

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

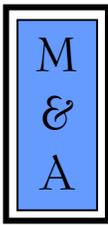
**Financial Statements
December 31, 2020**



**Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
December 31, 2020**

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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, 2020, 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, 2020, 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.

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

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Association adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments, in 2020. Our opinion is not modified with respect to this matter.

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 11 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 12 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.
October 11, 2021**

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2020

	Operating Fund	Improvement Fund	Total
Assets:			
Cash and cash equivalents	249,398	137,188	386,586
Investments - Certificates of deposit	-	152,012	152,012
Member assessments receivable	10,100	-	10,100
Prepaid expenses	6,869	-	6,869
Due from (to) other fund	213,433	(213,433)	-
Total Assets	479,800	75,767	555,567
 Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	3,548	-	3,548
Due to (from) management company	(298,606)	-	(298,606)
Design Review deposits	50,949	-	50,949
Total Liabilities	(244,109)	-	(244,109)
Fund Balances	723,909	75,767	799,676
Total Liabilities and Fund Balances	479,800	75,767	555,567

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, 2020

	Operating Fund	Improvement Fund	Total
Revenues:			
Common assessment	318,500	-	318,500
Real estate transfer assessment	580,270	-	580,270
Design Review fees	9,100	-	9,100
Investment income	490	2,012	2,502
Total Revenues	908,360	2,012	910,372
Expenses:			
Common area expenses:			
Gate operations	62,520	-	62,520
Caretaker and assistant	75,228	-	75,228
Caretaker facility and vehicle expense	58,098	-	58,098
Common area maintenance	25,051	-	25,051
Subtotal - Common area	220,897	-	220,897
Operating expenses:			
General and administrative, legal, and audit	3,620	-	3,620
Design Review expense	50,868	-	50,868
Insurance expense	6,522	-	6,522
Management fee	25,860	-	25,860
Accounting fee	8,776	-	8,776
Homeowner functions	1,189	-	1,189
Subtotal - Operating	96,835	-	96,835
Improvement expenses:			
Trail improvements	-	7,500	7,500
Total Expenses	317,732	7,500	325,232
Excess (Deficiency) of Revenues over Expenses	590,628	(5,488)	585,140
Fund Balances - Beginning of Year	133,281	81,255	214,536
Fund Balances - End of Year	723,909	75,767	799,676

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, 2020

	Operating Fund	Improvement Fund	Total
Cash Flows From Operating Activities:			
Cash received from member assessments	433,000	-	433,000
Cash received (paid) for design review (net):			
Non-refundable fees	9,100	-	9,100
Refundable deposits	12,850	-	12,850
Investment income received	490	-	490
Cash payments for goods and services	(174,610)	(7,500)	(182,110)
Transfer (to) from other fund	(294,647)	294,647	-
Net Cash Provided (Used) by Operating Activities	<u>(13,817)</u>	<u>287,147</u>	<u>273,330</u>
Cash Flows From Investing Activities:			
Cash paid to purchase investments	-	(150,000)	(150,000)
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,817)	137,147	123,330
Cash and Cash Equivalents - Beginning of Year	<u>263,215</u>	<u>41</u>	<u>263,256</u>
Cash and Cash Equivalents - End of Year	<u><u>249,398</u></u>	<u><u>137,188</u></u>	<u><u>386,586</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>590,628</u>	<u>(5,488)</u>	<u>585,140</u>
Adjustments:			
Interest compounded on certificates of deposit	-	(2,012)	(2,012)
(Increase) decrease - Accounts receivable	(2,500)	-	(2,500)
(Increase) decrease - Prepaid expenses	(786)	-	(786)
Increase (decrease) - Accounts payable	(319,362)	-	(319,362)
Increase (decrease) - Design Review deposits	12,850	-	12,850
Transfer (to) from other fund	(294,647)	294,647	-
Total Adjustments	<u>(604,445)</u>	<u>292,635</u>	<u>(311,810)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(13,817)</u></u>	<u><u>287,147</u></u>	<u><u>273,330</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, 2020

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, 2020
(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, 2020; 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 2020, the annual common assessment was \$3,500 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 2017 by the Internal Revenue Service and for tax years prior to 2016 by the Colorado Department of Revenue.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(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 October 11, 2021; the date these financial statements were available to be issued.

3. Investments – Certificates of Deposit

The following are the delays of the certificates of deposit held by the Association at December 31, 2020.

Maturing within one year, interest at 1.60% per annum	\$	50,671
Maturing within two years, interest at 0.40% - 0.65% per annum		101,341
		152,012
Total	\$	152,012

4. 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 12 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.

5. 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.

Red Sky Ranch Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Continued)

5. Management Agreement (continued)

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, 2020, the Association incurred the following expenses for services performed by VRDC and/or its related companies.

Caretaker and assistant	\$ 75,078
Caretaker facility and vehicle expense	57,156
Design Review expense	50,868
Management fee	25,860
Accounting fee	<u>8,776</u>
Total	<u>\$ 217,738</u>

At December 31, 2020, the Association had a receivable due from VRDC in the amount of \$298,606 with respect to services rendered under the terms of the Management Agreement.

For 2020, Vail Resorts and affiliated entities paid common assessments totaling \$24,500. At December 31, 2020, Vail Resorts and affiliated entities owned 6 lots and 1 tract, representing an aggregate 8% interest in the Association's common elements.

6. Operation and Maintenance Agreement – Gate House

Effective July 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. The agreement stipulated 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 had a 10-year term which expired in July 2020. The Association, VA, and Holland Creek executed an extension which continued the prior arrangement through October 2020.

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 2020 gate house operating expenses was \$68,459.

Effective in January 2021, the Association, VA, and Holland Creek executed an amended and restated agreement for operating and maintaining the welcoming gate house, under substantially the same terms as the previous agreement. The new 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, 2020
(Continued)

7. Concentration of Credit Risk

The Association's cash balances held with financial institutions at December 31, 2020 are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per depositor at each FDIC-member institution. At December 31, 2020, the Association's uninsured cash balances totaled \$276,206.

8. Revenue from Contracts with Customers

For the year ended December 31, 2020, revenue recognized for goods transferred or performance obligations met at a point in time were \$8,900. There were no revenues recognized for goods transferred or performance obligations met over time during 2020. Revenues may be affected by general economic conditions and inflationary pressures. Revenues are primarily collected from members of the Association.

9. 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.

10. New Accounting Standard

Effective January 1, 2020, the Association implemented Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), issued by the Financial Accounting Standards Board, and all subsequent amendments. ASU 2014-09 requires enhanced disclosures of the Association's revenue recognition policies. The implementation of ASU 2014-09 has been applied retrospectively to all periods presented, with no effect to net assets or previously issued financial statements.

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, 2020

	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Revenues:			
Common assessment	318,500	318,500	-
Real estate transfer assessment	56,707	580,270	523,563
Design Review fees	5,102	9,100	3,998
Investment income	1,136	490	(646)
Total Revenues	381,445	908,360	526,915
Expenses:			
Common area expenses:			
Gate operations	66,722	62,520	4,202
Caretaker and assistant	85,018	75,228	9,790
Caretaker facility	55,847	58,098	(2,251)
Common area maintenance	38,900	25,051	13,849
Subtotal - Common area	246,487	220,897	25,590
Operating expenses:			
General and administrative, legal, and audit	4,650	3,620	1,030
Design Review expense	50,342	50,868	(526)
Insurance expense	5,213	6,522	(1,309)
Management fee	26,227	25,860	367
Accounting fee	8,990	8,776	214
Homeowner functions	4,000	1,189	2,811
Marketing	15,000	-	15,000
Income taxes	300	-	300
Subtotal - Operating	114,722	96,835	17,887
Total Expenses	361,209	317,732	43,477
Excess (Deficiency) of Revenues over Expenses	20,236	590,628	570,392
Fund Balance - Beginning of Year	107,786	133,281	25,495
Fund Balance - End of Year	128,022	723,909	595,887

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, 2020
(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 Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Improvement Fund Balance at Dec. 31, 2020</u>
Improvements:			
Fence improvements	0	2,500	
Landscape improvements	1	7,500	
Trail improvements	0	1,500	
	Totals	<u>11,500</u>	<u>75,767</u>