

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018

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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, 2018, 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.

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, 2018, 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 supplementary information on future major repairs and replacements on page 10 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, which 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

We have previously audited Kissing Camels Property Owners Association, Inc.'s 2017 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated November 14, 2017. In our opinion, the summarized comparative totals presented herein as of and for the year ended June 30, 2017, are consistent, in all material respects, with the audited financial statements from which they have been derived.

Osborne, Parsons & Associates LLP

Colorado Springs, Colorado
October 16, 2018

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

JUNE 30, 2018

(With Comparative Totals for 2017)

ASSETS

	Operating Fund	Replacement Reserve Fund	Totals	
			2018	2017
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 469,402	\$ 560,335	\$ 1,029,737	\$ 1,104,817
Certificates of Deposit	178,309	1,550,121	1,728,430	1,847,479
Accounts Receivable	3,069	7,225	10,294	1,790
Prepaid Expenses	8,440	-	8,440	5,499
Security Deposit	1,600	-	1,600	1,600
Total Current Assets	<u>660,820</u>	<u>2,117,681</u>	<u>2,778,501</u>	<u>2,961,185</u>
Other Assets				
Land	137,831	-	137,831	137,831
Total Assets	<u><u>\$ 798,651</u></u>	<u><u>\$ 2,117,681</u></u>	<u><u>\$ 2,916,332</u></u>	<u><u>\$ 3,099,016</u></u>

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts Payable	\$ 39,995	\$ 303,339	\$ 343,334	\$ 266,259
Assessments Received in Advance	96,595	-	96,595	158,005
Total Liabilities	<u>136,590</u>	<u>303,339</u>	<u>439,929</u>	<u>424,264</u>
Fund Balances				
Operating Fund	662,061	-	662,061	653,460
Replacement Reserve Fund	-	1,814,342	1,814,342	2,021,292
Total Fund Balance	<u>662,061</u>	<u>1,814,342</u>	<u>2,476,403</u>	<u>2,674,752</u>
Total Liabilities and Fund Balances	<u><u>\$ 798,651</u></u>	<u><u>\$ 2,117,681</u></u>	<u><u>\$ 2,916,332</u></u>	<u><u>\$ 3,099,016</u></u>

See notes to financial statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	Operating	Replacement	Totals	
	Fund	Reserve Fund	2018	2017
Revenue				
Homeowner Assessments	\$ 995,149	\$ 216,320	\$ 1,211,469	\$ 1,185,055
Developer Shared Services Reimbursement	140,515	-	140,515	17,698
Cathedral Ridge-security Income	24,000	-	24,000	21,000
Impact Fees	-	22,000	22,000	15,750
Recycling Fees	13,126	-	13,126	-
Interest Income	3,287	8,963	12,250	15,235
Other Income	9,766	-	9,766	147
Gate Card	9,535	-	9,535	6,426
Bad Debt Recovery	9,000	-	9,000	-
Legal Collections	1,817	-	1,817	3,777
Late Fees	1,515	-	1,515	2,561
Fines	1,230	-	1,230	1,020
Total Revenue	<u>1,208,940</u>	<u>247,283</u>	<u>1,456,223</u>	<u>1,268,669</u>
Expenses				
Asphalt	-	641,714	641,714	283,587
Security	383,490	-	383,490	415,798
Management Fees	119,718	-	119,718	117,318
Street Repairs	85,903	-	85,903	82,565
Trash and Recycling Removal	85,272	-	85,272	68,125
Administrative	64,735	-	64,735	66,230
Concrete	-	37,268	37,268	41,725
Landscape Contract	31,361	-	31,361	24,989
Grounds/Common Area	24,365	-	24,365	17,345
Rent	19,823	-	19,823	19,594
Website Maintenance	18,249	-	18,249	13,770
Other Landscaping	17,431	-	17,431	18,703
Other Professional Fees	16,644	-	16,644	11,057
Fencing & Perimeter Walls	16,106	-	16,106	1,664
Consulting/Studies	1,841	12,495	14,336	42,369
Traffic Signs	-	9,487	9,487	-
Insurance	8,693	-	8,693	10,070
Snow Removal	8,460	-	8,460	17,000
Utilities	7,928	-	7,928	4,987
Decorations/Holiday Lighting	7,748	-	7,748	5,802
Legal Fees	7,591	-	7,591	8,242
Miscellaneous	6,116	-	6,116	5,453
Drainage	6,111	-	6,111	26,261
Gate Repairs/Access Control	5,749	-	5,749	13,993
Contingency	5,175	-	5,175	4,127
Nature Trails	-	3,269	3,269	-
Lighting Service Contract	1,210	-	1,210	1,320
Lighting Repairs	515	-	515	1,788
Building Maintenance	105	-	105	1,473
Road Striping	-	-	-	1,294
Property Taxes	-	-	-	531
Total Expenses	<u>950,339</u>	<u>704,233</u>	<u>1,654,572</u>	<u>1,327,180</u>
Excess of Revenue Over (Under) Expenses	258,601	(456,950)	(198,349)	(58,511)
Fund Balance - Beginning	653,460	2,021,292	2,674,752	2,733,263
Transfer Between Funds	(250,000)	250,000	-	-
Fund Balance - Ending	<u>\$ 662,061</u>	<u>\$ 1,814,342</u>	<u>\$ 2,476,403</u>	<u>\$ 2,674,752</u>

See notes to financial statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

(With Comparative Totals for 2017)

	<u>Operating</u>	<u>Replacement</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Reserve Fund</u>	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities				
Excess of Revenue Over (Under) Expenses	\$ 258,601	\$ (456,950)	\$ (198,349)	\$ (58,511)
Adjustments to Reconcile Excess of Revenue Over (Under) Expenses to Net Cash Provided (Used) by Operating Activities:				
Changes in Assets and Liabilities:				
Accounts Receivable	(1,279)	(7,225)	(8,504)	4,168
Prepaid Expenses	(2,941)	-	(2,941)	-
Accounts Payable	(3,059)	80,134	77,075	162,194
Assessments Received in Advance	(61,410)	-	(61,410)	39,266
Total Adjustments	<u>(68,689)</u>	<u>72,909</u>	<u>4,220</u>	<u>205,628</u>
Net Cash Provided (Used) by Operating Activities	<u>189,912</u>	<u>(384,041)</u>	<u>(194,129)</u>	<u>147,117</u>
Cash Flows From Investing Activities				
Certificates of Deposits - Net	<u>(1,030)</u>	<u>120,079</u>	<u>119,049</u>	<u>(6,033)</u>
Net Cash (Used) Provided by Investing Activities	<u>(1,030)</u>	<u>120,079</u>	<u>119,049</u>	<u>(6,033)</u>
Cash Flows From Financing Activities				
Transfers Between Funds	<u>(250,000)</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Net Cash (Used) Provided by Financing Activities	<u>(250,000)</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Net (Decrease) Increase in Cash	(61,118)	(13,962)	(75,080)	141,084
Cash - Beginning	530,520	574,297	1,104,817	963,733
Cash - Ending	<u>\$ 469,402</u>	<u>\$ 560,335</u>	<u>\$ 1,029,737</u>	<u>\$ 1,104,817</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 is located in Colorado Springs, Colorado and consists of 622 residences and 56 lots, a grand total of 678, 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 2015 to 2017 remain open to examination by the Internal Revenue Service; Colorado income tax returns for 2014 to 2017 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. An allowance for doubtful accounts is estimated based on the Association's experience with owners having outstanding balances. At June 30, 2018, an allowance was not considered necessary, as management expects to collect all outstanding balances.

Property - The Association does not capitalize common real property directly associated with the lots. At June 30, 2018, 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 – Property - 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, 2018.

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, 2017, from which the summarized information was derived.

NOTE 1 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of the following:

Cash	\$ 309,844
Money Market Funds	719,893
	<u>\$ 1,029,737</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, 2018, consist of the following:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
8/9/2018	0.60%	\$ 107,334
9/13/2018	0.60%	178,309
9/13/2018	0.60%	245,032
10/25/2018	0.70%	229,978
11/8/2018	0.70%	207,777
1/30/2019	1.80%	200,000
2/21/2019	1.85%	200,000
3/21/2019	2.05%	210,000
5/31/2019	2.20%	150,000
		<u>\$ 1,728,430</u>

The Association intends to hold these certificates until maturity.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018, consist of the following:

Assessments	\$ 95
Other Receivables	2,974
Total Receivables from Property Owners	<u>3,069</u>
Refund Receivable	7,225
	<u>\$ 10,294</u>

Accounts receivable includes amounts 90 days or older of \$125.

NOTE 5 – PROPERTY MAINTENANCE ALLOCATION AGREEMENT

The Property Maintenance Allocation Agreement, formerly the Mesa Services Agreement, refers to certain cost centers for which responsibility is shared by the Association and Garden of the Gods Club and Resort (GOG). The major components of the agreement are landscaping and irrigation, premises security, Kissing Camels Drive, fiber optic cable, and related access and use (Shared Expenses).

In April 2012, the Association entered into a five-year agreement with Garden of the Gods Club, LLC (GOTGC) regarding the sharing of future costs for Mesa Services. During the year ended June 30, 2015, GOTGC assigned their rights and responsibilities under the Mesa Services agreement to GOG. Following the expiration of the five-year agreement in April 2017, the Association and GOG continued to operate under the same conditions of the 2012 agreement, until the Property Maintenance Allocation Agreement was entered into.

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

NOTE 5 – PROPERTY MAINTENANCE ALLOCATION AGREEMENT - Continued

In February 2018, the Association entered into the Property Maintenance Allocation Agreement, a ten-year agreement with GOG effective from July 1, 2017, through June 30, 2027. This agreement specifies the allocation of certain costs related to the components in the first paragraph of this note, and effectively establishes that the Association is responsible for 69% of the Shared Expenses, with GOG responsible for 31%.

NOTE 6 - REPLACEMENT RESERVE FUND

Article 6.5.4 of the Declaration of Covenants, Conditions, Restrictions, and Reservations 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, expiring on October 31, 2017. The lease requires monthly payments of \$1,605 plus 1.66% of the landlord's operating expenses, tax expenses, and utility costs. An amendment to this lease agreement was entered into on April 4, 2017, extending the lease term for an additional three years through October 31, 2020. Rent expense for the year ended June 30, 2018, totaled \$19,823.

Future minimum base rent payments under the lease agreement are as follows, for the years ending June 30:

2019	\$	14,023
2020		14,289
2021		4,793
	\$	<u>33,105</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.

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 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 16, 2018, 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
JUNE 30, 2018
(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 June 30, 2018</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	-
June 30, 2017 Component Expenses		(349,683)	-
June 30, 2018 Component Expenses		(688,469)	-
Undesignated		-	1,814,342
		<u>\$ 961,852</u>	<u>\$ 1,814,342</u>