

**KISSING CAMELS PROPERTY
OWNERS ASSOCIATION**

**Financial Statements &
Supplementary Information**

For the Year Ended June 30, 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kissing Camels Property Owners Association
Colorado Springs, Colorado

We have audited the accompanying financial statements of Kissing Camels Property Owners Association, which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenses, and changes in fund balances and cash flows 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.

Auditors' 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kissing Camels Property Owners Association as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Waugh & Goodwin, LLP
Colorado Springs, Colorado
November 29, 2016

KISSING CAMELS PROPERTY OWNERS ASSOCIATION

Balance Sheet

June 30, 2016

(With Comparative Totals for 2015)

ASSETS

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 472,781	\$ 490,952	\$ 963,733	\$ 1,130,237
Certificates of deposit	176,271	1,665,175	1,841,446	2,131,138
Accounts receivable, less allowance for doubtful accounts of \$9,000	5,958		5,958	87,658
Prepaid expenses	5,499		5,499	5,499
Security deposit	<u>1,600</u>		<u>1,600</u>	
Total current assets	662,109	2,156,127	2,818,236	3,354,532
OTHER ASSET - Land	<u>137,831</u>		<u>137,831</u>	
TOTAL ASSETS	<u>\$ 799,940</u>	<u>\$ 2,156,127</u>	<u>\$ 2,956,067</u>	<u>\$ 3,354,532</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES:				
Accounts payable	\$ 31,207	\$ 72,858	\$ 104,065	\$ 336,342
Assessments received in advance	<u>118,739</u>		<u>118,739</u>	<u>154,735</u>
Total current liabilities	149,946	72,858	222,804	491,077
FUND BALANCES:				
Operating fund	649,994		649,994	631,008
Replacement reserve fund		<u>2,083,269</u>	<u>2,083,269</u>	<u>2,232,447</u>
Total fund balances	<u>649,994</u>	<u>2,083,269</u>	<u>2,733,263</u>	<u>2,863,455</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 799,940</u>	<u>\$ 2,156,127</u>	<u>\$ 2,956,067</u>	<u>\$ 3,354,532</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION
Statement of Revenue, Expenses, and Changes in Fund Balances
For the Year Ended June 30, 2016

	Operating Fund	Replacement Reserve Fund	Total
REVENUE:			
Homeowner assessments	\$ 968,281	\$ 165,840	\$ 1,134,121
Impact fee	29,000		29,000
Developer security reimbursement	20,264		20,264
Interest income	3,305	10,443	13,748
Bad debt recovery	12,030		12,030
Cathedral income	12,000		12,000
Other income	7,265		7,265
Gate card	3,580		3,580
Late fees	3,225		3,225
Insurance claim proceeds	1,318		1,318
Legal collections	1,066		1,066
Fines	790		790
	<hr/>	<hr/>	<hr/>
Total revenue	1,062,124	176,283	1,238,407
EXPENSES:			
Asphalt		483,975	483,975
Security	347,517		347,517
Management fees	114,089		114,089
Administrative	73,385		73,385
Trash removal	71,131		71,131
Snow removal	68,200		68,200
Other landscaping	27,497		27,497
Grounds common area	22,959		22,959
Traffic signs		19,761	19,761
Lighting repairs	18,253		18,253
Road striping		16,640	16,640
Landscape contract	13,574		13,574
Website development	12,144		12,144
Gate repairs/access control	10,632		10,632
Other professional fees	10,031		10,031
Insurance	8,403		8,403
Rent	7,966		7,966
Decorations/holiday lighting	7,004		7,004
Legal fees	6,625		6,625
Miscellaneous	6,613		6,613
Contingency	5,188		5,188
Utilities	5,088		5,088
Building maintenance	2,909		2,909
Gate improvement		2,813	2,813
Surveillance system		2,272	2,272
Fencing & perimeter walls	1,845		1,845
Insurance claim repairs	1,318		1,318
Lighting service contract	767		767
	<hr/>	<hr/>	<hr/>
Total expenses	843,138	525,461	1,368,599
EXCESS OF REVENUE OVER (UNDER)			
EXPENSES	218,986	(349,178)	(130,192)
FUND BALANCES, beginning of year	631,008	2,232,447	2,863,455
TRANSFERS BETWEEN FUNDS	<u>(200,000)</u>	<u>200,000</u>	<u></u>
FUND BALANCES, end of year	<u>\$ 649,994</u>	<u>\$ 2,083,269</u>	<u>\$ 2,733,263</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION
Statement of Revenue, Expenses, and Changes in Fund Balances
For the Year Ended June 30, 2015

	Operating Fund	Replacement Reserve Fund	Total
REVENUE:			
Homeowner assessments	\$ 928,701	\$ 181,230	\$ 1,109,931
Other income	29,498		29,498
Developer security reimbursement	20,264		20,264
Impact fee	18,750		18,750
Cathedral income	12,000		12,000
Recycling	10,531		10,531
Interest income	2,122	9,357	11,479
Late charges & interest	4,302		4,302
Insurance claim proceeds	1,646		1,646
Gate cards	760		760
	<u>1,028,574</u>	<u>190,587</u>	<u>1,219,161</u>
EXPENSES:			
Asphalt		459,181	459,181
Security	348,369		348,369
Management fees	104,400		104,400
Trash removal	69,467		69,467
Snow removal	55,250		55,250
Fencing & perimeter walls	1,488	46,603	48,091
Administrative	42,732		42,732
Other landscaping	33,130		33,130
Fire mitigation		30,853	30,853
Landscape contract	29,747		29,747
Bad debts	28,118		28,118
Gate improvement		27,453	27,453
Surveillance system		23,629	23,629
Lighting repairs	15,983		15,983
Grounds common area	10,539	5,040	15,579
Other professional fees	13,836		13,836
Website development	12,084		12,084
Contingency	8,993		8,993
Utilities	8,992		8,992
Insurance	7,582		7,582
Gate repairs/access control	7,211		7,211
Drainage		7,200	7,200
Decorations/holiday lighting	6,706		6,706
Legal fees	4,836		4,836
Office lease	4,000		4,000
Miscellaneous	3,146		3,146
Rent	2,475		2,475
Insurance claims repairs	1,646		1,646
Lighting services contract	1,103		1,103
Building maintenance	650		650
	<u>822,483</u>	<u>599,959</u>	<u>1,422,442</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENSES	206,091	(409,372)	(203,281)
FUND BALANCES, beginning of year	574,917	2,491,819	3,066,736
TRANSFER BETWEEN FUNDS	<u>(150,000)</u>	<u>150,000</u>	
FUND BALANCES, end of year	<u>\$ 631,008</u>	<u>\$ 2,232,447</u>	<u>\$ 2,863,455</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION
Statement of Cash Flows
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenue over (under) expenses	\$ 218,986	\$ (349,178)	\$ (130,192)	\$ (203,281)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided (used) by operating activities:				
Non-cash acquisition of land	(137,831)		(137,831)	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable, net	81,700		81,700	(8,168)
Increase in prepaid expenses				(665)
Increase in security deposit	(1,600)		(1,600)	
Increase (decrease) in accounts payable	3,479	(235,756)	(232,277)	330,597
Increase (decrease) in assessments received in advance	(35,996)		(35,996)	59,027
Total adjustments	(90,248)	(235,756)	(326,004)	380,791
Net cash provided (used) by operating activities	128,738	(584,934)	(456,196)	177,510
CASH FLOWS FROM INVESTING ACTIVITIES:				
Certificates of deposits - net	(565)	290,257	289,692	(10,338)
Net cash provided (used) by investing activities	(565)	290,257	289,692	(10,338)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Transfers between funds	(200,000)	200,000		
Net cash provided (used) by financing activities	(200,000)	200,000		
NET INCREASE (DECREASE) IN CASH	(71,827)	(94,677)	(166,504)	167,172
CASH AND CASH EQUIVALENTS, beginning of year	544,608	585,629	1,130,237	963,065
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 472,781</u>	<u>\$ 490,952</u>	<u>\$ 963,733</u>	<u>\$1,130,237</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements

For the Year Ended June 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Association was incorporated on May 23, 1960 as a Colorado nonprofit corporation to provide for the maintenance, preservation, and architectural control of the lots in Kissing Camels Estates and to promote the health, comfort, safety, convenience and welfare of the residents of the Association, pursuant to the Declaration of Covenants, Conditions, Easements, Restrictions and Reservations for Kissing Camels Property Owners Association. The Association consists of a total of 604 residences of which 288 are in seven different sub associations.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting. Financial resources are classified for accounting purposes into two funds. The operating fund is used to account for the general operations of the Association. The replacement reserve fund is used to accumulate monies designated for future major repairs and replacements.

Income Tax

The Association has elected to be taxed as a homeowner association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of the Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed by the federal government and by the State of Colorado.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2013 to 2015 remain open to examination by the Internal Revenue Service; Colorado income tax returns for 2012 to 2015 are open to examination. Management of the Association believes that it does not have any uncertain tax positions that are material to the financial statements.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's checking and money market accounts. The Association maintains its cash and cash equivalents at commercial banks and a credit union. In the event of a bank or credit union failure, the Association may only be able to recover the amounts insured.

Assessments Receivable

Assessments receivable are stated at the amount the Association expects to collect from balances outstanding at year-end. Based on the Association's experience with owners having outstanding balances, it has concluded that an allowance for doubtful accounts of \$9,000 and \$21,030 is necessary at June 30, 2016 and 2015, respectively.

Property

The Association does not capitalize common real property directly associated with the lots. At June 30, 2016, property not capitalized consists of sidewalks, access roads, gates, a guard house, and open space.

During the year ended June 30, 2016, the Association acquired approximately 3.48 acres of undeveloped land near the recreation center from Garden of the Gods Club, LLC (GOTGC). The land was deeded to the Association by GOTGC as full payment of \$137,831 (assessments and legal fees) that was owed to the Association (see note H).

The 3.48 acres mentioned in the previous paragraph, is not directly associated with the other lots in the community. The Board of Directors intends to hold this acreage for sale or other commercial use. Under current rules for property owners associations the sale of this property would require approval of the membership.

Notes to Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Statement of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents are defined as demand deposits and short-term investments with an initial maturity of three months or less. The Association did not pay any income taxes or interest during the years ended June 30, 2016 and 2015.

Prior-Year Comparisons

The financial statements include certain prior-year summarized comparative information in total but not by fund category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 15, 2016, the date that the financial statements were available to be issued.

B. CERTIFICATES OF DEPOSIT

Certificates of deposit at June 30, 2016, consist of the following:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
07/28/16	.35%	\$ 227,255
08/11/16	.25	198,175
08/11/16	.35	106,046
09/15/16	.35	176,271
09/15/16	.45	207,653
09/15/16	.45	241,567
09/22/16	.45	120,833
11/10/16	.35	205,458
04/24/17	1.14	152,589
05/11/17	.50	205,599
		<u>\$ 1,841,446</u>

Notes to Financial Statements

B. CERTIFICATES OF DEPOSIT - Continued

The Association intends to hold these certificates until maturity.

C. MESA SERVICES AGREEMENT

Mesa Services refers to certain cost centers for which responsibility is shared by the Association and Garden of the Gods Club, LLC (GOTGC). The major components of Mesa Services are security, the guard house, Kissing Camels Drive, a portion of Mesa Road, and the recreation center.

In April 2012, the Association entered into a five year agreement with GOTGC regarding the sharing of future costs for Mesa Services. The agreement specifies which party will pay for certain costs and makes the recreation center available to all members in good standing with the Association.

This sharing of Mesa Services costs should result in the Association paying approximately 58% of the overall costs and the GOTGC paying 42%. Specifically, the Association pays for 100% of security costs and GOTGC is responsible for paying all other agreed upon items.

During the year ended June 30, 2015, GOTGC assigned their rights and responsibilities under the Mesa Services agreement to Garden of the Gods Club and Resort.

D. REPLACEMENT RESERVE FUND

Article 6.5.4 of the Declaration states that the annual assessment set by the Board of Directors shall include amounts for the creation of reasonable reserves for the periodic replacement, repair and maintenance of the common elements. The Association has allocated amounts from each owner's monthly assessment to the replacement reserve fund. The replacement reserve funds have been segregated from the Association's operating funds.

E. OPERATING LEASE

During the year ended June 30, 2016, the Association entered into an 18 month operating lease for office space. The lease requires monthly payments of \$1,605. The lease expires October 31, 2017.

Notes to Financial Statements

F. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association engaged an independent firm to prepare a reserve analysis in 2014 to estimate the remaining useful lives and the replacement costs of the common property components. The table shown in the unaudited supplementary information on future major repairs and replacements is based on this analysis.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components. Actual expenditures may vary from estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement reserve fund may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to approval of the Executive Board, to pass special assessments.

G. INSURANCE CLAIM

During the year ended June 30, 2016, the Association received insurance proceeds related to the north gate. The Association received \$1,318 in insurance proceeds and incurred costs of \$1,318 for related repairs. At June 30, 2016, all repairs were complete.

H. NON-CASH ACQUISITION OF LAND

Garden of the Gods Club, LLC (GOTGC) owed the Association \$137,831 consisting of \$121,235 for accrued assessments on undeveloped land and \$16,486 for legal fees. During the year ended June 30, 2016, the Association negotiated a settlement agreement with GOTGC to forgive this amount and to cease charging GOTGC assessments on undeveloped land payable under prior agreements between the parties.

KISSING CAMELS PROPERTY OWNERS ASSOCIATION

Supplementary Information on Future
Major Repairs and Replacements

June 30, 2016

(Unaudited)

The Association engaged an independent firm to conduct a reserve study in February 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained by inspection of the property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs and estimated remaining lives have not been revised since that date and assume a 3% rate of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Life</u>	<u>Estimated Replacement Cost</u>	<u>Replacement Reserve Fund Balance at 6/30/16</u>
Asphalt - seal/repair	0	\$ 47,020	\$
Asphalt - crack fill	0	2,575	
Asphalt - resurface	1	964,647	
Drainage detention	1	6,695	
Metal fence - repaint	1	14,163	
Concrete walks	3	22,510	
Concrete curb & gutter	3	53,762	
Concrete drive	3	8,796	
Landscape projects	3	16,391	
Gate operator	4	9,229	
Drainage underdrains	4	9,004	
Stone wall	4	5,628	
Stucco wall	5	14,491	
Card entry system	6	3,582	
Monument signage	6	7,164	
Wire fence	7	3,690	
Street signage	7	5,534	
HVAC system	7	6,764	
Guardhouse	8	22,168	
Security system	9	45,667	
Chain link fence	10	161,270	
Gutters/downspouts	10	1,371	
Pole lights	12	161,681	
Tile roof	18	13,619	
Metal fence - replace	25	392,583	
Undesignated			<u>2,083,269</u>
 TOTALS		 <u>\$ 2,000,004</u>	 <u>\$ 2,083,269</u>