

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2019

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, 2019, 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 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.

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, 2019, 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 June 30, 2018 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 16, 2018. In our opinion, the summarized comparative totals presented herein as of and for the year ended June 30, 2018, are consistent, in all material respects, with the audited financial statements from which they have been derived.



Colorado Springs, Colorado
October 24, 2019

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEET

JUNE 30, 2019

(With Comparative Totals for 2018)

ASSETS

	Operating	Replacement	Totals	
	Fund	Reserve Fund	2019	2018
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 322,607	\$ 350,918	\$ 673,525	\$ 1,029,737
Certificates of Deposit	400,000	1,860,000	2,260,000	1,728,430
Accounts Receivable	3,899	-	3,899	10,294
Prepaid Expenses	8,440	-	8,440	8,440
Security Deposit	1,600	-	1,600	1,600
Total Current Assets	<u>736,546</u>	<u>2,210,918</u>	<u>2,947,464</u>	<u>2,778,501</u>
Other Assets				
Land	<u>137,831</u>	<u>-</u>	<u>137,831</u>	<u>137,831</u>
Total Assets	<u><u>\$ 874,377</u></u>	<u><u>\$ 2,210,918</u></u>	<u><u>\$ 3,085,295</u></u>	<u><u>\$ 2,916,332</u></u>

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts Payable	\$ 55,979	\$ 262,106	\$ 318,085	\$ 343,334
Assessments Received in Advance	96,403	-	96,403	96,595
Deferred Insurance Proceeds	5,529	-	5,529	-
Construction Deposits	500	-	500	-
Total Liabilities	<u>158,411</u>	<u>262,106</u>	<u>420,517</u>	<u>439,929</u>
Fund Balances				
Operating Fund	715,966	-	715,966	662,061
Replacement Reserve Fund	<u>-</u>	<u>1,948,812</u>	<u>1,948,812</u>	<u>1,814,342</u>
Total Fund Balance	<u>715,966</u>	<u>1,948,812</u>	<u>2,664,778</u>	<u>2,476,403</u>
Total Liabilities and Fund Balances	<u><u>\$ 874,377</u></u>	<u><u>\$ 2,210,918</u></u>	<u><u>\$ 3,085,295</u></u>	<u><u>\$ 2,916,332</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, 2019
(With Comparative Totals for 2018)

	Operating Fund	Replacement Reserve Fund	Totals	
			2019	2018
Revenue				
Homeowner Assessments	\$ 966,184	\$ 247,896	\$ 1,214,080	\$ 1,211,469
Developer Shared Services Reimbursement	118,537	-	118,537	140,515
Cathedral Ridge-Security Income	24,000	-	24,000	24,000
Impact Fees	-	22,850	22,850	22,000
Recycling Fees	14,877	-	14,877	13,126
Interest Income	5,364	21,154	26,518	12,250
Other Income	4,537	25,818	30,355	9,766
Gate Card	9,390	-	9,390	9,535
Late Fees	1,605	-	1,605	1,515
Fines	820	-	820	1,230
Bad Debt Recovery	-	-	-	9,000
Legal Collections	-	-	-	1,817
Total Revenue	<u>1,145,314</u>	<u>317,718</u>	<u>1,463,032</u>	<u>1,456,223</u>
Expenses				
Security	408,322	-	408,322	383,490
Asphalt	-	262,106	262,106	641,714
Management Fees	119,718	-	119,718	119,718
Trash and Recycling Removal	91,200	-	91,200	85,272
Administrative	64,280	-	64,280	64,735
Other Landscaping	40,295	2,786	43,081	17,431
Street Repairs	41,422	-	41,422	85,903
Landscape Contract	36,059	-	36,059	31,361
Snow Removal	31,852	-	31,852	8,460
Gate Repairs/Access Control	18,167	6,216	24,383	5,749
Rent	21,190	-	21,190	19,823
Consulting/Studies	-	16,566	16,566	14,336
Grounds/Common Area	14,817	1,400	16,217	24,365
Other Professional Fees	16,178	-	16,178	16,644
Website Maintenance	14,574	-	14,574	18,249
Utilities	11,959	-	11,959	7,928
Insurance	11,104	-	11,104	8,693
Miscellaneous	8,027	1,944	9,971	6,116
Decorations/Holiday Lighting	9,943	-	9,943	7,748
Nature Trails	-	6,360	6,360	3,269
Traffic Signs	-	5,571	5,571	9,487
Drainage	3,527	-	3,527	6,111
Contingency	2,935	-	2,935	5,175
Lighting Service Contract	1,950	-	1,950	1,210
Surveillance system	-	1,299	1,299	-
Lighting Repairs	844	-	844	515
Fencing & Perimeter Walls	771	-	771	16,106
Legal Fees	735	-	735	7,591
Building Maintenance	540	-	540	105
Concrete	-	-	-	37,268
Total Expenses	<u>970,409</u>	<u>304,248</u>	<u>1,274,657</u>	<u>1,654,572</u>
Excess of Revenue Over (Under) Expenses	174,905	13,470	188,375	(198,349)
Fund Balance - Beginning	662,061	1,814,342	2,476,403	2,674,752
Transfer Between Funds	(121,000)	121,000	-	-
Fund Balance - Ending	<u>\$ 715,966</u>	<u>\$ 1,948,812</u>	<u>\$ 2,664,778</u>	<u>\$ 2,476,403</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>Operating</u>	<u>Replacement</u>	<u>Totals</u>	
	<u>Fund</u>	<u>Reserve Fund</u>	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities				
Excess of Revenue Over (Under) Expenses	\$ 174,905	\$ 13,470	\$ 188,375	\$ (198,349)
Adjustments to Reconcile Excess of Revenue Over (Under) Expenses to Net Cash Provided (Used) by Operating Activities:				
Changes in Assets and Liabilities:				
Accounts Receivable	(830)	7,225	6,395	(8,504)
Prepaid Expenses	-	-	-	(2,941)
Accounts Payable	15,984	(41,233)	(25,249)	77,075
Assessments Received in Advance	(192)	-	(192)	(61,410)
Deferred Insurance Proceeds	5,529	-	5,529	-
Construction Deposits	500	-	500	-
Total Adjustments	<u>20,991</u>	<u>(34,008)</u>	<u>(13,017)</u>	<u>4,220</u>
Net Cash Provided (Used) by Operating Activities	<u>195,896</u>	<u>(20,538)</u>	<u>175,358</u>	<u>(194,129)</u>
Cash Flows From Investing Activities				
Certificates of Deposits - Net	<u>(221,691)</u>	<u>(309,879)</u>	<u>(531,570)</u>	<u>119,049</u>
Net Cash (Used) Provided by Investing Activities	<u>(221,691)</u>	<u>(309,879)</u>	<u>(531,570)</u>	<u>119,049</u>
Cash Flows From Financing Activities				
Transfers Between Funds	<u>(121,000)</u>	<u>121,000</u>	<u>-</u>	<u>-</u>
Net Cash (Used) Provided by Financing Activities	<u>(121,000)</u>	<u>121,000</u>	<u>-</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	(146,795)	(209,417)	(356,212)	(75,080)
Cash and Cash Equivalents - Beginning	469,402	560,335	1,029,737	1,104,817
Cash and Cash Equivalents - Ending	<u>\$ 322,607</u>	<u>\$ 350,918</u>	<u>\$ 673,525</u>	<u>\$ 1,029,737</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 628 residences and 61 lots, a grand total of 689, of which 315 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 2016 to 2018 remain open to examination by the Internal Revenue Service; Colorado income tax returns for 2015 to 2018 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, 2019, an allowance was not considered necessary, as management expects to collect all outstanding balances.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property - The Association does not capitalize common real property directly associated with the lots. At June 30, 2019, property not capitalized consists of sidewalks, access roads, gates, a guardhouse, 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.

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, 2019.

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, 2018, from which the summarized information was derived.

NOTE 1 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2019, consist of the following:

Cash	\$ 154,371
Money Market Funds	<u>519,154</u>
	<u><u>\$ 673,525</u></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, 2019, consist of the following:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>
7/18/2019	2.30%	\$ 200,000
9/6/2019	2.40%	200,000
9/27/2019	2.50%	240,000
10/10/2019	2.50%	200,000
11/15/2019	2.65%	230,000
11/19/2019	2.70%	220,000
2/12/2020	2.45%	200,000
2/27/2020	2.50%	200,000
2/27/2020	2.45%	210,000
4/17/2020	2.40%	200,000
6/5/2020	2.40%	160,000
		<u>\$ 2,260,000</u>

The Association intends to hold these certificates until maturity.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019, consist of assessments due to the Association in the amount of \$3,899. Of this balance, amounts aged 90 days or older total \$1,664.

NOTE 5 – PROPERTY MAINTENANCE ALLOCATION AGREEMENT

The Property Maintenance Allocation 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 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.

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

NOTE 7 - OPERATING LEASE

During the year ended June 30, 2017, the Association entered into a three-year operating lease for office space, expiring on October 31, 2020. The lease requires monthly payments of \$1,154, plus 1.66% of the landlord's operating expenses, tax expenses, and utility costs. Rent expense under this lease agreement for the year ended June 30, 2019, totaled \$21,190.

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

2020	\$	14,289
2021		4,793
	\$	<u>19,082</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 24, 2019, 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, 2019
(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, 2019</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 & 2018 Component Expenditures		(1,038,152)	-
June 30, 2019 Component Expenditures		(273,807)	-
Undesignated		-	1,948,812
		<u>\$ 688,045</u>	<u>\$ 1,948,812</u>