

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT.....	3
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	5
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS.....	6
CONSOLIDATED STATEMENTS OF CASH FLOWS.....	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	8



CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

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, 2015 and 2014, 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, 2015 and 2014, 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.

WSRP, LLC

Salt Lake City, Utah
June 23, 2016

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 399,129	\$ 529,157
Marketable securities	525,656	544,328
Current portion of donation receivable	190,131	97,228
TOTAL CURRENT ASSETS	1,114,916	1,170,713
DONATION RECEIVABLE	-	93,660
PROPERTY AND EQUIPMENT	560,040	553,779
TOTAL ASSETS	\$ 1,674,956	\$ 1,818,152
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to related entity	\$ 4,974	\$ 3,855
Unearned government grant revenue	-	47,665
VAT tax obligations	-	76,259
Accrued payroll taxes	3,486	-
TOTAL CURRENT LIABILITIES	8,460	127,779
 NET ASSETS		
Temporarily Restricted	148,991	190,888
Unrestricted	1,517,505	1,499,485
TOTAL NET ASSETS	1,666,496	1,690,373
TOTAL LIABILITIES AND NET ASSETS	\$ 1,674,956	\$ 1,818,152

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, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions	\$ 211,498	\$ 204,236	\$ 415,734	\$ 273,554	\$ 92,582	\$ 366,136
Contributions-in-kind	163,786	-	163,786	103,569	-	103,569
Government grants	-	923,155	923,155	-	1,044,764	1,044,764
Foundation and trust grants	26,000	87,500	113,500	124,800	301,607	426,407
Rental income	40,019	-	40,019	38,966	-	38,966
Investment income on marketable securities	4,651	-	4,651	16,857	-	16,857
Interest	167	-	167	93	-	93
Unrealized loss on marketable securities	(19,618)	-	(19,618)	-	-	-
Foreign currency transaction gain (loss)	23,134	-	23,134	(38,510)	-	(38,510)
Foreign currency translation adjustment	(59,449)	-	(59,449)	(12,114)	-	(12,114)
Net assets released from restrictions	1,256,788	(1,256,788)	-	1,248,065	(1,248,065)	-
TOTAL REVENUE AND SUPPORT	1,646,976	(41,897)	1,605,079	1,755,280	190,888	1,946,168
EXPENSES						
Program services:						
Building program	1,171,805	-	1,171,805	1,288,414	-	1,288,414
Benemerito scholarship program	8,917	-	8,917	22,509	-	22,509
Star scholarship program	-	-	-	24,321	-	24,321
Reach program	301,633	-	301,633	245,021	-	245,021
Total program expenses	1,482,355	-	1,482,355	1,580,265	-	1,580,265
Supporting services	110,837	-	110,837	130,648	-	130,648
Fundraising expenses	35,764	-	35,764	59,476	-	59,476
TOTAL EXPENSES	1,628,956	-	1,628,956	1,770,389	-	1,770,389
CHANGE IN NET ASSETS	18,020	(41,897)	(23,877)	(15,109)	190,888	175,779
Net assets - beginning of year	1,499,485	190,888	1,690,373	1,514,594	-	1,514,594
Net assets - end of year	\$ 1,517,505	\$ 148,991	\$ 1,666,496	\$ 1,499,485	\$ 190,888	\$ 1,690,373

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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (23,877)	\$ 175,779
Adjustments to reconcile change in net assets to net cash flows from (used by) operating activities:		
Depreciation	31,475	23,998
Investment income on marketable securities	(4,651)	(16,857)
Unrealized loss on marketable securities	19,618	-
Changes in operating assets and liabilities:		
Donation receivable	757	(190,888)
Due to related entity	1,119	(802)
Deferred grant revenue	(47,665)	(4,793)
VAT tax obligations	(76,259)	19,441
Accrued payroll taxes	3,486	-
Net cash flows from (used by) operating activities	(95,997)	5,878
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of equipment	(37,735)	(15,690)
Cash paid for purchase of marketable securities	(105,450)	(127,450)
Cash received from sale of marketable securities	109,154	289,351
Net cash flows from (used by) investing activities	(34,031)	146,211
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(130,028)	152,089
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	529,157	377,068
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 399,129	\$ 529,157

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, 2015 and 2014

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 organization, 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. In 2015, the Foundation completed its school construction programs to focus primarily on its scholarship and educational programs.

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 and donations receivable.

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. As of December 31, 2015, substantially all of the Foundation's donations receivable were due from two entities.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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. At December 31, 2015 and 2014, cumulative translation losses were \$71,563 and \$12,114, 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, 2015 and 2014

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, 2015, the entire amount of the 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 their fair values 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. In 2015, the Foundation adopted ASU-2013-06 which requires services from related entities to be recorded at cost unless that basis understates the value of services provided. For the years ended December 31, 2015 and 2014, the Foundation has recorded in-kind contributions at fair value.

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 June 23, 2016, 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, 2015 and 2014

NOTE 2 - MARKETABLE SECURITIES

The fair value of marketable securities is as follows:

<u>2015</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 388,046	\$ -	\$ (16,289)	\$ 371,757
Debt securities	<u>157,228</u>	<u>-</u>	<u>(3,329)</u>	<u>153,899</u>
	<u>\$ 545,274</u>	<u>\$ -</u>	<u>\$ (19,618)</u>	<u>\$ 525,656</u>
<u>2014</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 544,328	\$ -	\$ -	\$ 544,328
Debt securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 544,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 544,328</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	<u>2015</u>	<u>2014</u>
Held for investment:		
Condominiums	\$ 574,500	\$ 574,500
Accumulated Depreciation	(54,968)	(33,690)
Used in operations:		
Vehicle	47,652	9,917
Office equipment	5,773	5,773
Accumulated Depreciation	<u>(12,917)</u>	<u>(2,721)</u>
Net book value	<u>\$ 560,040</u>	<u>\$ 553,779</u>

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 4 - INVESTMENT INCOME

The Foundation's investment income consists of the following:

	2015	2014
Dividends and interest	\$ 26,145	\$ 27,034
Realized losses	(17,650)	(5,894)
Investment fees	(3,844)	(4,283)
	\$ 4,651	\$ 16,857

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 years ended December 31, 2015 and 2014 was \$4,526 and \$8,094, respectively.

NOTE 6 - 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, 2015 and 2014, these services amounted to \$163,786 and \$103,569, 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, 2015 and 2014, these expenses amounted to \$72,047 and \$102,388, respectively.

The Foundation receives cash donations from entities and individuals related by common control. For the years ended December 31, 2015 and 2014, these donations amounted to \$54,297 and \$195,530, respectively.

NOTE 7 - BOARD DESIGNATIONS

The board of directors has designated an endowment fund from unrestricted net assets to be used for the permanent continuation of the charitable purpose of the Foundation. Net investment income is derived from rental income and investment income and expenditures are determined by the Board to fund program activities. A reconciliation of the fund is as follows:

	2015	2014
Beginning Balance	\$ 1,126,018	\$ 1,255,422
Net investment income	(3,864)	26,010
Expenditures	-	(155,414)
Ending Balance	\$ 1,122,154	\$ 1,126,018