

**Red Sky Ranch Association
(A Colorado Non-Profit Corporation)**

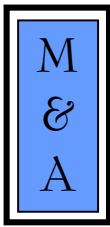
**Financial Statements
December 31, 2022**



**Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
December 31, 2022**

Table of Contents

	Page(s)
INDEPENDENT AUDITOR'S REPORT	1 – 3
Financial Statements:	
Balance Sheets	4
Statements of Revenues, Expenses, and Changes in Fund Balances	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 – 11
Supplementary Information:	
Schedule of Operating Fund Revenues and Expenses – Budget and Actual	12
Schedule of Future Major Repairs, Replacements, and Improvements	13



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Red Sky Ranch Association
Avon, Colorado**

Report on the Financial Statements

We have audited the financial statements of Red Sky Ranch Association (the "Association"), a Colorado non-profit corporation, which comprise the balance sheets as of December 31, 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 accompanying financial statements present fairly, in all material respects, the financial position of Red Sky Ranch Association as of December 31, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). 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 the 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 the Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

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INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Red Sky Ranch Association
Avon, Colorado

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 U.S. GAAS 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 U.S. GAAS, 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 the 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 the 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 financial statement audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental budgetary comparison schedule on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the information, except for the portion marked "unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Red Sky Ranch Association
Avon, Colorado

Required Supplementary Information

U.S. GAAP requires that the supplementary information on future major repairs and replacements on page 13 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 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 U.S. GAAS, 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.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
Avon, Colorado
April 26, 2023

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2022

	Operating Fund	Improvement Fund	Total
Assets:			
Cash and cash equivalents	1,541,110	19,835	1,560,945
Investments - Certificates of deposit	151,017	-	151,017
Member assessments receivable	6,307	-	6,307
Prepaid expenses	5,432	-	5,432
Due from (to) other fund	25	(25)	-
	1,703,891	19,810	1,723,701
Total Assets	1,703,891	19,810	1,723,701
 Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	6,628	-	6,628
Due to (from) management company	57,488	-	57,488
Design Review deposits	267,500	-	267,500
	331,616	-	331,616
Total Liabilities	331,616	-	331,616
Fund Balances	1,372,275	19,810	1,392,085
Total Liabilities and Fund Balances	1,703,891	19,810	1,723,701

The accompanying notes are an integral part of these financial statements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2022

	Operating Fund	Improvement Fund	Total
Revenues:			
Common assessment	227,500	-	227,500
Real estate transfer assessment	67,400	-	67,400
Design Review fees	36,390	-	36,390
Investment income	5,240	-	5,240
Late fee and other income	6,507	-	6,507
Total Revenues	343,037	-	343,037
Expenses:			
Common area expenses:			
Gate operations	79,973	-	79,973
Caretaker and assistant	82,068	-	82,068
Caretaker facility and vehicle expense	69,787	-	69,787
Common area maintenance	72,597	-	72,597
Subtotal - Common area	304,425	-	304,425
Operating expenses:			
General and administrative, legal, and audit	21,283	-	21,283
Design Review expense	31,746	-	31,746
Insurance expense	6,305	-	6,305
Management fee	32,052	-	32,052
Accounting fee	9,758	-	9,758
Homeowner functions	714	-	714
Marketing	2,915	-	2,915
Subtotal - Operating	104,773	-	104,773
Improvement expenses:			
Camera system	-	19,148	19,148
Landscaping	-	5,348	5,348
Miscellaneous reserve expenses	-	1,755	1,755
Intercom and access control upgrade	-	62,696	62,696
Subtotal - Improvement	-	88,947	88,947
Total Expenses	409,198	88,947	498,145
Excess (Deficiency) of Revenues over Expenses	(66,161)	(88,947)	(155,108)
Fund Balances - Beginning of Year	1,449,866	97,327	1,547,193
Transfer (to) from other fund	(11,430)	11,430	-
Fund Balances - End of Year	1,372,275	19,810	1,392,085

The accompanying notes are an integral part of these financial statements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended December 31, 2022

	Operating Fund	Improvement Fund	Total
Cash Flows From Operating Activities:			
Cash received from member assessments	287,900	-	287,900
Cash received (paid) for design review (net):			
Non-refundable fees	36,390	-	36,390
Refundable deposits	80,000	-	80,000
Investment income received	7,501	-	7,501
Cash received from other sources	200	-	200
Cash payments for goods and services	(378,826)	(88,947)	(467,773)
Transfer (to) from other fund	4,746	(4,746)	-
Net Cash Provided (Used) by Operating Activities	<u>37,911</u>	<u>(93,693)</u>	<u>(55,782)</u>
Cash Flows From Investing Activities:			
Cash received from redemption of investments	400,000	-	400,000
Net Cash Provided (Used) by Investing Activities	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	437,911	(93,693)	344,218
Cash and Cash Equivalents - Beginning of Year	<u>1,103,199</u>	<u>113,528</u>	<u>1,216,727</u>
Cash and Cash Equivalents - End of Year	<u><u>1,541,110</u></u>	<u><u>19,835</u></u>	<u><u>1,560,945</u></u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Excess (deficiency) of revenues over expenses	<u>(66,161)</u>	<u>(88,947)</u>	<u>(155,108)</u>
Adjustments:			
Interest compounded on certificates of deposit	2,261	-	2,261
(Increase) decrease - Accounts receivable	5,326	-	5,326
(Increase) decrease - Prepaid expenses	(913)	-	(913)
Increase (decrease) - Accounts payable	19,652	-	19,652
Increase (decrease) - Deferred assessment revenue	(7,000)	-	(7,000)
Increase (decrease) - Design Review deposits	80,000	-	80,000
Transfer (to) from other fund	4,746	(4,746)	-
Total Adjustments	<u>104,072</u>	<u>(4,746)</u>	<u>99,326</u>
Net Cash Provided (Used) by Operating Activities	<u><u>37,911</u></u>	<u><u>(93,693)</u></u>	<u><u>(55,782)</u></u>

The accompanying notes are an integral part of these financial statements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2022

1. Organization

Red Sky Ranch Association (the "Association") is a Colorado non-profit corporation formed November 30, 2001 for the benefit of the owners of property in the large planned unit development known as Red Sky Ranch (the "Development"), which is located in Eagle County, Colorado.

The Association's Declaration of Covenants, Conditions, and Restrictions was recorded August 1, 2001 and subsequently amended/supplemented (collectively, the "Declarations"). The primary purpose of the Association is to enforce the Declarations and to provide for the care, operations, management, maintenance, repair, and replacement of all the common elements. The functions may include operations of public health, safety, parking, transportation, vehicular access, recreation, marketing, solid waste, animal control, environmental, television, and any other function deemed necessary for operations and management.

The membership of the Association is comprised of the owners of all lots within the Development. The Declarations set the maximum number of lots that may be created at ninety-nine, and one tract within the Development may be used as an office and residence for a caretaker. All lots may be used only for dwelling purposes and typical residential activities.

2. Summary of Significant Accounting Policies

A. Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs, improvements and additions, be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the Operating Fund are generally at the discretion of the Association's Board of Directors (the "Board"). Disbursements from the Improvement Fund may be made only upon consent of the Board for their designated purpose.

B. Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting which recognizes revenues when earned or assessed, and expenses when incurred.

C. Recognition of Assets

Real and personal common property acquired by the Association's original members from the Declarant is not recognized on the financial statements of the Association because it is commonly owned by individual owners and its disposition by the Board is restricted. Such property includes common-use facilities and improvements conveyed to the Association by the Declarant upon recording the Declarations.

D. Cash and Cash Equivalents

The Association considers all checking, money market, and savings accounts to be cash equivalents for the purpose of the Statements of Cash Flows since all such funds are highly liquid.

Certificates of deposit held for investment that are not debt instruments and with original maturities of greater than 90 days when purchased are reported as "Investments – Certificates of deposit" in these financial statements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2022
(Continued)

2. Summary of Significant Accounting Policies (continued)

E. Allowance for Uncollectible Accounts

The Association uses the allowance method for recognizing the potential future uncollectibility of delinquent accounts receivable. No such balance has been recorded at December 31, 2022; as all balances are considered collectible.

F. Revenues and Revenue Recognition

Pursuant to the Declarations, each owner is obligated to pay an annual common assessment to meet the budgeted expenses of the Association, which are the primary source of revenues for the Association. The Board, on or about January 1 of each year, determines the common assessment and charges accordingly. For 2022, the annual common assessment was \$2,500 per member.

The Declarations also establish a real estate transfer assessment not to exceed 2% of the purchase price paid upon transfer of a unit.

The Association has determined that the relationship of the members to the Association is not that of a customer as defined in generally accepted accounting principles, since the members control the governance of the Association, and it is not possible to separate the members from the Association itself. Further, the nature of the Association's governing documents as it relates to the billing and collection of member assessments does not meet the definition of a contract under generally accepted accounting principles. Consequently, all assessment revenues are recognized as revenue by the Association when levied, as determined by the Board-approved annual budget.

The Association also recognizes revenues from various administrative fees and fines as earned upon provision of the underlying goods or service.

Since the Association is designed only to operate as a conduit to collect assessments and pay operating expenses on behalf of members, any excess or deficiency of revenues over expenses is repaid to or recovered from the members in a subsequent year by reducing or increasing assessments or, with approval of the membership, transferred to the Replacement Fund.

G. Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources.

The income tax returns of the Association are subject to examination by the Internal Revenue Service and the Colorado Department of Revenue. The Association's returns are no longer subject to examination for tax years prior to 2019 by the Internal Revenue Service and for tax years prior to 2018 by the Colorado Department of Revenue.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2022
(Continued)

2. Summary of Significant Accounting Policies (continued)

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Subsequent Events

Management has evaluated subsequent events through April 26, 2023; the date these financial statements were available to be issued.

3. Investments – Certificates of Deposit

The following are the details of the certificates of deposit held by the Association at December 31, 2022.

Maturing within one year, interest at 0.45% per annum	<u>\$ 151,017</u>
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4. Insured Cash Sweep Agreement

In 2021, the Association entered into an Insured Cash Sweep Agreement with First Western Trust, under which funds from the Association's operating account are deposited into money market deposit accounts across multiple financial institutions, or members, that participate in the Insured Cash Sweep Network. Because each deposit with participating members in the Insured Cash Sweep Network is less than \$250,000, all amounts deposited under the terms of the Insured Cash Sweep Agreement are fully-insured by the FDIC.

At December 31, 2022, the Association held \$1,437,257 in the Insured Cash Sweep Agreement.

5. Reserve for Future Major Repairs, Replacements, and Improvements

Although the Association's governing documents do not expressly require that funds be accumulated for future major replacement and improvement of common elements, the Association has consistently accumulated funds for such purposes. These funds, recorded in the Improvement Fund, are generally not available for expenditures for normal operations.

Annually, the Association's Managing Agent updates a study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary Schedule of Future Major Repairs, Replacements, and Improvements on page 13 is based on the study.

Funds are being accumulated in the Improvement Fund based on estimates of future needs for repairs, replacements, and improvements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Amounts accumulated in the Improvement Fund, therefore, may not be sufficient to meet all future costs of repairs and replacement. The Association retains the right to increase assessments in future years to fund capital replacements or to delay major repairs and replacements until adequate funds are available.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2022
(Continued)

6. Management Agreement

The Association entered into a management agreement with Vail Resorts Development Company (“VRDC”) effective December 1, 2001. VRDC is a wholly-owned subsidiary of Vail Resorts, a related company of the Declarant of the Association, The Vail Corporation. The agreement had an initial term of three years but provides for automatic renewal for consecutive three-year terms, absent exercise of termination provisions.

The Management Agreement calls for VRDC to manage the business and operations of the Association, including planning, organizing, directing, and controlling contractors, resources, services and facilities of the Association and implementing Association policies and procedures. VRDC is also responsible for provision of public services including gate operations, property maintenance, community caretaker, community relations, administration of wildlife plan, and other use restrictions, administration of the Red Sky Ranch Design Review Board, and maintenance and repair of the Association’s common elements.

For the year ended December 31, 2022, the Association incurred the following expenses for services performed by VRDC and/or its related companies.

Caretaker and assistant	\$ 82,068
Caretaker facility and vehicle expense	59,513
Design Review expense	31,746
Management fee	32,052
Accounting fee	9,758
Total	\$ 215,137

At December 31, 2022, the Association had a payable due to VRDC in the amount of \$57,488 with respect to services rendered under the terms of the Management Agreement.

For 2022, Vail Resorts and affiliated entities paid common assessments totaling \$2,500. At December 31, 2022, Vail Resorts and affiliated entities owned 1 tract, representing an aggregate 1% interest in the Association’s common elements.

7. Operation and Maintenance Agreement – Gate House

Effective in January 2021, the Association executed an agreement with The Vail Corporation, doing business as Vail Associates (“VA”) and Holland Creek Metropolitan District (“Holland Creek”) for the operation and maintenance of the welcoming gate house. The agreement stipulates that the Association will be responsible for all costs of management, operation, maintenance, and repairs of the gate house, except for certain staffing costs from May 1 through October 15 that are to be paid by VA. The agreement terminates upon the earliest of (1) implementation of an alternate funding mechanism for the gate house, (2) five years, or (3) exercise of termination provisions in the agreement.

Annually, Holland Creek is to prepare a budget estimating the subsequent year’s operating expenses (including a prorated distribution of operating expenses between the Association and VA), and present the budget to the Association and VA for approval. On December 1 or as soon as Holland Creek has adopted the budget, Holland Creek will send a statement to the Association for the Association’s share of the costs for the ensuing calendar year and the Association shall remit their respective share to Holland Creek on or before January 1 of the applicable budget year. The Association’s actual share of the 2022 gate house operating expenses was \$77,827.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2022
(Continued)

8. Concentration of Credit Risk

The Association's cash balances held with financial institutions at December 31, 2022 are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per depositor at each FDIC-member institution. At December 31, 2022, the Association's uninsured cash balances totaled \$24,704.

9. Revenue from Contracts with Customers

For the year ended December 31, 2022, revenue recognized for goods transferred or performance obligations met at a point in time were \$36,590. There were no revenues recognized for goods transferred or performance obligations met over time during 2022. Revenues may be affected by general economic conditions and inflationary pressures. Revenues are primarily collected from members of the Association.

10. Related Party

A member of the Board is the CEO of the bank that holds the Association's cash and investments. The Association performed a competitive review of area banks to determine which best met the Association's requirements, which included safety, liquidity, and yield. Additionally, the Board scrutinized the relationship to ensure required stipulations relating to conflicts of interest were met in accordance with the Colorado Common Interest Ownership Act ("CCIOA"). The referenced Board member abstains from voting in matters pertaining to the Association's banking and investment decisions.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Schedule of Operating Fund Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2022

	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Revenues:			
Common assessment	227,500	227,500	-
Real estate transfer assessment	90,000	67,400	(22,600)
Design Review fees	9,500	36,390	26,890
Investment income	1,000	5,240	4,240
Late fee and other income	-	6,507	6,507
	<u>328,000</u>	<u>343,037</u>	<u>15,037</u>
Total Revenues			
Expenses:			
Common area expenses:			
Gate operations	73,164	79,973	(6,809)
Caretaker and assistant	85,663	82,068	3,595
Caretaker facility	57,819	69,787	(11,968)
Common area maintenance	69,950	72,597	(2,647)
Subtotal - Common area	<u>286,596</u>	<u>304,425</u>	<u>(17,829)</u>
Operating expenses:			
General and administrative, legal, and audit	12,650	21,283	(8,633)
Design Review expense	46,414	31,746	14,668
Insurance expense	6,101	6,305	(204)
Management fee	32,052	32,052	-
Accounting fee	9,758	9,758	-
Homeowner functions	4,000	714	3,286
Marketing	18,000	2,915	15,085
Income taxes	300	-	300
Subtotal - Operating	<u>129,275</u>	<u>104,773</u>	<u>24,502</u>
	<u>415,871</u>	<u>409,198</u>	<u>6,673</u>
Total Expenses			
Excess (Deficiency) of Revenues over Expenses	(87,871)	(66,161)	21,710
Fund Balance - Beginning of Year	1,251,032	1,449,866	198,834
Transfer (to) other fund	(11,430)	(11,430)	-
Fund Balance - End of Year	<u>1,151,731</u>	<u>1,372,275</u>	<u>220,544</u>

The accompanying notes are an integral part of these financial statements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs, Replacements, and Improvements
December 31, 2022
(Unaudited)

The Association's Managing Agent annually updates a study to estimate the remaining useful lives and the replacement and improvement cost components of the common property. The balance of the Improvement Fund at December 31, 2022 has not been designated by the Board for specific components of common property.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Improvement Fund Balance at Dec. 31, 2022</u>
Improvements:			
Gatehouse roof / building	2 - 7	93,671	
Landscape improvements	0 - 8	64,667	
Trail improvements	0 - 8	51,976	
Road decorate fencing	3 - 8	8,761	
	Totals	<u>219,075</u>	<u>19,810</u>