

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

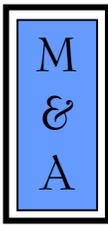
**Financial Statements
December 31, 2016**



**Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
December 31, 2016**

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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, 2016, 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, 2016, 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 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.

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
April 6, 2017**

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses, and Changes in Fund Balances
December 31, 2016
(With Comparative Totals For December 31, 2015)

	2016			2015
	Operating Fund	Improvement Fund	Total	Total
Assets:				
Cash and cash equivalents	222,240	141,366	363,606	556,085
Member assessments receivable	2,000	-	2,000	14,432
Prepaid expenses	3,375	-	3,375	3,443
Due from (to) other fund	13,186	(13,186)	-	-
Total Assets	240,801	128,180	368,981	573,960
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	24,935	-	24,935	22,381
Deferred assessment revenue	-	-	-	3,000
Design Review deposits	131,678	-	131,678	201,678
Total Liabilities	156,613	-	156,613	227,059
Fund Balances	84,188	128,180	212,368	346,901
Total Liabilities and Fund Balances	240,801	128,180	368,981	573,960

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, 2016
(With Comparative Totals For 2015)

	2016			2015
	Operating Fund	Improvement Fund	Total	Total
Revenues:				
Common assessment	136,500	-	136,500	136,500
Real estate transfer assessment	36,040	-	36,040	92,400
Design Review fees	1,088	-	1,088	20,285
Investment income	437	-	437	977
Late fee and other income	13,162	-	13,162	-
Total Revenues	187,227	-	187,227	250,162
Expenses:				
Common area expenses:				
Gate operations	71,732	-	71,732	63,256
Caretaker and assistant	67,361	-	67,361	65,403
Caretaker facility and vehicle expense	52,964	-	52,964	56,509
Common area maintenance	26,644	-	26,644	15,028
Subtotal - Common area	218,701	-	218,701	200,196
Operating expenses:				
General and administrative, legal, and audit	11,687	-	11,687	9,684
Design Review expense	43,051	-	43,051	43,597
Insurance expense	4,899	-	4,899	4,762
Management fee	22,022	-	22,022	21,617
Accounting fee	7,207	-	7,207	6,874
Homeowner functions	2,431	-	2,431	3,125
Subtotal - Operating	91,297	-	91,297	89,659
Improvement expenses:				
Entry gate and gatehouse	-	11,762	11,762	27,206
Landscaping	-	-	-	15,974
Fiber optic project	-	-	-	162,681
Miscellaneous reserve expenses	-	-	-	878
Subtotal - Improvement	-	11,762	11,762	206,739
Total Expenses	309,998	11,762	321,760	496,594
Excess (Deficiency) of Revenues over Expenses	(122,771)	(11,762)	(134,533)	(246,432)
Fund Balances - Beginning of Year	206,959	139,942	346,901	593,333
Fund Balances - End of Year	84,188	128,180	212,368	346,901

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, 2016
(With Comparative Totals For 2015)

	2016			2015
	Operating Fund	Improvement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from member assessments	181,972	-	181,972	299,468
Cash received (paid) for design review (net):				
Non-refundable fees	1,088	-	1,088	20,285
Refundable deposits	(70,000)	-	(70,000)	110,000
Investment income received	437	-	437	977
Cash received from other sources	13,162	-	13,162	-
Cash payments for goods and services	(307,376)	(11,762)	(319,138)	(508,437)
Transfer (to) from other fund	(22,280)	22,280	-	-
Net Cash Provided (Used) by Operating Activities	(202,997)	10,518	(192,479)	(77,707)
Net Increase (Decrease) in Cash and Cash Equivalents	(202,997)	10,518	(192,479)	(77,707)
Cash and Cash Equivalents - Beginning of Year	425,237	130,848	556,085	633,792
Cash and Cash Equivalents - End of Year	222,240	141,366	363,606	556,085
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (deficiency) of revenues over expenses	(122,771)	(11,762)	(134,533)	(246,432)
Adjustments:				
(Increase) decrease - Accounts receivable	12,432	-	12,432	67,568
(Increase) decrease - Prepaid expenses	68	-	68	(147)
Increase (decrease) - Accounts payable	2,554	-	2,554	(11,696)
Increase (decrease) - Deferred assessment revenue	(3,000)	-	(3,000)	3,000
Increase (decrease) - Design Review deposits	(70,000)	-	(70,000)	110,000
Transfer (to) from other fund	(22,280)	22,280	-	-
Total Adjustments	(80,226)	22,280	(57,946)	168,725
Net Cash Provided (Used) by Operating Activities	(202,997)	10,518	(192,479)	(77,707)

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, 2016

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 lot 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, 2016
(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, 2016; 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 2016, the annual common assessment was \$1,500 per member. Beginning in 2017, the annual common assessment will be \$2,500 per member. Thereafter, the Board will periodically review the Association's finances and budget to potentially decrease the assessment.

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 2013 by the Internal Revenue Service and for tax years prior to 2012 by the Colorado Department of Revenue.

H. Subsequent Events

Management has evaluated subsequent events through April 6, 2017; the date these financial statements were available to be issued.

I. Use of Estimates

The preparation of financial statements to 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.

J. Comparative Information

The financial statements include certain prior year comparative information in total, but not by fund class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements as of and for the year ended December 31, 2015, from which the comparative totals were derived.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2016
(Continued)

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.

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 relation, 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, 2016, the Association incurred the following expenses for services performed by VRDC and/or its related companies.

Caretaker and assistant	\$ 67,362
Caretaker facility and vehicle expense	52,964
Design Review expense	43,051
Management fee	22,022
Accounting fee	7,207
Homeowner functions	<u>2,431</u>
Total	<u>\$ 195,037</u>

At December 31, 2016, the Association owed VRDC \$16,584 with respect to services rendered under the terms of the Management Agreement.

For 2016, Vail Resorts and affiliated entities paid common assessments totaling \$10,500. At December 31, 2016, Vail Resorts and affiliated entities owned 6 lots, representing a 7% interest in the Association's common elements.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2016
(Continued)

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 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.

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 2016 gate house operating expenses was \$66,867. For 2017, the Association’s share of gate house operating expenses budgeted by Holland Creek is \$60,487.

6. Concentration of Credit Risk

The Association’s cash balances held with financial institutions at December 31, 2016 are insured by the Federal Deposit Insurance Corporation (“FDIC”) for up to \$250,000 per depositor at each FDIC-member institution. At December 31, 2016, the Association’s uninsured cash balances totaled \$138,549.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Schedule of Operating Fund - Budget and Actual Comparison
For the Year Ended December 31, 2016
(With Comparative Actual Amounts For 2015)

	<u>2016</u>		<u>Variance Favorable (Unfavorable)</u>	<u>2015</u>
	<u>Budget (Unaudited)</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Common assessment	136,500	136,500	-	136,500
Real estate transfer assessment	88,000	36,040	(51,960)	92,400
Design Review fees	26,400	1,088	(25,312)	20,285
Investment income	1,098	437	(661)	977
Late fee and other income	-	13,162	13,162	-
Total Revenues	<u>251,998</u>	<u>187,227</u>	<u>(64,771)</u>	<u>250,162</u>
Expenses:				
Common area expenses:				
Gate operations	64,358	71,732	(7,374)	63,256
Caretaker and assistant	66,571	67,361	(790)	65,403
Caretaker facility	53,695	52,964	731	56,509
Common area maintenance	31,200	26,644	4,556	15,028
Subtotal - Common area	<u>215,824</u>	<u>218,701</u>	<u>(2,877)</u>	<u>200,196</u>
Operating expenses:				
General and administrative, legal, and audit	10,250	11,687	(1,437)	9,684
Design Review expense	46,380	43,051	3,329	43,597
Insurance expense	4,909	4,899	10	4,762
Management fee	22,022	22,022	-	21,617
Accounting fee	7,447	7,207	240	6,874
Homeowner functions	4,000	2,431	1,569	3,125
Income taxes	300	-	300	-
Subtotal - Operating	<u>95,308</u>	<u>91,297</u>	<u>4,011</u>	<u>89,659</u>
Total Expenses	<u>311,132</u>	<u>309,998</u>	<u>1,134</u>	<u>289,855</u>
Excess (Deficiency) of Revenues over Expenses	(59,134)	(122,771)	(63,637)	(39,693)
Fund Balance - Beginning of Year	<u>212,813</u>	<u>206,959</u>	<u>(5,854)</u>	<u>246,652</u>
Fund Balance - End of Year	<u>153,679</u>	<u>84,188</u>	<u>(69,491)</u>	<u>206,959</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, 2016
(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, 2016 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, 2016</u>
Improvements:			
Fence replacement	1 - 2	46,000	
Gate replacement	5	200,000	
Landscape improvements	1 - 3	15,000	
Trail improvements	2	15,000	
	Totals	<u>276,000</u>	<u>128,180</u>