

**FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)**

FINANCIAL STATEMENTS

December 31, 2013

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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors
Foundation Escalera, Inc.
Salt Lake City, Utah**

We have audited the accompanying financial statements of Foundation Escalera, Inc. (a Utah non-profit foundation), which comprise the statement of financial position as of December 31, 2013, and the related statement of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

WISAN, SMITH, RACKER & PRESCOTT, LLP

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation Escalera, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Wison, Smith, Roemer & Prescott, LLP

Salt Lake City, Utah
July 23, 2014

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	377,068
Marketable securities		689,371
Related entity receivable		<u>2,458</u>
TOTAL CURRENT ASSETS		<u>1,068,897</u>
RENTAL PROPERTY		<u>562,088</u>
TOTAL ASSETS		<u><u>\$ 1,630,985</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to related entity	\$	7,115
Deferred grant revenue		<u>52,458</u>
TOTAL CURRENT LIABILITIES		\$ 59,573
NET ASSETS		
Unrestricted		<u>1,571,412</u>
TOTAL NET ASSETS		<u>1,571,412</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 1,630,985</u></u>

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

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	\$ 238,015	\$ 72,327	\$ 310,342
Contributions-in-kind	115,638	-	115,638
Government grants	-	708,745	708,745
Foundation and trust grants	1,487,158	25,750	1,512,908
Rental income	30,317	-	30,317
Investment income on marketable securities	18,777	-	18,777
Interest	130	-	130
Unrealized gain on marketable securities	20,594	-	20,594
Currency translation adjustment	(955)	-	(955)
Net assets released from restrictions	806,822	(806,822)	-
TOTAL REVENUES AND SUPPORT	2,716,496	-	2,716,496
EXPENSES			
Program services:			
Building program	843,277	-	843,277
Benemerito scholarship program	46,396	-	46,396
Star scholarship program	113,430	-	113,430
Reach program	76,056	-	76,056
Total program expenses	1,079,159	-	1,079,159
Supporting services	92,077	-	92,077
Fundraising expenses	42,888	-	42,888
TOTAL EXPENSES	1,214,124	-	1,214,124
CHANGE IN NET ASSETS	1,502,372	-	1,502,372
Net assets - beginning of year	69,040	-	69,040
Net assets - end of year	\$ 1,571,412	\$ -	\$ 1,571,412

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

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
STATEMENT OF CASH FLOWS
Year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets		\$ 1,502,372
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	\$ 12,412	
Non-cash donations	(1,224,500)	
Investment income on marketable securities	(18,777)	
Unrealized gain on marketable securities	(20,594)	
Changes in operating assets and liabilities:		
Due from related entity	(2,458)	
Contribution receivable	20,000	
Due to related entity	5,550	
Deferred grant revenue	52,458	(1,175,909)
Net cash flows from operating activities	<u>326,463</u>	<u>326,463</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		326,463
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>50,605</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>\$ 377,068</u></u>

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

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Foundation Escalera, Inc. (the Foundation) is a Utah non-profit corporation. The Foundation provides educational assistance to primary and secondary students in southern Mexico. The Foundation also provides assistance with school construction and scholarship programs for the benefit of students.

Accounting Principles

The Foundation's accounting policies conform to accounting principles generally accepted in the United States of America (GAAP). Contributions and net assets are classified into three categories based on donor-imposed restrictions as follows:

- Unrestricted contributions and net assets represent expendable funds available for operations which are not otherwise limited by donor restrictions.
- Temporarily restricted contributions and net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Foundation may spend the funds.
- Permanently restricted contributions and net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Foundation's financial instruments that may be exposed to concentrations of credit risk consist primarily of temporary cash investments.

The Foundation maintains its cash balances at financial institutions in the United States and Mexico. At times such investments may exceed insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

The Foundation's assets and liabilities denominated in foreign currency are translated at exchange rates in effect at the balance sheet date while results of operations denominated in foreign currency are translated at average exchange rates for the respective periods. The resulting translation gains and losses are included as a separate component of revenue.

Cash and Cash Equivalents

Cash equivalents are generally comprised of certain highly liquid investments with maturities of three months or less at the date of purchase. As part of the conditions for receiving certain government grants, the Foundation is required to hold cash in specific accounts.

Marketable Securities

The Foundation's marketable securities are classified as available for sale and are reported at fair value, with realized and unrealized gains and losses, reported as a separate component of revenue and support. Fair value is based on quoted prices for identical assets in active markets. Realized gains and losses are determined on the basis of the actual cost of the securities sold. Permanent declines in value, if any, are included in income. Dividends on equity securities are recognized in income when declared.

Fair Value of Financial Instruments

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

- Level 1 inputs are quoted prices for identical assets and liabilities in active markets.
- Level 2 inputs are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in markets that are not active.
- Level 3 inputs are unobservable inputs that reflect the Foundation's own assumptions, consistent with reasonably available assumptions made by other market participants.

The fair value of marketable securities is measured using Level 1 inputs.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-kind Contributions

In-kind contributions received by the Foundation are recorded at fair market value and recognized as revenue in the accounting period in which they are received. In-kind contributions consist of payroll expenses paid to management on behalf of the Foundation by a related entity.

Rental property

Rental properties are stated at fair value when originally received net of accumulated depreciation. Expenditures that increase values or extend useful lives are capitalized and routine maintenance and repairs are charged to expense in the year incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation begins in the month of acquisition.

Income Taxes

The Foundation is exempt from federal tax under section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in these financial statements. The Foundation is no longer subject to examination by federal and state taxing authorities for years prior to 2010.

Subsequent Events

Management of the Foundation has evaluated subsequent events through July 23, 2014, which is also the date the financial statements were available to be issued. No subsequent events were noted during this evaluation that require recognition or disclosure in these financial statements.

NOTE 2 - MARKETABLE SECURITIES

The fair value of marketable securities is as follows:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 668,777	\$ 20,594	\$ -	\$ 689,371
	<u>\$ 668,777</u>	<u>\$ 20,594</u>	<u>\$ -</u>	<u>\$ 689,371</u>

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 3 - RENTAL PROPERTY

Rental real property held for investment purposes is as follows:

Cost:	
Condominiums	\$ 574,500
Accumulated Depreciation	<u>(12,412)</u>
Net book value	<u>\$ 562,088</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

The Foundation receives support from other entities, related by common control, in the form of compensation paid to its employees. For the year ended December 31, 2013, these services amounted to \$115,638 and was included as in-kind contributions on the statement of activities and changes in net assets.

The Foundation pays for office and payroll expenses incurred on behalf of the Foundation to an entity related by common control. For the year ended December 31, 2013, these expenses amounted to \$31,287.

The Foundation receives cash donations from entities and individuals related by common control. For the year ended December 31, 2013, these donations amounted to \$64,545.

NOTE 5 - OPERATING LEASE

The Foundation leases office space under an operating lease with terms that do not exceed one year. Total rent expense for the year ended December 31, 2013 was \$2,492.

NOTE 6 - BOARD DESIGNATIONS

The board of directors has designated certain funds to be used for the permanent continuation of the charitable purpose of the Foundation. At December 31, 2013, \$1,392,308 was designated for this purpose.