

KISSING CAMELS PROPERTY OWNERS ASSOCIATION

**Financial Statements
& Required Supplementary Information**

For the Year Ended June 30, 2022



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Kissing Camels Property Owners Association, which comprise the balance sheet as of June 30, 2022, 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.

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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kissing Camels Property Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Kissing Camels Property Owners Association were audited by other auditors whose report dated October 19, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kissing Camels Property Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kissing Camels Property Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by

management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kissing Camels Property Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

CIRATAS

Colorado Springs, Colorado
December 8, 2022

KISSING CAMELS PROPERTY OWNERS ASSOCIATION
Balance Sheet
June 30, 2022
(With Summarized Comparative Totals for 2021)

ASSETS

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>2022 Total</u>	<u>2021 Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 214,963	\$ 472,271	\$ 687,234	\$ 859,322
Investments	600,000	1,840,000	2,440,000	2,239,919
Assessments receivable	8,004		8,004	38,124
Prepaid insurance	8,440		8,440	13,440
Other current assets	<u>1,600</u>		<u>1,600</u>	<u>1,600</u>
Total current assets	833,007	2,312,271	3,145,278	3,152,405
OTHER ASSETS:				
Land	<u>137,831</u>		<u>137,831</u>	<u>137,831</u>
TOTAL ASSETS	<u>\$ 970,838</u>	<u>\$ 2,312,271</u>	<u>\$ 3,283,109</u>	<u>\$ 3,290,236</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES:				
Accounts payable	\$ 42,629	\$ 441,598	\$ 484,227	\$ 79,022
Assessments received in advance	119,373		119,373	58,052
Construction deposits	<u>86,000</u>		<u>86,000</u>	<u>71,000</u>
Total current liabilities	248,002	441,598	689,600	208,074
NON-CURRENT LIABILITIES:				
Reserve assessments billed in advance		1,299,657	1,299,657	1,732,786
Street deposits	<u>63,495</u>		<u>63,495</u>	<u>63,495</u>
Total non-current liabilities	<u>63,495</u>	<u>1,299,657</u>	<u>1,363,152</u>	<u>1,796,281</u>
TOTAL LIABILITIES	311,497	1,741,255	2,052,752	2,004,355
FUND BALANCES	<u>659,341</u>	<u>571,016</u>	<u>1,230,357</u>	<u>1,285,881</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 970,838</u>	<u>\$ 2,312,271</u>	<u>\$ 3,283,109</u>	<u>\$ 3,290,236</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, 2022
(With Summarized Comparative Totals for 2021)

	Operating Fund	Replacement Reserve Fund	2022 Total	2021 Total
REVENUE:				
Homeowner assessments, net of reserve allocation	\$ 1,007,083	\$	\$ 1,007,083	\$ 967,016
Reserve assessments		906,836	906,836	136,387
Impact fees		175,697	175,697	187,309
Shared service reimbursement	125,599		125,599	119,618
Recycling income	28,333		28,333	25,909
Cathedral income	25,200		25,200	24,000
Other income	18,521		18,521	26,906
Late charges	7,077		7,077	6,442
Fines	5,865		5,865	3,922
Legal collections	4,197		4,197	3,578
Interest income	437	1,645	2,082	32,087
Total revenue	1,222,312	1,084,178	2,306,490	1,533,174
EXPENSES:				
Security	474,389		474,389	450,265
Asphalt		821,704	821,704	110,464
Management fees	183,000		183,000	174,010
Other professional fees	69,831	101,151	170,982	112,645
Trash & recycling removal	119,533		119,533	102,329
Landscape improvements	89,902	12,778	102,680	84,536
Legal fees	77,082		77,082	16,355
Drainage	3,500	65,000	68,500	
Grounds contract	43,335		43,335	38,552
Concrete		39,721	39,721	19,916
Administration	37,695		37,695	34,400
Common area - maintenance	31,566		31,566	18,325
Security system		25,527	25,527	150,375
Rent	24,609		24,609	22,271
Holiday decorations	21,713		21,713	18,468
Snow removal	16,252		16,252	51,728
Utilities	14,958		14,958	13,118
Insurance	13,405		13,405	12,300
Website	10,934		10,934	17,250
Signage	1,544	8,156	9,700	4,473
Gate repairs	3,060	5,180	8,240	18,777
Tree maintenance	8,172		8,172	6,217
Miscellaneous	7,783	298	8,081	3,988
Accounting	7,677		7,677	6,595
ARC expenses	7,411		7,411	
Nature trail		4,663	4,663	1,661
Lighting repairs	3,376		3,376	4,371
Lighting	3,005		3,005	2,365
Irrigation	2,669		2,669	
Street repair & maintenance	1,435		1,435	28,028
Contingency				1,442
Total expenses	1,277,836	1,084,178	2,362,014	1,525,224
EXCESS OF REVENUE OVER (UNDER) EXPENSES	(55,524)		(55,524)	7,950
FUND BALANCES, beginning of year	681,780	604,101	1,285,881	1,277,931
TRANSFERS BETWEEN FUNDS	33,085	(33,085)		
FUND BALANCES, end of year	\$ 659,341	\$ 571,016	\$ 1,230,357	\$ 1,285,881

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION
Statement of Cash Flows
For the Year Ended June 30, 2022
(With Summarized Comparative Totals for 2021)

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>2022 Total</u>	<u>2021 Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenue over (under) expenses	\$ (55,524)	\$	\$ (55,524)	\$ 7,950
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided (used) by operating activities:				
(Increase) decrease in operating assets:				
Assessments receivable	30,120		30,120	(11,923)
Prepaid expenses	5,000		5,000	(5,000)
Increase (decrease) in operating liabilities:				
Accounts payable	(31,793)	436,999	405,206	38,767
Assessments received in advance	61,320		61,320	20,139
Construction deposits	15,000		15,000	36,000
Street cut deposits				63,495
Reserve assessments billed in advance		(433,129)	(433,129)	163,613
Total adjustments	<u>79,647</u>	<u>3,870</u>	<u>83,517</u>	<u>305,091</u>
Net cash provided (used) by operating activities	24,123	3,870	27,993	313,041
CASH FLOWS FROM INVESTING ACTIVITIES:				
Gross proceeds from sale of investments	400,000	1,839,919	2,239,919	2,200,000
Gross purchases of investments	<u>(600,000)</u>	<u>(1,840,000)</u>	<u>(2,440,000)</u>	<u>(2,239,919)</u>
Net cash provided (used) by investing activities	(200,000)	(81)	(200,081)	(39,919)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Transfers between funds	<u>33,085</u>	<u>(33,085)</u>		
Net cash provided (used) by financing activities	<u>33,085</u>	<u>(33,085)</u>		
NET INCREASE (DECREASE) IN CASH	(142,792)	(29,296)	(172,088)	273,122
CASH AND CASH EQUIVALENTS, beginning of year	<u>357,755</u>	<u>501,567</u>	<u>859,322</u>	<u>586,200</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 214,963</u>	<u>\$ 472,271</u>	<u>\$ 687,234</u>	<u>\$ 859,322</u>

See Notes to Financial Statements

KISSING CAMELS PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements

For the Year Ended June 30, 2022

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Kissing Camels Property Owners Association (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 is located in Colorado Springs, Colorado and consists of 610 residences and 154 lots, a grand total of 764, of which, 638 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 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, generally for three years after the date of filing. Management of the Association believes that it does not have any uncertain tax positions that are material to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's interest-bearing checking and money market accounts. In the event of a bank failure, the Association may only be able to recover the amount insured (Note B).

Supplemental Cash Flow Disclosures

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, 2022.

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 at June 30, 2022, is 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, 2022, 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 the 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.

Reserve Assessments Billed in Advance

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability, such as Reserve Assessments Billed in Advance, is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. When the Association completes major repairs and replacements, amounts are removed from the contract liability and recognized as reserve assessment income.

Revenue Recognition

The Association recognizes its revenue in accordance with the provisions of the FASB's ASC Topic 606, *Revenue from Contracts with Customers*. The Association's revenue recognition policies are as follows:

- Member assessments - Member operating assessment revenue is recognized in an amount that reflects the consideration that the Association is entitled to in exchange for providing association services. Assessments are recognized as revenue in the period in which the Association satisfies its performance obligation to its members. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer, as defined by ASC 606. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method.

Member replacement reserve assessment revenue is recognized in an amount that reflects the consideration that the Association is entitled to upon satisfying the performance obligation of this contract. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Total assessments billed for the year ended June 30, 2022, were \$1,433,190. Of this total amount, the Board allocated a portion to replacement reserves and reported it as increases to the contract liability account, Reserve Assessments Billed in Advance (Note C).

If assessments are received or billed in advance of respective performance obligations being satisfied, the Association records those amounts as deferred revenue. The

Kissing Camels Property Owners Association
Notes to Financial Statements
June 30, 2022

Association's payment terms generally require payment in advance of the upcoming month of service. The Association offsets amounts recorded in both deferred revenue and accounts receivable from the statement of financial position that represented advance billings of membership dues.

- Ancillary services - ancillary services, including impact fees, are recorded at a point in time when the other party obtains control of the promised product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

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.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 8, 2022, the date that the financial statements were available to be issued.

B. CONCENTRATION OF CREDIT RISK

Throughout the year, the Association had 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.

C. CERTIFICATES OF DEPOSIT

Certificates of deposit at June 30, 2022, consist of certificates at commercial banks with the following ranging terms:

<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Cost</u>
08/11/2022	0.15%	\$ 200,000

Kissing Camels Property Owners Association
Notes to Financial Statements
June 30, 2022

10/28/2022	0.15	240,000
11/17/2022	0.20	200,000
12/06/2022	0.20	200,000
12/09/2022	0.25	200,000
03/02/2023	0.75	200,000
04/13/2023	1.25	200,000
05/04/2023	1.75	200,000
05/12/2023	1.90	200,000
05/25/2023	2.00	200,000
06/23/2023	2.70	200,000
06/28/2023	2.90	<u>200,000</u>
		<u>\$ 2,440,000</u>

The Association intends to hold these certificates until maturity

D. REPLACEMENT RESERVE FUNDS

Article 6, Section 6.5 of the Declaration states that the annual assessment set by the Board of Directors shall include amounts for the establishment and maintenance of the reasonable reserves for the periodic replacement, repair, and maintenance of the common elements. Replacement reserve funds are accumulated in the contract liability, Reserve Assessments Billed in Advance, until those funds are expended for intended purposes. The following table summarizes the activity of these funds for the year ended June 30, 2022:

	Replacement Reserve Contract Liability
Balance, as of June 30, 2021	\$ 1,732,786
Reserve allocations	473,707
Impact fees	175,697
Funds used for reserve expenditures	<u>(1,082,533)</u>
Balance, as of June 30, 2022	<u>\$ 1,299,657</u>

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, 2017, the Association entered into a three-year operating lease for office space, expiring

Kissing Camels Property Owners Association
Notes to Financial Statements
June 30, 2022

on October 31, 2020. Upon expiration the agreement was extended through October 31, 2023. The extended lease agreement requires monthly payments ranging from \$1,243 to \$1,331, 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, 2022, totaled \$24,609. Future minimum base rent payments under the lease agreement are as follows, for the years ending June 30:

2023	\$ 15,798
2024	<u>5,325</u>
	<u>\$ 21,123</u>

F. 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 10-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 described above, and effectively establishes that the Association is responsible for 69% of the Shared Expenses, with GOG responsible for 31%.

G. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association engaged an independent firm to prepare a reserve analysis in June 2022, to estimate the remaining useful lives and the replacement costs of the common property components. The table shown in the supplementary information on future major repairs and replacements is based on this study.

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 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 membership approval, to increase regular assessments or pass special assessments.

KISSING CAMELS PROEPRTY OWNERS ASSOCIATION
Supplementary Information on Future Major Repairs and Replacements
June 30, 2022
(Unaudited)

A reserve study was conducted by an independent firm in June 2022 to estimate the remaining useful lives and the replacement costs of the common property components. 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 current replacement costs and estimated remaining lives have not been revised since that date and do not take into account the effects 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.

Components	Estimated Remaining Life	Estimated Replacement Costs
Asphalt	1-5	\$ 1,932,243
Asphalt	6-10	222,085
Asphalt	11-15	209,930
Asphalt	16-20	3,613,699
Asphalt	21-25	1,189,706
Asphalt	26-30	1,527,815
Concrete Flatwork, Partial Replacements	0	5,300
Crackfill, Asphalt Pavement	0	10,600
Consultant Fees	0	24,480
Fences	1-5	608,700
Fences	21-25	390,000
Gates	1-5	500,000
Gates	6-10	190,000
Irrigation	11-15	25,500
Irrigation	16-20	250,000
Landscape, Tree Mitigation	1	15,000
Light Poles and Fixtures	11-15	280,000
Pipes, Subsurface Utilities, Partial	5	50,000
Signage, Entrance Monuments, Renovation	6	10,000
Signage, Street and Traffic Identification, Phased	11-15	45,000
Site Furniture, Benches	17	10,000
Air Handling and Condensing Units, Split System	2	6,000
Roof, Concrete Tiles	8	20,000
Security System, Phased (Incl. Entire Community)	11-15	82,000
Windows and Doors	8	16,250
Totals		<u>\$ 11,234,308</u>