitchen renovation	28,082
Restaurant equipment & repairs	19,364
Room 703 remodel	23,938
Office furniture and equipment	2,691
Gym renovation	13,189
Other repairs	10,933
Total Replacement Fund expenses	<u>\$ 182,378</u>

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

LINDO MAR ADVENTURE CLUB, LTD.
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2017
 (UNAUDITED)

An independent reserve study was conducted in December 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. The studies were based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been allocated for future repairs and replacements. The following table is based on the studies and presents significant information about the components of common property.

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Building exterior and paint	3-29 years	\$ 26,450
Building interior and paint	3-29 years	338,350
Common area	0-20 years	2,700
Exercise room	0-7 years	27,750
Pool and area	3-9 years	30,100
Reserve study	0-1 year	8,050
Units	0-24 years	<u>1,312,500</u>
	Total	<u>\$ 1,745,900</u>
	Study's recommended Replacement Fund balance:	<u>\$ 1,226,807</u>
	Replacement Fund balance at 12/31/17:	<u>\$ 1,160,703</u>