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## **Appendix 1**

**Pima County Administrator  
Memorandum, dtd 23d Aug. 2013**



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# MEMORANDUM

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Date: August 23, 2013

To: Hank Atha  
Deputy County Administrator for  
Community and Economic Development

Tom Moulton, Director  
Economic Development and Tourism

From: C.H. Huckleberry  
County Administrator  
*CHB*

Re: **Colossal Cave Mountain Park**

On August 19, 2013, the Board of Supervisors continued until September 10, 2013 their discussion regarding Colossal Cave Mountain Park (CCMP) and appropriate performance audits of CCMP.

I would appreciate an itemized and detailed work plan for a performance audit as referenced in Supervisor Ray Carroll's August 19, 2013 memorandum. Please include the following in your performance audit work plan:

1. The history of CCMP from its inception to the present management agreement;
2. An inventory of the natural resources assets within the park and the County's actions to secure and expand the land base around CCMP, including bond projects related to open space acquisitions or any open space acquisition related to riparian connectivity between CCMP and surrounding riparian habitats;
3. The transportation improvements on Pistol Hill Road that were designed to reduce through traffic penetrating CCMP on Colossal Cave Road.
4. A full range of recreational opportunities that could be utilized at CCMP without exploiting or diminishing the natural resource base;
5. Economic productivity variables such as attendance measured in terms of surrounding influences or competitors, such as Kartchner Caverns.

The County has invested significant resources in CCMP in an attempt to make CCMP as successful as Tucson Mountain Park in the long term.

**Messrs. Hank Atha and Tom Moulton**  
**Re: Colossal Cave Mountain Park**  
**August 23, 2013**  
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Please develop recommendations for a performance audit committee, including outside individuals, with at least one representative from Visit Tucson, as they also have a vested interest in ensuring CCMP is a viable asset to attract tourism.

I would appreciate receiving the first draft performance audit work plan and committee recommendations by September 4, 2013.

CHH/dph

c: The Honorable Chairman and Members, Pima County Board of Supervisors  
John Bernal, Deputy County Administrator for Public Works  
Chris Cawein, Interim Director, Natural Resources, Parks and Recreation

## **Appendix 2**

**Pima County Administrator  
Memorandum, dtd 9<sup>th</sup> Sept. 2013**



# MEMORANDUM

Date: September 9, 2013

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

Re: **Colossal Cave Mountain Park Proposed Performance Audit**

On August 19, 2013, a request was made by District 4 Supervisor Ray Carroll to the Board of Supervisors to conduct a performance audit for various reasons on the operations and contract deliverables of Colossal Cave Mountain Park (Attachment 1). The Board agreed to continue this item to their September 10, 2013 meeting.

Supervisor Carroll's memorandum to the Board requested the County Administrator prepare a plan to conduct such an audit. Attached for your consideration is the proposed performance audit action plan (Attachment 2).

The following are the parameters within which the committee will be formed and the audit conducted:

1. The audit committee will be appointed by the County Administrator.
2. The committee will be comprised of tourism, academic and community leaders, as well as professionals in natural resources and wildlife management.
3. The audit committee's deliberations will not be subject to Arizona's Open Meeting Law due to the appointment process.
4. The County Administrator will request \$25,000 from the Contingency Fund for professional assistance to facilitate the audit action plan.
5. The committee will prepare a report to the County Administrator, who will submit the report to the Board of Supervisors for review and approval.

CHH/mjk

Attachment

c: Hank Atha, Deputy County Administrator for Community and Economic Development  
Tom Moulton, Director, Economic Development and Tourism

# ATTACHMENT 1



**PIMA COUNTY BOARD OF SUPERVISORS**  
130 WEST CONGRESS, 11th FLOOR  
TUCSON, ARIZONA 85701-1317  
(520) 740-8094  
(520) 740-2721 FAX

**RAY CARROLL**  
COUNTY SUPERVISOR  
DISTRICT 4

**Memorandum**

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: Ray Carroll, Supervisor, District 4

Date: August 19, 2013

*Ray Carroll*

**Subject: The Future of Colossal Cave Mountain Park**

**The Shooting of the Mountain Lion**

Three men were recently charged with various misdemeanor infractions in the shooting of a female mountain lion on the grounds of the County's Colossal Cave Mountain Park. Two of the three men have direct connections with the company that operates the Park under a lease arrangement with the County.

If found guilty, each man faces up to four months in jail. Seven citations were issued among the three men, with fines up to \$750. In addition, Mark Hart, a spokesman for the Arizona Game and Fish Department, said the men might also be liable for civil penalties of up to \$1,500 imposed by the Game and Fish Department for the unauthorized taking of wildlife.

I think the shooting of a mountain lion on County lands by employees or subcontractors of Escabrosa, the company we entrusted, by lease, to manage the Park, is a travesty. Our lease clearly states that it is the obligation of the manager to protect wildlife from destruction on Park grounds (Paragraph 17.2). The lease directs the manager to forbid hunting except by licensed hunters (Paragraph 17.6). The lease also directs the manager not to permit any activity in the Park that conflicts with any federal, state or local law, statute, ordinance or government regulation (Paragraph 17.3).

I have read the investigative report from the Arizona Game and Fish Department and the statements by the accused are inconsistent, confusing, contradictory and obviously, in some cases, a perversion of the truth.

Since the two men who actually fired the shots that killed the mountain lion have admitted doing so, and the cases of all three defendants are now being adjudicated, it is not my intention to discuss their guilt or innocence of the specific charges leveled against them.

The Honorable Chairman and Members, Pima County Board of Supervisors  
The Future of Colossal Cave Mountain Park  
August 19, 2013  
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It is my intention to focus attention on the current operation of Colossal Cave Mountain Park, and what this Board can do to improve it; not only in the management of wildlife, but in the performance of the park as a Pima County tourist attraction.

### **The Lease**

The Current lease with our Park manager, Escabrosa, is for five years, ending on August 21, 2015. The leaseholder has the right to request two 5-year extensions. The County Administrator would then seek approval for the extension(s) from the Board of Supervisors. The first extension can be sought no earlier than August 21, 2014, one year before the lease expiration.

### **Park Performance—Attendance and Income**

I have reviewed the attendance figures for the 3-year period 2010 through 2012. (Note: The current lease became effective for the last four months of 2010, but the manager was involved in the operation prior to that time.) The figures show the following:

| <u>Year</u> | <u>Attendance</u> | <u>Change from Prev. Year</u> |
|-------------|-------------------|-------------------------------|
| 2010        | 50,057            | (9,278)                       |
| 2011        | 48,273            | (1,784)                       |
| 2012        | 37,824            | (10,449)                      |

These figures do not include students on school bus tours, but do represent the number of people entering the gates in all other vehicles.

The figures encompass the Great Recession which affected all tourism activity. However, a drop of more than 24% is certainly worrying. This is particularly so when we consider that in 2012 Pima County had more than \$2.6 billion in direct tourism spending according to the Arizona Office of Tourism. The attendance decline at Colossal Cave Mountain Park is even more difficult to understand when we realize that according to a 2012 Visitor Survey conducted by Visit Tucson, the natural environment and outdoor/desert activities were cited by visitors as Pima County's greatest attractions.

The income figures for the Park appear to be equally discouraging. The manager states that the Park has not made a profit since 2006. Gross income has fallen from \$842,561 in 2007 to \$726,112 in 2012. Net losses for those six years according to the manager's figures, range from a high of \$92,392 in 2008 to a low of \$42,371 in 2012.

### **Performance**

It is apparent to me that Colossal Cave Mountain Park is not performing as might be expected, even given the past difficult economic times. Part of the current lease called upon Escabrosa to prepare and execute a business plan (Paragraph 10.6.1). Given the attendance and income figures, I would like to know how this plan has been implemented. This is particularly important

since the lease calls for the next business plan to be presented to the County by November 15, 2013 (Paragraph 10.6.2).

While it is difficult to compare attendance figures between disparate tourist attractions, I reviewed the attendance figures for the Titan Missile Base for 2010-2012, since this attraction is basically a single event visit similar to the single event of visiting the Cave. The figures show the following:

| <u>Year</u> | <u>Attendance</u> | <u>Change from Prev. Year</u> |
|-------------|-------------------|-------------------------------|
| 2010        | 51,213            | 1,296                         |
| 2011        | 49,404            | (1,749)                       |
| 2012        | 51,004            | 1,540                         |

These figures show a flat attendance in spite of the effects of the Great Recession. This is in sharp contrast to the 24% decline shown by Colossal Cave during the same time period.

#### **Conclusion**

Pima County's three mountain parks are one of our outstanding conservation and recreation achievements. I do not believe there is a better mountain park system in the nation. God has blessed us with these beautiful mountains and our County has had the foresight to acquire and preserve them, with all their flora and fauna, starting in 1929 when The Pima County Board of Supervisors acquired Tucson Mountain Park.

I know that this Board shares my pride in what has been done for all the people of Pima County. I am concerned for the taxpayers by what has happened at Colossal Cave Mountain Park. It is for this reason that I make these recommendations.

#### **Recommendations:**

I recommend that the Board direct the County Administrator to create a Special Committee to conduct a performance audit of the operations at Colossal Cave Mountain Park, including a review of the lease activities undertaken by the present leaseholder. Such review to include, but not be limited to, the education, training and supervision of employees and subcontractors with regard to the stewardship of the Park environment, especially its wildlife; the execution of the business plan as required by the lease, especially, the marketing of the Park as a premier tourist attraction; an analysis of the audited financial statements for the years 2010 and 2012 as required by the lease; and any other such information as the County Administrator may deem necessary to enhance the operation of Colossal Cave Mountain Park.

The Honorable Chairman and Members, Pima County Board of Supervisors

The Future of Colossal Cave Mountain Park

August 19, 2013

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Further, I recommend that the Board direct the County Administrator to advise the Special Committee to complete its work by November 1, 2013, and to make recommendations to the Board and County Administrator on implementing any recommendations it may make.

I appreciate the Board's consideration of my request and thank it for its attention to this important matter.

c: C.H. Huckleberry, County Administrator  
Chris Cawein, Interim Director of Natural Resources, Parks and Recreation  
Tom Moulton, Director, Economic Development and Tourism Department

# ATTACHMENT 2

**PERFORMANCE AUDIT PLAN FOR  
COLOSSAL CAVE MOUNTAIN PARK  
FOR THE YEARS 2000 THROUGH 2012**

**Colossal Cave Mountain Park Mission**

The management and staff of Colossal Cave Mountain Park (CCMP; Park), through a cooperative management agreement with Pima County and on behalf of the residents of Pima County, have a core responsibility to conserve, protect and manage the cultural and natural heritage within the boundaries and protected areas of CCMP. Management is also responsible for making CCMP available for the public's enjoyment.

**Performance Audit Objectives**

- The performance audit will determine how well the CCMP team meets its overall management responsibilities.
- The performance audit will analyze how the business operation has been conducted in conjunction with creating activities and programs that generate public interest.
- The audit will focus on the following three areas:
  1. Business and Financial
    - A. The history of CCMP from its inception to the present management agreement.
    - B. An analysis of the financial statements for the years from 2002 through 2012.
    - C. Analysis of the current business and marketing plans, include the status of each task, the method for task completion, and why particular tasks have not been completed.
    - D. Competitive analysis of other Pima County/southern Arizona attractions and similar cave operations in the western United States.
    - E. Analysis of economic productivity variables, such as attendance, measured in terms of surrounding influences or competitors, such as Kartchner Caverns.
  2. Operations, Past and Current
    - A. An inventory of the natural resources assets within the Park and the County's actions to secure and expand the land base around CCMP, including bond projects related to open space acquisitions or any open space acquisition related to riparian connectivity between CCMP and surrounding riparian habitats.
    - B. Generate a summary of capital improvements that have taken place by management and Pima County.

Performance Audit Plan for Colossal Cave Mountain Park

for the Years 2000 through 2012

September 9, 2013

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- C. Review transportation improvements on Pistol Hill Road that were designed to reduce through-traffic penetrating CCMP on Colossal Cave Road.
- D. Review the training and supervision of employees and subcontractors with regard to the stewardship of the Park environment, especially its wildlife.
- E. Review the overall maintenance and preventative maintenance plan for the park and its facilities.

3. Sustainability

- A. Develop a new three-year business and marketing plan;
- B. Develop a range of recreational opportunities that could be utilized at CCMP without exploiting or diminishing the natural resource base;
- C. Develop a performance matrix that can be utilized to measure management performance.

**Performance Audit Committee and Support**

The County Administrator will appoint a CCMP Performance Audit Committee to be comprised of tourism, academic and community leaders, as well as professionals in natural resources and wildlife management. Below are the County Administrator's recommended Committee members, as well as the Research and Staff Administrative Support teams.

| <b>PERFORMANCE AUDIT COMMITTEE</b> |  |  |
|------------------------------------|--|--|
| <b>Name</b>                        | <b>Title</b>                                     | <b>Affiliation</b>   |
| Armer, Wally                       | Parks Commissioner                               | Arizona State Parks  |
| Baker, Jon                         | Executive Director                               | Southwestern Fair Commission   |
| Baldwin, Kerry                     | Natural Resources Manager                        | Pima County Natural Resources, Parks and Recreation                            |
| Colodner, Deborah                  | Director of Conservation, Education and Science  | Arizona-Sonora Desert Museum   |
| Gimblett, Dr. Randy                | Chair, Landscape Assessment and Analysis Program | School of Natural Resources and the Environment, The University of Arizona     |
| McFarlin, Sheila                   | Board Member                                     | Cienega Watershed Partnership and formerly of the US Bureau of Land Management |
| Vimmerstedt, Tim                   | Director of Marketing                            | Visit Tucson   |
| <b>RESEARCH TEAM</b>               |  |  |

Performance Audit Plan for Colossal Cave Mountain Park

for the Years 2000 through 2012

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| Name                               | Title                                  | Affiliation                                  |
|------------------------------------|--|--|
| Bundrick, Gale                     | President                              | Pima County Parklands Foundation             |
| Nordensson, Jeff                   | Director                               | Pima County Communications Office            |
| Yarchin, Joe                       | Watchable Wildlife Program Coordinator | Arizona Game and Fish Department             |
| <b>ADMINISTRATIVE SUPPORT TEAM</b> |  |  |
| Moulton, Tom                       | Director                               | Pima County Economic Development and Tourism |
| Shirk, Brian                       | Program Manager, Operations            | Pima County Economic Development and Tourism |
| Strickland, Catherine              | Program Manager, Marketing             | Pima County Economic Development and Tourism |

**Performance Audit Timeframe**

The recommended duration of the CCMP Performance Audit is 120 days, and milestone dates for the audit process are as follows:

**2013**

|                   |   |
|-------------------|---|
| September 10 – 20 | Creation of the Committee and Membership Confirmation |
| September 23      | Initial Committee Meeting                             |
| October 1 – 14    | Review of Potential Consultants                       |
| October 14        | Committee's Consultant Discussion                     |
| October 28        | Consultant Interviews and Selection                   |
| November 4        | Study Begins  |
| December 9        | Consultant Findings Discussion (Committee)            |

**2014**

|            |   |
|------------|---|
| January 6  | Committee Reviews Draft Report                                    |
| January 20 | Committee Presents Final Audit Report to the County Administrator |

**Final Audit Report**

The CCMP Performance Audit Committee will provide a written report to the County Administrator that includes the following elements:

- A performance appraisal of CCMP management, operations and financial activities for the years 2000, 2011 and 2012.
- Specific recommendations for continuous improvement and accountability.

Performance Audit Plan for Colossal Cave Mountain Park

for the Years 2000 through 2012

September 9, 2013

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- Specific objectives and priorities for park management to utilize in implementing a comprehensive plan of action to manage the cultural and natural heritage areas, as well as programs activities.
- An actionable geotourism strategic marketing plan.
- A set of performance metrics to be used by CCMP management and Pima County to measure and evaluate CCMP performance.

**Cost**

There are two anticipated costs associated with this audit, and the County Administrator will ask the Board of Supervisors to make a \$25,000 allocation from the Contingency Fund to cover these costs.

The greatest cost will be for the retention of a consultant to analyze the operational and marketing data of CCMP, as well as to make recommendations regarding how to improve and develop new programs and activities to increase attendance at CCMP. A secondary cost may result from required collection of historical data and the compilation of reports.

### **Appendix 3**

**Addington & Associates, PLLC**  
**Independent Auditors Report of CCMP for 2012**



## INDEPENDENT AUDITOR'S REPORT

To the Director of  
Escabrosa, Inc.

We have audited the accompanying financial statements of Escabrosa, Inc. (an Arizona nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows, and functional expenses 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.

### Auditor's 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 auditor's 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 auditor considers 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 accounting policies used and the 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 qualified audit opinion.

### Basis for Qualified Opinion

We did not observe the taking of the physical inventories during the years ended December 31, 2012 or 2011, since those dates were prior to the time that we were initially engaged as auditors for Escabrosa, Inc. Escabrosa, Inc.'s policy is to take a physical inventory during a two week period during November. However, there were no procedures in place to adjust the physical inventory to the end of the year value. We were unable to obtain sufficient appropriate audit evidence about inventory quantities and values by other auditing procedures. The stated value of inventory at December 31, 2012 and 2011 was \$26,578 and \$36,632, respectively.

In addition, as discussed in Note 5, a physical inventory was not taken on April 1, 2010, the date that operations began, and the inventory transferred to Escabrosa, Inc. (stated at \$49,846) by its Director nor was an analysis of the March 31, 2010 liabilities, related to the transferred operations, and subsequently paid by Escabrosa, performed. Therefore, we were not able to obtain sufficient audit evidence as to balance of net assets or the advances from the Director at January 1, 2012.

### **Qualified Opinion**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Escabrosa, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Addington & Associates, PLLC*

August 1, 2014

**ADDINGTON & ASSOCIATES, PLLC**

**ES CABROSA, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2012**

**ASSETS**

|  |                      |
|--|----------------------|
| Accounts receivable                                | \$ 309               |
| Employee loans                                     | 775                  |
| Inventory  | 26,578               |
| Prepaid expenses                                   | 4,286                |
| Total current assets                               | <u>31,948</u>        |
| Equipment, net of accumulated depreciation of \$80 | 518                  |
| <b>Total Assets</b>                                | <u><u>32,466</u></u> |

**LIABILITIES AND NET ASSETS (DEFICIT)**

|   |                         |
|---|-------------------------|
| Accounts payable                                  | \$ 49,482               |
| Payroll liabilities                               | 6,150                   |
| Accrued expenses                                  | 21,927                  |
| Director advances                                 | 162,120                 |
| Total current liabilities                         | <u>239,679</u>          |
| Net Assets (deficit):                             |                         |
| Unrestricted:(deficit)                            | <u>(207,213)</u>        |
| Total net assets (deficit)                        | <u><u>(207,213)</u></u> |
| <b>Total Liabilities and Net Assets (Deficit)</b> | <u><u>32,466</u></u>    |

See Accompanying Notes.

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**ESCABROSA, INC.**  
**STATEMENT OF ACTIVITIES**  
For the year ended December 31, 2012

**Unrestricted net assets:**

**Revenue and support:**

|  |                 |
|--|-----------------|
| Admissions   | \$ 482,483      |
| Toll booth income  | 82,721          |
| Gift shop and restaurant income                            | \$ 87,943       |
| Less: Cost of sales  | <u>(37,515)</u> |
| Net gift shop and restaurant income                        | 50,428          |
| Ranch income (hayrides, trail rides, parties and weddings) | 30,326          |
| Miscellaneous income                                       | <u>2,841</u>    |
| <b>Total revenue and support</b>                           | <b>648,799</b>  |

**Expenses**

|                        |                |
|------------------------|----------------|
| Program services       | 587,796        |
| Management and general | <u>104,220</u> |
| <b>Total expenses</b>  | <b>692,016</b> |

**Increase (decrease) in net assets** (43,217)

**Net assets (deficit), beginning of year** (163,996)

**Net assets (deficit), end of year** \$ (207,213)

See Accompanying Notes.

**ES CABROSA, INC.**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2012

**Cash flows from operating activities:**

|  |                 |
|--|-----------------|
| (Decrease) in net assets   | \$ (43,217)     |
| Adjustments to reconcile (decrease) in net assets to net cash provided (used) by operating activities: |                 |
| Depreciation   | \$ 80           |
| (Increase) decrease in assets:   |                 |
| Accounts receivable  | 462             |
| Employee loans   | 604             |
| Inventory  | 10,054          |
| Prepaid expenses   | (4,286)         |
| Increase (decrease) in liabilities:  |                 |
| Accounts payable   | (3,580)         |
| Payroll liabilities  | (8,166)         |
| Accrued expenses   | 7,647           |
| <b>Net cash (used) by operating activities</b>   | <b>(40,402)</b> |

**Cash flows from investing activities:**

|  |              |
|--|--------------|
| Purchase of equipment                          | (598)        |
| <b>Net cash (used) by investing activities</b> | <b>(598)</b> |

**Cash flows from financing activities:**

|  |               |
|--|---------------|
| Advances from Director, net                      | 41,000        |
| <b>Net cash provided by financing activities</b> | <b>41,000</b> |

**Net increase in cash and cash equivalents** 0

**Cash and cash equivalents, beginning of year** 0

**Cash and cash equivalents, end of year** \$ 0

*Supplemental disclosure of cash flow information:*

|                                |          |
|--------------------------------|----------|
| Cash paid during the year for: |          |
| Interest                       | \$ 3,525 |
| Taxes                          | \$ 50    |

See Accompanying Notes.

**ESCABROSA, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2012

|                                   | <b>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Total</b>      |
|-----------------------------------|-----------------------------|---------------------------------------|-------------------|
| Wages                             | \$ 324,582                  | \$ 57,278                             | \$ 381,860        |
| Fringe benefits and payroll taxes | <u>40,026</u>               | <u>7,064</u>                          | <u>47,090</u>     |
| Total personnel                   | <u>364,608</u>              | <u>64,342</u>                         | <u>428,950</u>    |
|                                   |                             |                                       |                   |
| Advertising                       | \$ 17,334                   | \$ -                                  | \$ 17,334         |
| Auto expense                      | 28,610                      | -                                     | 28,610            |
| Bank fees                         | 6,710                       | 632                                   | 7,342             |
| Insurance                         | 37,634                      | 4,341                                 | 41,975            |
| Interest                          | 3,525                       | -                                     | 3,525             |
| Other miscellaneous               | 7,339                       | -                                     | 7,339             |
| Occupancy                         | 65,064                      | 9,011                                 | 74,075            |
| Office expense                    | -                           | 3,149                                 | 3,149             |
| Professional fees                 | 2,551                       | 6,061                                 | 8,612             |
| Security                          | 7,609                       | -                                     | 7,609             |
| Supplies                          | 1,066                       | 16,634                                | 17,700            |
| Taxes                             | 45,666                      | 50                                    | 45,716            |
| Depreciation                      | <u>80</u>                   | <u>-</u>                              | <u>80</u>         |
|                                   |                             |                                       |                   |
| Total functional expenses         | <u>\$ 587,796</u>           | <u>\$ 104,220</u>                     | <u>\$ 692,016</u> |

See Accompanying Notes.

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**ESCABROSA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**1. Organization and nature of activities**

Escabrosa Inc. (Escabrosa) was incorporated under Arizona law as a non-profit corporation on January 13, 2010, and began operations on April 1, 2010. Escabrosa was formed to promote education and conservation of desert environments and to provide for maintenance and preservation of the Colossal Cave Mountain Park (Park) located in Pima County, Arizona.

Escabrosa is considered a not-for-profit entity as there are no ownership interests like those of business entities. Escabrosa is governed by its sole incorporating director (Director).

Revenues are derived primarily from general admission fees to the Park and Colossal Cave, two gift shops and a restaurant, and income from its ranch operations.

Tax deductible donations to the Park come under the umbrella of the Pima County Parklands Foundation (Foundation), a 501(c)(3) organization, whose mission is to protect and enhance the parks of Pima County, Arizona. All donations received are used for operations and maintenance of the Park.

**2. Summary of significant accounting policies**

*Basis of accounting*

The financial statements of Escabrosa have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

*Basis of presentation*

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The net assets, revenues, gains and losses, and other support and expenses and other charges in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of Escabrosa and changes therein are classified as follows:

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before Escabrosa may spend the funds. There were no temporarily restricted net assets at December 31, 2012 or 2011.
- Permanently restricted 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. There were no permanently restricted net assets at December 31, 2012 or 2011.

**ESCABROSA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**2. Summary of significant accounting policies - continued**

*Use of estimates*

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

*Inventory*

Inventory consisting primarily of ceramics, jewelry, books and cultural gift items is valued at the lower of cost (first-in, first-out) or market, except for donated inventory which is recorded at fair market value on the date received.

*Equipment*

All acquisitions of property and equipment in excess of \$250 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Equipment is stated at cost except for donated equipment, which is recorded at fair market value at the date of gift. Depreciation is calculated using the straight-line method over estimated useful lives. Depreciation expense for the year ending December 31, 2012 was \$80.

*Accrued vacation pay*

Accrued vacation pay is accrued as a liability when earned as employees receive a vested right to this benefit.

*Income taxes*

Escabrosa is subject to both Federal and Arizona corporate income taxes as it has not applied for exemption from federal income tax under Section 501 of the Internal Revenue Code.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and tax reporting plus deferred taxes for operating losses that are available to offset future taxable income. The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled.

**ES CABROSA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

**2. Summary of significant accounting policies - continued**

*Income taxes - continued*

Escabrosa has evaluated its tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements. In general, Escabrosa is no longer subject to income tax examinations by the federal government and the State of Arizona for years before 2010 and 2009, respectively.

Escabrosa recognizes interest and penalties related to unrecognized tax benefits as accrued expenses and management and general expenses in its financial statements. During the year ended December 31, 2012 Escabrosa did not recognize any interest and penalties.

*Donated services*

No amounts have been reflected in the accompanying financial statements for donated services. Escabrosa generally pays for services requiring specific expertise. However, individuals, including the Director, volunteer their time and perform a variety of tasks that assist Escabrosa with Park operations.

*Expense allocation*

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimated time expended. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Escabrosa.

*Advertising*

Escabrosa uses advertising to promote its programs to the public. The costs of the advertising are expensed when incurred. Advertising expense for the year ended December 31, 2012 was \$17,334.

*Sales Tax*

The State of Arizona imposes a sales tax of 6.1% on Escabrosa's taxable sales to Park visitors. Escabrosa collects that sales tax from Park visitors and remits the entire amount to the State. Escabrosa's accounting policy is to include the tax collected and remitted to the State in revenue and program services expense. For the year ended December 31, 2012, Escabrosa's revenues and program services expense include \$45,666 of sales tax collected and remitted.

**3. Pima County agreement**

Escabrosa entered into an agreement (Agreement) with Pima County, Arizona (County) on July 21, 2010, to provide for the operation and administration of the Park. The agreement is for a period of five years and terminates on July 21, 2015, with two additional five year option periods available.

**ES CABROSA, INC.**  
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**3. Pima County agreement - continued**

The purpose of the agreement is to promote, maintain, develop, and improve the Park and all income generated from the operation of the Park is to be used solely for the operation and maintenance of the Park. Compliance with the terms and conditions of the Agreement, including the maintenance and operation of the Park, is considered to be adequate consideration and no additional fees are due to the County by Escabrosa under the Agreement. The Agreement is not considered a lease by the County.

The Agreement contains termination provisions by the County related primarily to non-performance that may be corrected by Escabrosa within thirty days after receipt of written notice. Escabrosa may terminate the Agreement with sixty days written notice to the County.

The Agreement also contains provisions related to an annual audit being conducted every other year beginning with the year ended December 31, 2010, approval of alterations to the Park property in excess of \$15,000, approval of any changes in Park fees and hours of operation, maintenance of adequate insurance, limitations on research at the Park, and compliance with federal, state, and local statutes. Escabrosa was not in compliance with the requirement to provide audited financial statements to the County for the year ended December 31, 2010, but the County has not enforced or formally waived this requirement to date.

**4. Director advances**

The Director permits Escabrosa to utilize a cash account that is owned by the Director for its operations. As such, all disbursements into the account are considered as advances from the Director and all deposits to the account are considered to be repayments to the Director.

In addition, the Director allows Escabrosa to utilize credit cards that are in the name of the Director for operational expenses. The outstanding balance on the credit cards at December 31, 2012 of \$33,002 is included in Director Advances.

There is no written agreement between the Director and Escabrosa related to any of the advances from the Director. In addition, there is no interest charged by the Director on the outstanding balance of the advances. The advances are considered to be due on demand as there is no formal repayment agreement and are reflected as a current liability in the accompanying financial statements.

The net outstanding balance of the advances at December 31, 2012 was \$162,120.

**5. Transfer of assets and operations from Director**

On April 1, 2010, the Director transferred the gift shop inventory owned by the Director to Escabrosa and began operations of the Park under Escabrosa. However, no actual physical inventory or inventory valuation was performed to support the inventory value transferred to Escabrosa by the Director. In addition, an analysis of the March 31, 2010 liabilities, related to the transferred operations, and subsequently paid by Escabrosa, was performed.

**ESCABROSA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**5. Transfer of assets and operations from Director - continued**

In addition, there was no formal agreement for the transfer of the inventory to Escabrosa by the Director or any repayment terms established (See Note 4).

**6. Income taxes**

Escabrosa has federal and Arizona loss carryforwards totaling \$139,634 that may be used to offset against future taxable income. If not used, the carryforwards will expire during 2030 to 2033 for federal purposes and during 2015 to 2018 for Arizona purposes.

The deferred tax benefit of the loss carryforwards totaling \$20,945 for federal and \$9,730 for Arizona have been fully allowed at December 31, 2012 as Escabrosa does not anticipate sufficient future taxable income to utilize the credits.

Income tax for the year ended December 31, 2012 was \$50 and consisted solely of the Arizona corporate minimum tax.

**7. Operating lease agreements**

Escabrosa, Inc. leases equipment, used in its program activities. The following is a summary of remaining minimum lease payments under the terms of the various long-term leases:

|                          |      |    |     |
|--------------------------|------|----|-----|
| Year ending December 31, | 2013 | \$ | 640 |
|                          | 2014 |    | 640 |

Total equipment rental expense was \$9,988 for the year ended December 31, 2012.

**8. Plan for continued operations**

As shown in the accompanying financial statements, Escabrosa had a decrease in unrestricted net assets of \$43,217 during the year ended December 31, 2012 and has a net asset deficit of \$207,213 as of that date. In addition, its current liabilities exceeded its current assets by \$207,731 at December 31, 2012.

The operational deficits of the Park have been funded by advances from the Director. Without the continued advances by the Director it would be unlikely that Escabrosa could continue its daily operations of the Park.

Escabrosa intends to formalize its commitment from the Director in the form a written revolving line of credit or similar agreement.

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**9. Subsequent events**

*Management's review*

Escabrosa, Inc. has evaluated subsequent events through August 1, 2014, the date which the financial statements were available to be issued.