ESCABROSA, INC.
INDEX TO AUDITED FINANCIAL STATEMENTS
For the year ended December 31, 2012

AUDITED FINANCIAL STATEMENTS

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

ESCABROSA, 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		31,948
Equipment, net of accumulated depreciation of $80		518
Total Assets	$	32,466

LIABILITIES AND NET ASSETS (DEFICIT)

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

See Accompanying Notes.

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	(37,515)	
Net gift shop and restaurant income		50,428
Ranch income (hayrides, trail rides, parties and weddings)		30,326
Miscellaneous income		2,841
Total revenue and support		648,799
Expenses		
Program services		587,796
Management and general		104,220
Total expenses		692,016
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.

ESCABROSA, 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		
Net cash (used) by operating activities				(40,402)
Cash flows from investing activities:				
Purchase of equipment				(598)
Net cash (used) by investing activities				(598)
Cash flows from financing activities:				
Advances from Director, net				41,000
Net cash provided by financing activities				41,000
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

	Program Services	Management and General	Total
Wages	$ 324,582	$ 57,278	$ 381,860
Fringe benefits and payroll taxes	40,026	7,064	47,090
Total personnel	364,608	64,342	428,950
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	80	-	80
Total functional expenses	$ 587,796	$ 104,220	$ 692,016

See Accompanying Notes.

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.

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.

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.

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.

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 allowanced 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.

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.