

INDEPENDENT AUDITORS' REPORT

To the Associates of
PEACE Punta de Mita, A.C.

Opinion

We have audited the herein enclosed financial statements of PEACE Punta de Mita, A.C. (The Association), which comprise the statement of financial position at December 31, 2017, and 2016, the statements of activities and cash flows for the year then ended, and also the summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements, present in all material aspect, the financial situation of PEACE Punta de Mita, A.C. at December 31, 2017 and 2016, and the result of its activities and its cash flow for the year then ended in accordance with Mexican Financial Reporting Standards.

Basis of our opinion

We have carried out our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the audit of financial statements" section of our report. We are independent of "The Association" according to the ethical requirements that are relevant to our audit of The Association's financial statements in Mexico, and we have fulfilled our other ethical responsibilities according to those requirements. We believe that the audit evidence we have obtained provides a sufficient and adequate base for our opinion on the audit.

Responsibility of the Direction and those Charged with Governance for the financial statements.

Direction of The Association is responsible for the elaboration and fair presentation of the enclosed financial statements in accordance with the Mexican Financial Reporting Standards, and for such internal control as the Direction considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of financial statements, the Direction is responsible for assessing the ability of "The Association" to continue as a going concern, disclosing, as applicable, matters related to going concern and using going concern basis of accounting, unless,

the Direction has the intention to either liquidate "The Association" or cease operations, or has not realistic alternative but to do so.

Those charged with governance are responsible of overseeing The Association's financial statements.

Auditors' Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the 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 ISA's 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 basis of these financial statements.

As part of an audit executed in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 independent 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 independent auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

VEGA VELAZQUEZ Y ASOCIADOS, S. C.

CONTADORES PUBLICOS

- 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 those charged with governance 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.

Vega Velázquez y Asociados, S.C.



C.P.C. Emilio Vega Avecilla

Puerto Vallarta, Jalisco, March 16, 2018



PEACE PUNTA DE MITA, A. C.

STATEMENTS OF FINANCIAL POSITION

(Figures expressed in Mexican pesos, as explained in Note 2)

	As of December 31st,			
	2017			2016 Non audited
	Temporal	Restricted fund		
Permanent		Total		
<i>Assets</i>				
Cash and equivalents	\$ 18,204,056	\$ 0	\$ 18,204,056	\$ 12,869,750
Accounts receivable	18,067	-	18,067	6,078
Construction in progress to be donated		2,143,963	2,143,963	
Total current assets	18,222,122	2,143,963	20,366,085	12,875,828
Furniture and equipment - Net (Note 2)	65,208	0	65,208	41,178
Total assets	\$ 18,287,330	\$ 2,143,963	\$ 20,431,293	\$ 12,917,006
<i>Liabilities</i>				
Accounts payable (Note 4)	\$ 279,433	\$ -	\$ 279,433	\$ 127,333
Taxes payable	3,666	-	3,666	-
	283,099	-	283,099	127,333
Seniority bonus (Note 5)	56,939		56,939	
Total liability	\$ 340,038	\$ -	\$ 340,038	\$ 127,333
<i>Patrimony (Note 6)</i>				
Patrimony prior years	\$ 12,789,673	\$ 0	\$ 12,789,673	\$ 6,328,659
Activity of the year	5,157,619	2,143,963	7,301,582	6,461,014
Total patrimony	17,947,292	2,143,963	20,091,255	12,789,673
Total liability and patrimony	\$ 18,287,330	\$ 2,143,963	\$ 20,431,293	\$ 12,917,006

The nine herein enclosed notes are an integral part of these financial statements, which were authorized for their issuance on March 14, 2018 by the officers signing at the bottom of these financial statements and their notes.

Lic. Rosa Alicia Aguilar Elías
Director

C.P.C. | L.D. Gabriela Alicia Rojas Jiménez
General Accountant

PEACE PUNTA DE MITA, A. C.

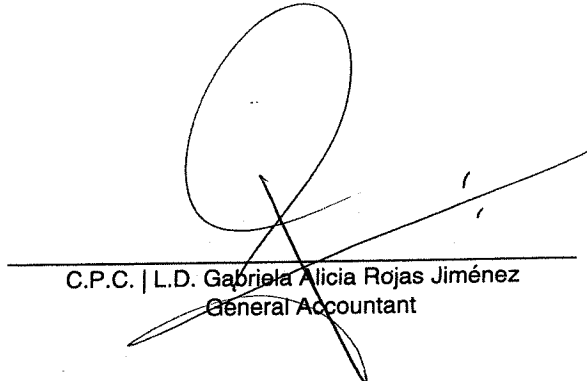
STATEMENTS OF ACTIVITIES

(Figures expressed in Mexican pesos, as explained in Note 2)

	Year that ended on December 31st,			2016
	2017			
	Restricted Fund			
	Temporal	Permanent	Total	
Income:				
Donations Granted	\$ 11,914,927	\$ 2,143,963	\$ 14,058,890	\$ 10,390,552
Other contributions				
	<u>11,914,927</u>	<u>2,143,963</u>	<u>14,058,890</u>	<u>10,390,552</u>
Charity programs	6,076,541		6,076,541	4,458,881
Other programs	138,844		138,844	223,879
General expenses	<u>246,897</u>		<u>246,897</u>	<u>236,330</u>
Total expenses	<u>6,462,282</u>	<u>0</u>	<u>6,462,282</u>	<u>4,919,090</u>
Total asistencial services - net	5,452,645	2,143,963	7,596,608	5,471,462
Resultado integral de financiamiento	(295,026)	-	(295,026)	989,552
Net change on the patrimony	<u>5,157,619</u>	<u>2,143,963</u>	<u>7,301,582</u>	<u>6,461,014</u>
Patrimony at the beginning of the year	12,789,673	0	12,789,673	6,328,659
Patrimony at the end of the year	<u>\$ 17,947,292</u>	<u>\$ 2,143,963</u>	<u>\$ 20,091,255</u>	<u>\$ 12,789,673</u>

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Lic. Rosa Alicia Aguilar Elías
Director


C.P.C. | L.D. Gabriela Alicia Rojas Jiménez
General Accountant

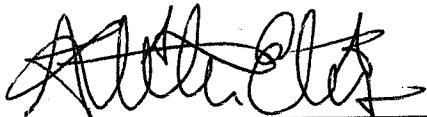
PEACE PUNTA DE MITA, A. C.

STATEMENTS OF CASH FLOW

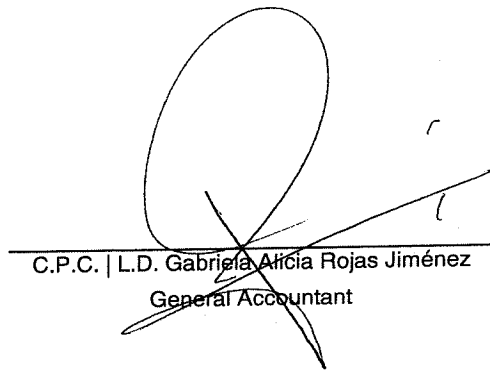
(Figures expressed in Mexican pesos, as explained in Note 2)

	Year that ended on December 31 of	
	<u>2017</u>	<u>2016</u>
Operation activities:		
Net change on the patrimony	\$ 7,301,582	\$ 6,461,014
Non cash entries:		
Depreciation	10,830	
Income tax	3,666	
Seniority bonus	<u>56,939</u>	
Entries obtained (used) at the operation	7,373,017	<u>6,461,014</u>
(Decrease) increase in accounts receivable	(11,988)	(4,731)
Increase in accounts payable	<u>152,100</u>	<u>(1,790)</u>
Net cash flows on operating activities	140,112	(6,522)
<u>Investment activities</u>		
Constructions in progress to be donated	(2,143,963)	
Acquisition of fixed assets	(34,860)	(41,178)
Net (decrease) increase of cash	5,334,306	6,413,315
Cash at the beginning of the year	12,869,750	6,456,435
Cash at the end of the year	<u>\$ 18,204,056</u>	<u>\$ 12,869,750</u>

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Lic. Rosa Alicia Aguilar Elias
Director



C.P.C. | L.D. Gabriela Alicia Rojas Jiménez
General Accountant

PEACE PUNTA DE MITA, A.C.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016
(Figures expressed in Mexican Pesos – Note 2)

NOTE 1 – CONSTITUTION AND ACTIVITIES OF “THE ASSOCIATION”.

PEACE Punta de Mita, A.C., (“The Association”), is a Civil Association with non-profit ends established on March 19, 2013, under the Mexican laws, with a duration of 99 years and its social office in Bahía de Banderas, Nayarit.

“The Association” main activity is the Promotion of the integral formation of the person, the education, welfare and the help to the development of the Bahía de Banderas’ community.

Dated in October 23th, 2013, The Association received by The Ministry of Finance and Public Credit, authorization to receive deducible donations of the Income Tax, such authorization continues in force.

The financial statements up to December 31 of 2017 and 2016 herein attached have been prepared in accordance with Mexican Financial Information Standards (NIFs for their acronym in Spanish) issued by the independent organism of the Mexican Board of Standards for Financial Information A.C. with the purpose of a reasonable presentation of the Association’s financial situation. To these effects, “The Association” has prepared its statements of financial position and its statements of activities classifying them as per the nature of its restricted entries in temporal and permanent form.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED.

The NIF require the use of certain accounting estimates at the preparation of the financial statements. Furthermore, the exercise of a judgment by the Direction at the process of the definition of the policies of accounting for “The Association”.

Following the most significant accounting policies are summarized, which have been consistently applied through the presented years.

a. Effects of inflation.

As per the outlines of the Mexican Financial Information Standard B-10 “Effects of Inflation”, when an economic environment is qualified as an “inflationary environment”, the entities must recognize the effects of inflation in the financial statements; furthermore such standard mentions

an inflationary environment is that when the accumulated inflation of the three prior annual years is equal to or above a 26%.

As shown on the following, through the last three years, accumulated inflation in Mexico has not gone over 26%.

	<u>As of December 31 of</u>	
	<u>2017</u>	<u>2016</u>
Year's	6.77%	3.36%
Accumulated during the past three years	12.71%	9.87%

The Association's Direction estimates that the effects of inflation do not affect in a substantial manner the financial information due to the fact that it started operations until year 2013, hence it decided right from its organization not to adopt in its accounting policies the recognition of the effects of inflation in the financial information; as a consequence, the figures shown in the enclosed financial statements up to December 31 of 2017 and 2016 are presented in historical Mexican Pesos.

b. Cash and cash equivalents

They consist mainly of bank deposits into check accounts, owned by "The Association", expressed at their nominal value, with immediate availability. The gained interests are recognized in the results of the exercise into which they develop, as part of the integral result of financing.

c. Transactions in foreign currency.

The operations with foreign currency are register to the national currency according to the type of change to the date of their celebration. The assets and monetary liabilities in foreign currency are valued in national currency to the type of in force change to the date of the financial statements, the differences motivated by fluctuation change between the dates of procurement of the transactions and their liquidation or valuation to the ending of the exercise, are registered in the activities state inside of the integral result of financing.

d. Income.

"The Association" registers as income the donations received, which increase the patrimony when they are received in cash, goods or liabilities are cancelled.

e. Furniture and equipment.

The furniture and equipment is registered to their historical value (cost of acquisition).

The depreciation is calculated with the method of straight line based in the useful life, applying the annual rate of 10%. The annual charge for the depreciation of the year 2017 was \$10,830.

f. Deferred taxes.

“The Association” is a non profit entity as well as a non taxpayer for effects of income tax.

The income tax caused in the year, corresponds to the tax determinate in conformity with the fiscal applicable dispositions, mostly derivate of nondeductible expenses.

g. Provisions.

Provisions of liabilities represent presents obligations over past events at which probable there will be outflow of economic resources and a likely maturity. These accruals have been entered under the least estimate made by the Direction.

h. Seniority bonus.

Under the Labor Federal Law, workers have the right, in case of they are fired or quit, to certain payments based in their seniority. “The Association” follows the policy of affecting on results at the exercise wherein such obligations are accrued.

i. Patrimony.

Patrimony is classified in accordance with the restrictions of the donors established over the actives donated. To the date the financial statements have not restriction at all.

j. Ongoing matter.

in 2017 and 2016, 50% of donations received were granted by PEACE USA, however, these donations originally come from different donors, therefore the Direction considers that there is not risk of concentration of obtainment of funds.

NOTE 3 – FOREIGN CURRENCY POSITION:

As of December 31, 2017 and 2016, “The Association” had monetary assets in foreign currency as follows:

	<u>As of December 31 of</u>	
	<u>2017</u>	<u>2016</u>
American dollars	\$ 887,517	\$339,677
Type of change at the end of the exercise	19.74	20.66

NOTE 4 – ACCOUNTS PAYABLE.

Accounts payable were integrated as follows:

	<u>As of December 31 for</u>	
	<u>2017</u>	<u>2016</u>
Suppliers	\$ 78,168	\$ 736
Taxes payable	<u>201,265</u>	<u>126,597</u>
	<u>\$ 279,433</u>	<u>\$ 127,333</u>

NOTE 5 – PROVISION OF SENIORITY BONUS.

The balance of provision of the seniority bonus as of December 31, 2017 was for \$56,938. “The Association” recognized the total effect of the provision seniority bonus in the year of 2017, the initial effect related to the adoption of this guideline was for \$30,253.

NOTE 6 – PATRIMONY (EQUITY)

The restricted permanent patrimony up to December 31, 2017, is formed by donatives granted for \$2,143,963 which restriction that will be donated for construction schoolrooms.

NOTE 7 – AUTHORIZATION OF FINANCIAL STATEMENTS.

The Association, celebrated an agreement with an Agent of Minister of Education (SEP), where the Association committed to donate materials for the construction of classrooms, this construction is taking place on a parcel of ejido, which was granted in commodatum by the ejido to SEP. At the date of issuance of these financial statements, the Association is in the process of formalizing the donation of materials to the SEP, besides the Director of the Association is in talks with representatives of the SEP to make the necessary arrangements to full fill that the

ejido donates the land where the construction is taking place or to sign the long-term commodatum agreement to support that SEP is the final beneficiary of the construction of classrooms and therefore of the donation made by the Association.

NOTE 8 – AUTHORIZATION OF FINANCIAL STATEMENTS.

The financial statements up to December 31, 2017, were authorized for their issuance on March 14th, 2018, by the Association's Direction, who has the legal power to authorized financial statements and its notes; such financial statements are subject to the approval of the Board of Directors, who may decide on their modification as per provisions in the Civil Code for the State of Nayarit.

NOTE 9 – NEW MEXICAN INFORMATION FINANCIAL STANDARDS (NIFs).

Following is mentioning the new NIFs that will be in force in January 2018, and which could applied to The Association.

NIF _B-17. Determination of fair value. It provides some guidelines to better determination of fair value.

NIF C-13. Accounts receivable. New classification of the financial instruments based on business model.

NIF C-9. Accruals, contingencies and commitments. Remove from its scope payable financial instruments.



Lic. Rosa Alicia Aguilar Elías
Director



C.P.C. Gabriela Alicia Rojas Jiménez
General Accountant