

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2014 and 2013**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Foundation Escalera, Inc. (a Utah non-profit foundation), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foundation Escalera, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information in the accompanying Schedule 1 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*WSRP, LLC*

Salt Lake City, Utah  
September 4, 2015

**FOUNDATION ESCALERA, INC.**  
**(A Non-Profit Foundation)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 529,157	\$ 377,068
Marketable securities	544,328	689,371
Current portion of donation receivable	97,228	-
Related entity receivable	-	2,458
<b>TOTAL CURRENT ASSETS</b>	<b>1,170,713</b>	<b>1,068,897</b>
<b>DONATION RECEIVABLE</b>	93,660	-
<b>PROPERTY AND EQUIPMENT</b>	<b>553,779</b>	<b>562,088</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,818,152</b>	<b>\$ 1,630,985</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to related entity	\$ 3,855	\$ 7,115
Unearned government grant revenue	47,665	52,458
VAT tax obligations	76,259	56,818
<b>TOTAL CURRENT LIABILITIES</b>	<b>127,779</b>	<b>116,391</b>
 <b>NET ASSETS</b>		
Temporarily Restricted	190,888	-
Unrestricted	1,499,485	1,514,594
<b>TOTAL NET ASSETS</b>	<b>1,690,373</b>	<b>1,514,594</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,818,152</b>	<b>\$ 1,630,985</b>

*The accompanying notes are an integral part of the financial statements.*

**FOUNDATION ESCALERA, INC.**  
**(A Non-Profit Foundation)**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Years ended December 31, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions	\$ 273,554	\$ 92,582	\$ 366,136	\$ 238,015	\$ 72,327	\$ 310,342
Contributions-in-kind	103,569	-	103,569	115,638	-	115,638
Government grants	-	1,044,764	1,044,764	-	651,927	651,927
Foundation and trust grants	124,800	301,607	426,407	1,487,158	25,750	1,512,908
Rental income	38,966	-	38,966	30,317	-	30,317
Investment income on marketable securities	16,857	-	16,857	18,777	-	18,777
Interest	93	-	93	130	-	130
Unrealized gain on marketable securities	-	-	-	20,594	-	20,594
Foreign currency transaction loss	(38,510)	-	(38,510)	(955)	-	(955)
Foreign currency translation adjustment	(12,114)	-	(12,114)	-	-	-
Net assets released from restrictions	1,248,065	(1,248,065)	-	750,004	(750,004)	-
TOTAL REVENUE AND SUPPORT	1,755,280	190,888	1,946,168	2,659,678	-	2,659,678
EXPENSES						
Program services:						
Building program	1,288,414	-	1,288,414	843,277	-	843,277
Benemerito scholarship program	22,509	-	22,509	46,396	-	46,396
Star scholarship program	24,321	-	24,321	113,430	-	113,430
Reach program	245,021	-	245,021	76,056	-	76,056
Total program expenses	1,580,265	-	1,580,265	1,079,159	-	1,079,159
Supporting services	130,648	-	130,648	92,077	-	92,077
Fundraising expenses	59,476	-	59,476	42,888	-	42,888
TOTAL EXPENSES	1,770,389	-	1,770,389	1,214,124	-	1,214,124
CHANGE IN NET ASSETS	(15,109)	190,888	175,779	1,445,554	-	1,445,554
Net assets - beginning of year	1,514,594	-	1,514,594	69,040	-	69,040
Net assets - end of year	\$ 1,499,485	\$ 190,888	\$ 1,690,373	\$ 1,514,594	\$ -	\$ 1,514,594

*The accompanying notes are an integral part of the financial statements.*

**FOUNDATION ESCALERA, INC.**  
**( A Non-Profit Foundation )**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 175,779	\$ 1,445,554
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	23,998	12,412
Non-cash contributions received	-	(1,224,500)
Investment income on marketable securities	(16,857)	(18,777)
Unrealized gain on marketable securities	-	(20,594)
Changes in operating assets and liabilities:		
Due to related entity	2,458	(2,458)
Contribution receivable	(190,888)	20,000
Due to related entity	(3,260)	5,550
Deferred grant revenue	(4,793)	52,458
VAT tax obligation	19,441	56,818
Net cash flows from operating activities	5,878	326,463
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for purchases of equipment	(15,690)	-
Cash paid for purchase of marketable securities	(127,450)	-
Cash received from sale of marketable securities	289,351	-
Net cash flows from investing activities	146,211	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	152,089	326,463
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	377,068	50,605
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 529,157	\$ 377,068

*The accompanying notes are an integral part of the financial statements.*

**FOUNDATION ESCALERA, INC.**  
**(A Non-Profit Foundation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Business Activity*

Foundation Escalera, Inc. is a Utah non-profit corporation. The consolidated financial statements include the wholly owned subsidiary Foundation Escalera Mexico, a foreign non-profit company, collectively referred to as (the Foundation). All intercompany transactions and balances have been eliminated. 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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 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 components of revenue. At December 31, 2014 and 2013, cumulative translation losses were \$12,114 and \$0, respectively.

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 CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donation Receivable

The Foundation records unconditional promises and awards from other non-profits as donations receivable at estimated fair value. Amounts due later than one year, if any, are recorded at the present value of estimated future cash flows. At December 31, 2014, the entire amount of the long-term donation receivable was expected to be collected in 2016. An allowance for doubtful accounts has not been established because management believes that all amounts will be fully collectible.

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.

Property and Equipment

Property and equipment are stated at cost 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 or when constructed or developed assets are ready for their intended use.

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.

Income Taxes

The Foundation is exempt from federal tax under section 501(c)(3) of the Internal Revenue Code and under Mexican regulations. Therefore, no provision or liability for income taxes has been included in these consolidated financial statements.

Subsequent Events

Management of the Foundation has evaluated subsequent events through September 4, 2015, which is also the date the consolidated financial statements were available to be issued. No subsequent events were noted during this evaluation that require recognition or disclosure in these consolidated financial statements.

**FOUNDATION ESCALERA, INC.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

NOTE 2 - MARKETABLE SECURITIES

The fair value of marketable securities is as follows:

<u>2014</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 544,328	\$ -	\$ -	\$ 544,328

  

<u>2013</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 668,777	\$ 20,594	\$ -	\$ 689,371

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	<u>2014</u>	<u>2013</u>
Held for investment:		
Condominiums	\$ 574,500	\$ 574,500
Accumulated Depreciation	(33,690)	(12,412)
Used in operations:		
Vehicle	9,917	-
Office equipment	5,773	-
Accumulated Depreciation	<u>(2,721)</u>	<u>-</u>
Net book value	<u>\$ 553,779</u>	<u>\$ 562,088</u>

NOTE 4 - OPERATING LEASE

The Foundation leases office space under an operating lease with terms that do not exceed one year. Total rent expense for the years ended December 31, 2014 and 2013 was \$8,094 and \$2,492, respectively.

**FOUNDATION ESCALERA, INC.**  
**(A Non-Profit Foundation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014 and 2013**

**NOTE 5 - 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 years ended December 31, 2014 and 2013, these services amounted to \$103,569 and \$115,638, respectively, 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 years ended December 31, 2014 and 2013, these expenses amounted to \$102,388 and \$31,207, respectively.

The Foundation receives cash donations from entities and individuals related by common control. For the years ended December 31, 2014 and 2013, these donations amounted to \$195,530 and \$64,545, respectively.

**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, 2014 and 2013, \$1,126,018 and \$1,255,422, respectively, was designated for this purpose.

**NOTE 7 - RESTATEMENT OF PRIOR PERIOD**

During 2014, Management became aware that \$56,818 of VAT obligations were not accrued as of December 31, 2013. The following table summarizes the financial statement captions and amounts within the December 31, 2013 consolidated financial statements that have been restated

	<b>As Previously Reported</b>	<b>Restatement Adjustments</b>	<b>As Restated</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
VAT tax obligations	\$ -	\$ 56,818	\$ 56,818
Net assets unrestricted	\$ 1,571,412	\$ (56,818)	\$ 1,514,594
Government grants	\$ 708,745	\$ (56,818)	\$ 651,927

**FOUNDATION ESCALERA, INC.**  
**CONSOLIDATED CHARITY PROGRAMS 100% MODEL**  
**Years ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Public donations to charity programs	\$ 1,624,481	\$ 931,696
Expenditures on charity programs	<u>(1,523,949)</u>	<u>(1,026,898)</u>
Increase in net assets reserved for charity programs	<u>\$ 100,532</u>	<u>\$ (95,202)</u>
Private donations to operations	\$ 162,202	\$ 1,542,526
Net investment and other income	55,916	69,818
Operating expenses	<u>(142,871)</u>	<u>(71,588)</u>
Increase in net assets reserved for operations	<u>\$ 75,247</u>	<u>\$ 1,540,756</u>

## Notes:

1. In-kind donations are excluded as they represent noncash transfers of services affecting both revenue and expense.
2. Net assets reserved for operations correspond to the change in net assets for operations in the accompanying statement of activities for the years ended December 31, 2014 and 2013.

*See accompanying independent auditors' report*