

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2017

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Kissing Camels Property Owners Association, Inc., which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenses and changes in fund balance 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 the 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 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.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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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, Inc., as of June 30, 2017, 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 the information on future repairs and replacements on page 11 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.

Report on Summarized Comparative Totals

The financial statements of Kissing Camels Property Owners Association, Inc. as of June 30, 2016 were previously audited by other auditors whose report, dated November 29, 2016, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative totals presented herein as of and for the year ended June 30, 2016, are consistent, in all material respects, with the audited financial statements from which they have been derived.

Osborne, Parsons & Toracher LLP

Colorado Springs, Colorado

November 14, 2017

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

JUNE 30, 2017

(With Comparative Totals for 2016)

ASSETS

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>2017 Total</u>	<u>2016 Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 530,520	\$ 574,297	\$ 1,104,817	\$ 963,733
Certificates of deposit	177,279	1,670,200	1,847,479	1,841,446
Accounts receivable, net	1,790	-	1,790	5,958
Prepaid expenses	5,499	-	5,499	5,499
Security deposit	1,600	-	1,600	1,600
Total current assets	<u>716,688</u>	<u>2,244,497</u>	<u>2,961,185</u>	<u>2,818,236</u>
Other assets				
Land	137,831	-	137,831	137,831
Total assets	<u><u>\$ 854,519</u></u>	<u><u>\$ 2,244,497</u></u>	<u><u>\$ 3,099,016</u></u>	<u><u>\$ 2,956,067</u></u>

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts payable	\$ 43,054	\$ 223,205	\$ 266,259	\$ 104,065
Assessments received in advance	158,005	-	158,005	118,739
Total liabilities	<u>201,059</u>	<u>223,205</u>	<u>424,264</u>	<u>222,804</u>
Fund balances				
Operating fund	653,460	-	653,460	649,994
Replacement reserve fund	-	2,021,292	2,021,292	2,083,269
Total fund balance	<u>653,460</u>	<u>2,021,292</u>	<u>2,674,752</u>	<u>2,733,263</u>
Total liabilities and fund balances	<u><u>\$ 854,519</u></u>	<u><u>\$ 2,244,497</u></u>	<u><u>\$ 3,099,016</u></u>	<u><u>\$ 2,956,067</u></u>

See notes to financial statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Operating Fund	Replacement Reserve Fund	Totals	
			2017	2016
Revenue				
Homeowner assessments	\$ 981,355	\$ 203,700	\$ 1,185,055	\$ 1,134,121
Cathedral Ridge-security income	21,000	-	21,000	12,000
Developer security reimbursement	17,698	-	17,698	20,264
Impact fees	250	15,500	15,750	29,000
Interest income	3,066	12,169	15,235	13,748
Gate card	6,426	-	6,426	3,580
Legal collections	3,777	-	3,777	1,066
Late fees	2,561	-	2,561	3,225
Fines	1,020	-	1,020	790
Other income	147	-	147	7,265
Bad debt recovery	-	-	-	12,030
Insurance claim proceeds	-	-	-	1,318
Total revenue	<u>1,037,300</u>	<u>231,369</u>	<u>1,268,669</u>	<u>1,238,407</u>
Expenses				
Security	415,798	-	415,798	347,517
Asphalt	-	283,587	283,587	483,975
Management fees	117,318	-	117,318	114,089
Street repairs	82,565	-	82,565	1,054
Trash removal	68,125	-	68,125	71,131
Administrative	66,230	-	66,230	73,385
Consulting/studies	-	42,369	42,369	-
Concrete	-	41,725	41,725	-
Landscape contract	24,989	-	24,989	13,574
Drainage	-	24,371	24,371	-
Rent	19,594	-	19,594	7,966
Other landscaping	18,703	-	18,703	27,497
Grounds/common area	17,345	-	17,345	22,959
Snow removal	17,000	-	17,000	68,200
Gate repairs/access control	13,993	-	13,993	10,632
Website maintenance	13,770	-	13,770	12,144
Other professional fees	11,057	-	11,057	10,031
Insurance	10,070	-	10,070	8,403
Legal fees	8,242	-	8,242	6,625
Miscellaneous	7,343	-	7,343	5,559
Decorations/holiday lighting	5,802	-	5,802	7,004
Utilities	4,987	-	4,987	5,088
Contingency	4,127	-	4,127	5,188
Lighting repairs	1,788	-	1,788	18,253
Fencing & perimeter walls	1,664	-	1,664	1,845
Building maintenance	1,473	-	1,473	2,909
Lighting service contract	1,320	-	1,320	767
Road striping	-	1,294	1,294	16,640
Property taxes	531	-	531	-
Gate improvement	-	-	-	2,813
Insurance claim repairs	-	-	-	1,318
Surveillance system	-	-	-	2,272
Traffic signs	-	-	-	19,761
Total expenses	<u>933,834</u>	<u>393,346</u>	<u>1,327,180</u>	<u>1,368,599</u>
Excess of revenue over (under) expenses	103,466	(161,977)	(58,511)	(130,192)
Fund balance - beginning	649,994	2,083,269	2,733,263	2,863,455
Transfer between funds	(100,000)	100,000	-	-
Fund balance - ending	<u>\$ 653,460</u>	<u>\$ 2,021,292</u>	<u>\$ 2,674,752</u>	<u>\$ 2,733,263</u>

See notes to financial statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Operating Fund	Replacement Reserve Fund	Totals	
			2017	2016
Cash flows from operating activities				
Excess of revenue over (under) expenses	\$ 103,466	\$ (161,977)	\$ (58,511)	\$ (130,192)
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided (used) by operating activities:				
Non-cash acquisition of land	-	-	-	(137,831)
Changes in assets and liabilities:				
Accounts receivable, net	4,168	-	4,168	81,700
Security deposit	-	-	-	(1,600)
Accounts payable	11,847	150,347	162,194	(232,277)
Assessments received in advance	39,266	-	39,266	(35,996)
Total adjustments	<u>55,281</u>	<u>150,347</u>	<u>205,628</u>	<u>(326,004)</u>
Net cash provided (used) by operating activities	<u>158,747</u>	<u>(11,630)</u>	<u>147,117</u>	<u>(456,196)</u>
Cash flows from investing activities				
Certificates of deposits - net	<u>(1,008)</u>	<u>(5,025)</u>	<u>(6,033)</u>	<u>289,692</u>
Net cash (used) provided by investing activities	<u>(1,008)</u>	<u>(5,025)</u>	<u>(6,033)</u>	<u>289,692</u>
Cash flows from financing activities activities				
Transfers between funds	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Net cash (used) provided by financing activities	<u>(100,000)</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	57,739	83,345	141,084	(166,504)
Cash - beginning	472,781	490,952	963,733	1,130,237
Cash - ending	<u>\$ 530,520</u>	<u>\$ 574,297</u>	<u>\$ 1,104,817</u>	<u>\$ 963,733</u>

See notes to financial statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Kissing Camels Property Owners Association (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 611 residences and 64 lots, a grand total of 675, of which 237 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 2014 to 2016 remain open to examination by the Internal Revenue Service; Colorado income tax returns for 2013 to 2016 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.

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. The allowance for doubtful accounts is based on the Association's experience with owners having outstanding balances.

Property - The Association does not capitalize common real property directly associated with the lots. At June 30, 2017, property not capitalized consists of sidewalks, access roads, gates, a guardhouse, and open space.

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

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 year ended June 30, 2017.

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, 2016, from which the summarized information was derived.

NOTE 1 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2017, consist of the following:

Cash	\$ 381,570
Money market funds	723,247
	<u>\$ 1,104,817</u>

NOTE 2 – CONCENTRATION OF CREDIT RISK

Throughout the year, the Association has cash deposits at financial institutions in excess of federally insured limits. The Association has not experienced losses as a result of this policy and believes it is not exposed to any significant credit risk.

**KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CERTIFICATES OF DEPOSIT

Certificates of deposit as of June 30, 2017, consist of the following:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
7/27/2017	0.40%	\$ 200,742
8/10/2017	0.50%	106,705
9/14/2017	0.50%	243,616
9/14/2017	0.50%	177,279
10/26/2017	0.50%	228,520
11/9/2017	0.50%	206,475
2/8/2018	0.50%	199,031
3/15/2018	0.50%	209,258
5/16/2018	0.45%	154,174
6/21/2018	0.50%	121,679
		<u>\$ 1,847,479</u>

The Association intends to hold these certificates until maturity.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017, consist of the following:

Assessments	\$ 6,826
Other receivables	2,852
Gross receivables from property owners	<u>9,678</u>
Allowance for doubtful accounts	<u>(9,000)</u>
Net receivables from property owners	678
Insurance claim receivable	1,112
	<u>\$ 1,790</u>

Accounts receivable includes amounts 90 days or older of \$3,979.

NOTE 5 - 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 guardhouse, 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.

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - MESA SERVICES AGREEMENT - Continued

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. Following the expiration of the agreement in April 2017, the Association and Garden of the Gods Club and Resort continued to operate under the same conditions of the 2012 agreement while negotiating a new service agreement.

NOTE 6 - 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.

NOTE 7 - 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 plus 1.66% of the landlord's operating expenses, tax expenses, and utility costs. The lease expires on October 31, 2017. An amendment to this lease agreement was entered into on April 4, 2017. This amendment extends the lease term for an additional three years and expires on October 31, 2020. The Association will pay base rent during the extension term as follows:

June 30,	Future Minimum Payments
2018	\$ 13,668
2019	14,023
2020	14,289
2021	4,793
	<u>\$ 46,773</u>

NOTE 8 - 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.

**KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - FUTURE MAJOR REPAIRS AND REPLACEMENTS - Continued

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.

NOTE 9 - INSURANCE CLAIM

During the year ended June 30, 2017, the Association paid for repairs to a damaged gate. These costs will be reimbursed by insurance proceeds in the amount of \$1,112. This amount is included in the accounts receivable total at year end.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 14, 2017, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
FOR YEAR ENDED JUNE 30, 2017
(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.

Component	Estimated Remaining Life	Estimated Replacement Cost	Replacement Reserve Fund Balance at 06/30/17
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		-	2,021,292
		<u>\$ 2,000,004</u>	<u>\$ 2,021,292</u>

See notes to financial statements