

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

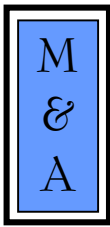
**Financial Statements  
December 31, 2018**



**Red Sky Ranch Association**  
**(A Colorado Non-Profit Corporation)**  
**December 31, 2018**

**Table of Contents**

|  | <b>Page(s)</b> |
|--|----------------|
| INDEPENDENT AUDITOR'S REPORT   | 1 – 2          |
| Financial Statements:  |                |
| Balance Sheets   | 3              |
| Statements of Revenues, Expenses, and Changes in Fund Balances       | 4              |
| Statements of Cash Flows   | 5              |
| Notes to the Financial Statements                                    | 6 – 9          |
| Supplementary Information:   |                |
| Schedule of Operating Fund Revenues and Expenses – Budget and Actual | 10             |
| Schedule of Future Major Repairs, Replacements, and Improvements     | 11             |



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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 accompanying financial statements of Red Sky Ranch Association (the "Association"), a Colorado non-profit corporation, which comprise the balance sheets as of December 31, 2018, 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.

### ***Management's Responsibilities***

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.

### ***Auditor's 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 of material misstatement.

An audit includes 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 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 Red Sky Ranch Association as of December 31, 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.

*Member: American Institute of Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

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

***Report on 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 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's 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 auditing standards generally accepted in the United States of America. In our opinion, the information, except for that 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.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.  
September 17, 2019**

**Red Sky Ranch Association**  
**(A Colorado Non-Profit Corporation)**  
**Balance Sheets**  
**December 31, 2018**

|  | <b>Operating<br/>Fund</b> | <b>Improvement<br/>Fund</b> | <b>Total</b>   |
|--|---------------------------|-----------------------------|----------------|
| <b>Assets:</b>                             |                           |                             |                |
| Cash and cash equivalents                  | 161,040                   | 142,095                     | 303,135        |
| Member assessments receivable              | 3,168                     | -                           | 3,168          |
| Prepaid expenses                           | 3,886                     | -                           | 3,886          |
| Due from (to) other fund                   | 55,840                    | (55,840)                    | -              |
|  | <b>223,934</b>            | <b>86,255</b>               | <b>310,189</b> |
| <b>Total Assets</b>                        | <b>223,934</b>            | <b>86,255</b>               | <b>310,189</b> |
| <br><b>Liabilities and Fund Balances:</b>  |                           |                             |                |
| <b>Liabilities:</b>                        |                           |                             |                |
| Accounts payable and accrued liabilities   | 20,254                    | -                           | 20,254         |
| Design Review deposits                     | 8,099                     | -                           | 8,099          |
|  | <b>28,353</b>             | -                           | <b>28,353</b>  |
| <b>Total Liabilities</b>                   | <b>28,353</b>             | -                           | <b>28,353</b>  |
| <b>Fund Balances</b>                       | <b>195,581</b>            | <b>86,255</b>               | <b>281,836</b> |
| <b>Total Liabilities and Fund Balances</b> | <b>223,934</b>            | <b>86,255</b>               | <b>310,189</b> |

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, 2018**

|  | <b>Operating<br/>Fund</b> | <b>Improvement<br/>Fund</b> | <b>Total</b>   |
|--|---------------------------|-----------------------------|----------------|
| <b>Revenues:</b>                                     |                           |                             |                |
| Common assessment                                    | 227,500                   | -                           | 227,500        |
| Real estate transfer assessment                      | 193,700                   | -                           | 193,700        |
| Design Review fees                                   | 7,728                     | -                           | 7,728          |
| Investment income                                    | 656                       | -                           | 656            |
| Late fee and other income                            | 1,249                     | -                           | 1,249          |
| <b>Total Revenues</b>                                | <b>430,833</b>            | <b>-</b>                    | <b>430,833</b> |
| <b>Expenses:</b>                                     |                           |                             |                |
| <b>Common area expenses:</b>                         |                           |                             |                |
| Gate operations                                      | 73,636                    | -                           | 73,636         |
| Caretaker and assistant                              | 75,650                    | -                           | 75,650         |
| Caretaker facility and vehicle expense               | 52,960                    | -                           | 52,960         |
| Common area maintenance                              | 32,387                    | -                           | 32,387         |
| <b>Subtotal - Common area</b>                        | <b>234,633</b>            | <b>-</b>                    | <b>234,633</b> |
| <b>Operating expenses:</b>                           |                           |                             |                |
| General and administrative, legal, and audit         | 4,580                     | -                           | 4,580          |
| Design Review expense                                | 52,787                    | -                           | 52,787         |
| Insurance expense                                    | 5,977                     | -                           | 5,977          |
| Management fee                                       | 22,993                    | -                           | 22,993         |
| Accounting fee                                       | 8,165                     | -                           | 8,165          |
| Homeowner functions                                  | 6,388                     | -                           | 6,388          |
| <b>Subtotal - Operating</b>                          | <b>100,890</b>            | <b>-</b>                    | <b>100,890</b> |
| <b>Improvement expenses:</b>                         |                           |                             |                |
| Design review guidelines                             | -                         | 13,424                      | 13,424         |
| Trail improvements                                   | -                         | 5,000                       | 5,000          |
| <b>Subtotal - Improvement</b>                        | <b>-</b>                  | <b>18,424</b>               | <b>18,424</b>  |
| <b>Total Expenses</b>                                | <b>335,523</b>            | <b>18,424</b>               | <b>353,947</b> |
| <b>Excess (Deficiency) of Revenues over Expenses</b> | <b>95,310</b>             | <b>(18,424)</b>             | <b>76,886</b>  |
| <b>Fund Balances - Beginning of Year</b>             | <b>100,271</b>            | <b>104,679</b>              | <b>204,950</b> |
| <b>Fund Balances - End of Year</b>                   | <b>195,581</b>            | <b>86,255</b>               | <b>281,836</b> |

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, 2018**

|   | <u>Operating<br/>Fund</u> | <u>Improvement<br/>Fund</u> | <u>Total</u>          |
|---|---------------------------|-----------------------------|-----------------------|
| <b>Cash Flows From Operating Activities:</b>  |                           |                             |                       |
| Cash received from member assessments   | 418,133                   | -                           | 418,133               |
| Cash received (paid) for design review (net):   |                           |                             |                       |
| Non-refundable fees   | 7,728                     | -                           | 7,728                 |
| Refundable deposits   | (63,578)                  | -                           | (63,578)              |
| Investment income received  | 656                       | -                           | 656                   |
| Cash received from other sources  | 1,249                     | -                           | 1,249                 |
| Cash payments for goods and services  | (330,722)                 | (18,424)                    | (349,146)             |
| Transfer (to) from other fund   | (18,939)                  | 18,939                      | -                     |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u>14,527</u>             | <u>515</u>                  | <u>15,042</u>         |
| <b>Net Increase (Decrease)<br/>in Cash and Cash Equivalents</b>   | 14,527                    | 515                         | 15,042                |
| <b>Cash and Cash Equivalents - Beginning of Year</b>  | <u>146,513</u>            | <u>141,580</u>              | <u>288,093</u>        |
| <b>Cash and Cash Equivalents - End of Year</b>  | <u><u>161,040</u></u>     | <u><u>142,095</u></u>       | <u><u>303,135</u></u> |
| <b>Reconciliation of Excess (Deficiency) of Revenues Over Expenses<br/>to Net Cash Provided (Used) by Operating Activities:</b> |                           |                             |                       |
| Excess (deficiency) of revenues over expenses   | <u>95,310</u>             | <u>(18,424)</u>             | <u>76,886</u>         |
| <b>Adjustments:</b>   |                           |                             |                       |
| (Increase) decrease - Accounts receivable   | (3,067)                   | -                           | (3,067)               |
| (Increase) decrease - Prepaid expenses  | 958                       | -                           | 958                   |
| Increase (decrease) - Accounts payable  | 3,843                     | -                           | 3,843                 |
| Increase (decrease) - Design Review deposits  | (63,578)                  | -                           | (63,578)              |
| Transfer (to) from other fund   | (18,939)                  | 18,939                      | -                     |
| <b>Total Adjustments</b>  | <u>(80,783)</u>           | <u>18,939</u>               | <u>(61,844)</u>       |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <u><u>14,527</u></u>      | <u><u>515</u></u>           | <u><u>15,042</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, 2018**

**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. 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.



**Red Sky Ranch Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2018**  
**(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, 2018; as all balances are considered collectible.

**F. Assessments**

Pursuant to the Declarations, each owner is obligated to pay an annual common assessment to meet the budgeted expenses of the Association. The Board, on or about January 1 of each year, determines the common assessment and charges accordingly. For 2018, 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.

**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 2015 by the Internal Revenue Service and for tax years prior to 2014 by the Colorado Department of Revenue.

**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 September 17, 2019; the date these financial statements were available to be issued.

**3. 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.

During 2009, the Association's Managing Agent conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. This study is updated on an annual basis. The table included in the unaudited supplementary Schedule of Future Major Repairs, Replacements, and Improvements on page 11 is based on the study.

**Red Sky Ranch Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2018**  
**(Continued)**

**3. Reserve for Future Major Repairs, Replacements, and Improvements (continued)**

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.

**4. Management Agreement and Related Party Transactions**

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, 2018, the Association incurred the following expenses for services performed by VRDC and/or its related companies.

|  |                   |
|--|-------------------|
| Caretaker and assistant                | \$ 75,650         |
| Caretaker facility and vehicle expense | 51,184            |
| Design Review expense                  | 52,787            |
| Management fee                         | 22,993            |
| Accounting fee                         | 8,165             |
|  | <hr/>             |
| <b>Total</b>                           | <b>\$ 210,779</b> |

At December 31, 2018, the Association owed VRDC \$19,101 with respect to services rendered under the terms of the Management Agreement.

For 2018, Vail Resorts and affiliated entities paid common assessments totaling \$17,500. At December 31, 2018, Vail Resorts and affiliated entities owned 6 lots and 1 tract, representing an aggregate 8% interest in the Association's common elements.

**5. Operation and Maintenance Agreement – Gate House**

Effective July 26, 2010, 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. This agreement stipulates that the Association will be responsible for management, operation, maintenance, and repairs of the gate house, except for certain expenses during the golf season 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) ten years, or (3) termination under other provisions of the agreement.

**Red Sky Ranch Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2018**  
**(Continued)**

**5. Operation and Maintenance Agreement – Gate House (continued)**

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 2018 gate house operating expenses was \$63,604. For 2019, the Association's share of gate house operating expenses budgeted by Holland Creek is \$64,620.

**6. Concentration of Credit Risk**

The Association's cash balances held with financial institutions at December 31, 2018 are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per depositor at each FDIC-member institution. At December 31, 2018, the Association's uninsured cash balances totaled \$64,766.

**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, 2018**

|  | <b>Budget<br/>(Unaudited)</b> | <b>Actual</b>  | <b>Variance<br/>Favorable<br/>(Unfavorable)</b> |
|--|-------------------------------|----------------|---|
| <b>Revenues:</b>                                     |                               |                |   |
| Common assessment                                    | 227,500                       | 227,500        | -   |
| Real estate transfer assessment                      | 109,800                       | 193,700        | 83,900  |
| Design Review fees                                   | 11,300                        | 7,728          | (3,572)   |
| Investment income                                    | 360                           | 656            | 296   |
| Late fee and other income                            | -                             | 1,249          | 1,249   |
|  | <u>348,960</u>                | <u>430,833</u> | <u>81,873</u>                                   |
| <b>Total Revenues</b>                                |                               |                |   |
| <b>Expenses:</b>                                     |                               |                |   |
| <b>Common area expenses:</b>                         |                               |                |   |
| Gate operations                                      | 67,942                        | 73,636         | (5,694)   |
| Caretaker and assistant                              | 70,343                        | 75,650         | (5,307)   |
| Caretaker facility                                   | 54,105                        | 52,960         | 1,145   |
| Common area maintenance                              | 31,200                        | 32,387         | (1,187)   |
| <b>Subtotal - Common area</b>                        | <u>223,590</u>                | <u>234,633</u> | <u>(11,043)</u>                                 |
| <b>Operating expenses:</b>                           |                               |                |   |
| General and administrative, legal, and audit         | 10,675                        | 4,580          | 6,095   |
| Design Review expense                                | 47,684                        | 52,787         | (5,103)   |
| Insurance expense                                    | 5,056                         | 5,977          | (921)   |
| Management fee                                       | 22,993                        | 22,993         | -   |
| Accounting fee                                       | 8,165                         | 8,165          | -   |
| Homeowner functions                                  | 4,000                         | 6,388          | (2,388)   |
| Income taxes   | 300                           | -              | 300   |
| <b>Subtotal - Operating</b>                          | <u>98,873</u>                 | <u>100,890</u> | <u>(2,017)</u>                                  |
|  | <u>322,463</u>                | <u>335,523</u> | <u>(13,060)</u>                                 |
| <b>Total Expenses</b>                                |                               |                |   |
| <b>Excess (Deficiency) of Revenues over Expenses</b> | 26,497                        | 95,310         | 68,813  |
| <b>Fund Balance - Beginning of Year</b>              | <u>94,437</u>                 | <u>100,271</u> | <u>5,834</u>                                    |
| <b>Fund Balance - End of Year</b>                    | <u>120,934</u>                | <u>195,581</u> | <u>74,647</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, 2018**  
**(Unaudited)**

The Association's Managing Agent conducted a study in 2009, which is updated annually, 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, 2018 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<br/>Remaining<br/>Useful<br/>Lives (Years)</u> | <u>Estimated<br/>Current<br/>Replacement<br/>Cost</u> | <u>Improvement<br/>Fund<br/>Balance at<br/>Dec. 31, 2018</u> |
|------------------------|---|---|--|
| <b>Improvements:</b>   |   |   |  |
| Fence replacement      | 3 - 5   | 20,000  |  |
| Landscape improvements | 2 - 4   | 15,000  |  |
| Trail improvements     | 1 - 5   | <u>15,000</u>   |  |
|                        | <b>Totals</b>   | <u><u>50,000</u></u>                                  | <u><u>86,255</u></u>   |