

FOUNDATION ESCALERA, INC.

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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CERTIFIED PUBLIC
ACCOUNTANTS AND
BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

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, 2016 and 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2016 and 2015, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2017, on our consideration of the Foundation Escalera Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foundation Escalera, Inc.'s internal control over financial reporting and compliance.

WSRP, LLC

Salt Lake City, Utah
September 12, 2017

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 556,058	\$ 399,129
Marketable securities	787,296	525,656
Receivables	<u>144,706</u>	<u>190,131</u>
TOTAL CURRENT ASSETS	1,488,060	1,114,916
PROPERTY AND EQUIPMENT		
	<u>447,084</u>	<u>560,040</u>
TOTAL ASSETS	<u><u>1,935,144</u></u>	<u><u>1,674,956</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to related entity	9,109	4,974
Accrued payroll taxes	<u>2,569</u>	<u>3,486</u>
TOTAL CURRENT LIABILITIES	11,678	8,460
NET ASSETS		
Temporarily restricted	91,498	148,991
Unrestricted	<u>1,831,968</u>	<u>1,517,505</u>
TOTAL NET ASSETS	<u>1,923,466</u>	<u>1,666,496</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,935,144</u></u>	<u><u>\$ 1,674,956</u></u>

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, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions	\$ 274,618	\$ 71,676	\$ 346,294	\$ 211,498	\$ 204,236	\$ 415,734
Contributions-in-kind	83,124	-	83,124	163,786	-	163,786
Government grants	-	312,205	312,205	-	923,155	923,155
Foundation and trust grants	10,000	83,911	93,911	26,000	87,500	113,500
Rental income	35,174	-	35,174	40,019	-	40,019
Gain on sale of investment property	35,835	-	35,835	-	-	-
Investment income/(loss) on marketable securities	(1,063)	-	(1,063)	4,651	-	4,651
Interest	352	-	352	167	-	167
Unrealized gain/(loss) on marketable securities	64,029	-	64,029	(19,618)	-	(19,618)
Foreign currency transaction loss	(9,401)	-	(9,401)	(44,175)	-	(44,175)
Foreign currency translation adjustments	(9,497)	-	(9,497)	7,860	-	7,860
Net assets released from restrictions	525,285	(525,285)	-	1,256,788	(1,256,788)	-
TOTAL REVENUE AND SUPPORT	1,008,456	(57,493)	950,963	1,646,976	(41,897)	1,605,079
EXPENSES						
Program services:						
Building program	84,880	-	84,880	1,171,805	-	1,171,805
Benemerito scholarship program	535	-	535	8,917	-	8,917
Reach program	481,199	-	481,199	301,633	-	301,633
Total program expenses	566,614	-	566,614	1,482,355	-	1,482,355
Supporting services	102,428	-	102,428	110,837	-	110,837
Fundraising expenses	24,951	-	24,951	35,764	-	35,764
TOTAL EXPENSES	693,993	-	693,993	1,628,956	-	1,628,956
CHANGE IN NET ASSETS	314,463	(57,493)	256,970	18,020	(41,897)	(23,877)
Net assets - beginning of year	1,517,505	148,991	1,666,496	1,499,485	190,888	1,690,373
Net assets - end of year	\$ 1,831,968	\$ 91,498	\$ 1,923,466	\$ 1,517,505	\$ 148,991	\$ 1,666,496

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 256,970	\$ (23,877)
Adjustments to reconcile change in net assets to net cash flows from (used by) operating activities:		
Depreciation	29,591	31,475
Gain on sale of investment property	(35,835)	-
Investment (income)/loss on marketable securities	1,063	(4,651)
Unrealized loss/(gain) on marketable securities	(64,029)	19,618
Changes in operating assets and liabilities:		
Receivables	45,425	757
Due to related entity	4,135	1,119
Deferred grant revenue	-	(47,665)
VAT tax obligations	-	(76,259)
Accrued payroll taxes	(917)	3,486
Net cash flows from (used by) operating activities	236,403	(95,997)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of equipment	-	(37,735)
Cash from sale of investments	119,200	-
Cash paid for purchase of marketable securities	(338,250)	(105,450)
Cash received from sale of marketable securities	139,576	109,154
Net cash used by investing activities	(79,474)	(34,031)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	156,929	(130,028)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	399,129	529,157
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 556,058	\$ 399,129

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, 2016 and 2015

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 and training for teachers in southern Mexico. The Foundation also provides assistance with school construction and scholarship programs for the benefit of students. In 2016, the Foundation reduced 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.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

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

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 or marketable securities. As of December 31, 2016, all of the Foundation's receivables were due from a U.S. federal government agency.

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, 2016 and 2015, cumulative translation losses were \$13,751 and \$4,254, 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.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Receivables

The Foundation records unconditional promises and awards from other non-profits and grants from government agencies as receivables 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, 2016, the entire amount of the receivables was expected to be collected in 2017. An allowance for doubtful accounts has not been established because management believes that all amounts will be fully collectible.

Properties Held for Investment

Properties held for investment 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. Property and equipment purchases over \$500 that increase values or extend useful lives are capitalized. Expenditures for 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.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

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. 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, 2016 and 2015, 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 September 12, 2017, 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.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - MARKETABLE SECURITIES

The fair value of marketable securities is as follows:

<u>2016</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 593,389	\$ 43,078	\$ (8,860)	\$ 627,607
Debt securities	164,676	65	(5,052)	159,689
	<u>\$ 758,065</u>	<u>\$ 43,143</u>	<u>\$ (13,912)</u>	<u>\$ 787,296</u>
<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	157,228	-	(3,329)	153,899
	<u>\$ 545,274</u>	<u>\$ -</u>	<u>\$ (19,618)</u>	<u>\$ 525,656</u>

Sales of available-for-sale marketable securities were as follows:

	<u>2016</u>	<u>2015</u>
Cost	\$ 142,363	\$ -
Gross realized gains	3,763	-
Gross realized losses	(6,550)	-
	<u>\$ 139,576</u>	<u>\$ -</u>

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is as follows:

	2016	2015
Held for investment:		
Condominiums	\$ 482,000	\$ 574,500
Accumulated depreciation	(63,970)	(54,968)
Used in operations:		
Vehicle	47,652	47,652
Office equipment	5,773	5,773
Accumulated depreciation	(24,371)	(12,917)
Net book value	\$ 447,084	\$ 560,040

NOTE 4 - INVESTMENT INCOME/(LOSS)

The Foundation's investment income/(loss) consists of the following:

	2016	2015
Dividends and interest	\$ 6,740	\$ 26,145
Realized losses	(2,787)	(17,650)
Investment fees	(5,016)	(3,844)
	\$ (1,063)	\$ 4,651

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, 2016 and 2015 was \$5,498 and \$4,526, 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, 2016 and 2015, these services amounted to \$79,749 and \$163,786, respectively, and was included as in-kind contributions on the statement of activities and changes in net assets.

Beginning in 2016, the Foundation occupied office space in Mexico from certain board members rent free. For the year ended December 31, 2016, the fair value of rent was \$3,375 and was reflected as an in-kind contribution.

FOUNDATION ESCALERA, INC.
(A Non-Profit Foundation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 - RELATED PARTY TRANSACTIONS (CONTINUED)

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, 2016 and 2015, these expenses amounted to \$95,386 and \$72,047, respectively.

The Foundation receives cash donations from entities and individuals related by common control. For the years ended December 31, 2016 and 2015, these donations amounted to \$43,230 and \$54,297, 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. A reconciliation of the fund is as follows:

	2016	2015
Beginning Balance	\$ 1,122,154	\$ 1,126,018
Net investment income (loss)	108,705	(3,864)
Ending Balance	<u>\$ 1,230,859</u>	<u>\$ 1,122,154</u>



CERTIFIED PUBLIC
ACCOUNTANTS AND
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**To the Board of Directors
Foundation Escalera, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Foundation Escalera, Inc. (a nonprofit organization) (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WSRP, LLC

Salt Lake City, Utah
September 12, 2017