

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**COMPILED FINANCIAL STATEMENTS AND
INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

For the Year Ended June 30, 2010

TABLE OF CONTENTS

	PAGE
OFFICIAL ROSTER	1
COMPILATION LETTER	2
FINANCIAL STATEMENTS	
Balance Sheet/Statements of Net Assets – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities – Governmental Funds	4
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	5
Notes to Financial Statements.....	6
SUPPLEMENTAL INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund.....	14
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund	15
PART I: INDEPENDENT ACCOUNTANTS’ REPORT ON APPLYING AGREED-UPON PROCEDURES	16
PART II: SCHEDULE OF FINDINGS AND RESPONSES	19
PART III: EXIT CONFERENCE INFORMATION	21

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**OFFICIAL ROSTER
For the Year Ended June 30, 2010**

Chris Bremner, President
CARMA Colorado

Miles Stephens, Clerk
CARMA Colorado

Tyler Packard, Treasurer
CARMA Colorado

Tom Morton, Director
CARMA Colorado

Mike Partheymuller, Director
CARMA Colorado

Board of Directors
Ute Lake Ranch Public Improvement District No. 2

We have compiled the accompanying Combined Balance Sheet – Governmental Funds of Ute Lake Ranch Public Improvement District No. 2 as of June 30, 2010, the related Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Governmental Funds, for the twelve months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Since the Board of Directors does not require financial statements prepared in conformity with generally accepted accounting practices to manage the affairs of the District on a monthly basis, determination has been made not to include the Statement of Net Assets, the Statement of Net Activities, the Management Discussion and Analysis and disclosure footnotes to the statements. Accordingly, the accompanying financials statements are not intended to be used by readers who are not familiar with the District's financial affairs or informed about such matters that would be disclosed in complete financial statements.

Simmons & Wheeler P.C.

July 23, 2010

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS						
Cash and investments	\$ 25,627	\$ -	\$ -	\$ 25,627	\$ -	\$ 25,627
Cash and investments - restricted	-	230,645	-	230,645	-	230,645
Property taxes receivable - current	300	2,704	-	3,004	-	3,004
Property taxes receivable - deferred	29,879	107,565	-	137,444	-	137,444
Other accounts receivable	-	-	106,000	106,000	-	106,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 55,806</u>	<u>\$ 340,914</u>	<u>\$ 106,000</u>	<u>\$ 502,720</u>	<u>-</u>	<u>502,720</u>
 LIABILITIES						
Accounts payable	\$ 813	\$ -	\$ -	\$ 813	-	813
Deferred property taxes	29,879	107,565	-	137,444	-	137,444
Accrued interest on developer advances	-	-	-	-	4,145	4,145
Long-term liabilities:						
Developer advances payable	-	-	-	-	49,736	49,736
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>30,692</u>	<u>107,565</u>	<u>-</u>	<u>138,257</u>	<u>53,881</u>	<u>192,138</u>
 FUND BALANCE/NET ASSETS						
Reserved for:						
Debt service	-	233,349	-	233,349	(233,349)	-
Capital projects	-	-	106,000	106,000	(106,000)	-
Unreserved	25,114	-	-	25,114	(25,114)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>25,114</u>	<u>233,349</u>	<u>106,000</u>	<u>364,463</u>	<u>(364,463)</u>	<u>-</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u>\$ 55,806</u>	<u>\$ 340,914</u>	<u>\$ 106,000</u>	<u>\$ 502,720</u>		
 Invested in capital assets net of related debt						
					-	-
Restricted for:						
Debt service					233,349	233,349
Capital projects					106,000	106,000
Unrestricted						
					<u>(28,767)</u>	<u>(28,767)</u>
					<hr/>	<hr/>
Total Net Assets (Deficit)					<u>\$ 310,582</u>	<u>\$ 310,582</u>

The notes to the financial statements are an integral part of these statements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting	\$ 395	\$ -	\$ -	\$ 395	\$ -	\$ 395
Audit	-	-	-	-	-	-
Insurance	-	-	-	-	-	-
Legal	9,687	-	-	9,687	-	9,687
Miscellaneous	-	-	-	-	-	-
Operating costs	40,468	-	-	40,468	-	40,468
Capital improvements	-	-	-	-	-	-
Interest expense - developer advances	-	-	-	-	4,145	4,145
Total Expenditures	<u>50,550</u>	<u>-</u>	<u>-</u>	<u>50,550</u>	<u>4,145</u>	<u>54,695</u>
PROGRAM REVENUES						
Infrastructure/system development fees	-	-	106,000	106,000	-	106,000
Total Program Revenues	<u>-</u>	<u>-</u>	<u>106,000</u>	<u>106,000</u>	<u>-</u>	<u>106,000</u>
Net Program Income (Expense)	(50,550)	-	106,000	55,450	(4,145)	51,305
GENERAL REVENUES						
Property taxes	25,928	233,349	-	259,277	-	259,277
Interest income	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-
Total General Revenues	<u>25,928</u>	<u>233,349</u>	<u>-</u>	<u>259,277</u>	<u>-</u>	<u>259,277</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(24,622)	233,349	106,000	314,727	(4,145)	310,582
OTHER FINANCING SOURCES (USES)						
Developer advances - capital	-	-	-	-	-	-
Developer advances - debt service	-	-	-	-	-	-
Developer advances - operations	49,736	-	-	49,736	(49,736)	-
Total Other Financing Sources (Uses)	<u>49,736</u>	<u>-</u>	<u>-</u>	<u>49,736</u>	<u>(49,736)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	25,114	233,349	106,000	364,463	(364,463)	-
CHANGE IN NET ASSETS					310,582	310,582
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	-	-	-	-	-	-
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 25,114</u>	<u>\$ 233,349</u>	<u>\$ 106,000</u>	<u>\$ 364,463</u>	<u>\$ (53,881)</u>	<u>\$ 310,582</u>

The notes to the financial statements are an integral part of these statements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended June 30, 2010

	<u>Original & Final Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 26,090	\$ 25,928	\$ (162)
Interest income	-	-	-
Miscellaneous income	-	-	-
Water/sewer service fees	<u>14,059</u>	<u>-</u>	<u>(14,059)</u>
 Total Revenues	 <u>40,149</u>	 <u>25,928</u>	 <u>(14,221)</u>
EXPENDITURES			
Accounting	5,850	395	5,455
Audit	-	-	-
Insurance	1,800	-	1,800
Legal	15,000	9,687	5,313
Miscellaneous	-	-	-
Operating costs	71,310	40,468	30,842
Capital improvements	-	-	-
Interest expense - developer advances	-	-	-
Contingency	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 <u>93,960</u>	 <u>50,550</u>	 <u>43,410</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>(53,811)</u>	 <u>(24,622)</u>	 <u>29,189</u>
OTHER FINANCING SOURCES (USES)			
Developer advances - operations	<u>53,811</u>	<u>49,736</u>	<u>(4,075)</u>
 Total Other Financing Sources (Uses)	 <u>53,811</u>	 <u>49,736</u>	 <u>(4,075)</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	 <u>-</u>	 <u>25,114</u>	 <u>25,114</u>
 FUND BALANCE - BEGINNING OF YEAR	 <u>-</u>	 <u>-</u>	 <u>-</u>
 FUND BALANCE - END OF YEAR	 <u>\$ -</u>	 <u>\$ 25,114</u>	 <u>\$ 25,114</u>

The notes to the financial statements are an integral part of these statements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Ute Lake Ranch Public Improvement District No. 2 (District), located in Quay County, New Mexico, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on August 11, 2008, as a political subdivision of the state of New Mexico duly created and existing pursuant to Sections 5-11-1 through 5-11-127 NMSA 1978, as amended, and Quay County Resolution #07 adopted on August 11, 2008.

The District was established to provide public infrastructure improvement to facilitate development and is authorized to finance all public infrastructure improvements through the imposition of property taxes and special levies.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

The District is governed by an elected Board of Directors.

The District has no employees and all operations and administrative functions are contracted.

The District is not financially accountable for any other organization.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments.

The government-wide financial statements (i.e. governmental funds balance sheet/statement of net assets and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of net assets reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net assets.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital equipment and facilities.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Assets

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at June 30, 2010, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

Interfund Balances

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These amounts are eliminated in the Statement of Net Assets.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. As of June 30, 2010, the District has not recorded any capital improvements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (continued)

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year, with one-half of the taxes on that assessment due the following November 10 and one-half due April 10 of the next calendar year. The installment due on November 10 becomes delinquent on December 11, while the April installment becomes delinquent on May 11. The taxes are subject to foreclosure by the District at any time after the six months following written notice of delinquency to the owner of the real property to which the delinquency applies. The lien shall include delinquencies, penalties and interest thereon at a rate not to exceed the maximum legal rate of interest per year and penalties otherwise applicable. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

In the fund financial statements, government funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of unreserved fund balances indicate management's intention for future utilization of such funds and are subject to change by management. The District considers all unreserved fund balance to be "reserves" for future operations or capital replacements.

The reserved fund balance in the Debt Service Fund is reserved for the repayment of any outstanding developer advances. (See Note 3)

The reserved fund balance in the Capital Projects Fund is reserved for capital improvements within the District.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments

As of June 30, 2010, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 25,627
Cash and investments – Restricted	<u>230,645</u>
Total	\$ <u>256,272</u>

Cash and investments as of June 30, 2010 consist of the following:

Deposits with financial institutions	\$ <u>256,272</u>
--------------------------------------	-------------------

Deposits

The District is authorized under the provision of Chapter 6, Article 10, paragraph 10, NMSA 1978, annotated, to deposit its money in banks, savings and loan association and/or credit unions whose accounts are insured by an agency of the United States of America.

All money not immediately necessary for the public uses of the District may be invested in bonds or negotiable securities of the United States, the state or any county, municipality or town, securities that are issued by the United States government or by its agencies or instrumentalities or in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities. If the District is unable to receive payment on public money at the rate of interest set forth by the State Board of Finance from financial institutions within the geographic boundaries of the governmental unit, the District may invest its money as provided under Section 6-10-10.1 NMSA 1978 with the New Mexico State Treasurer's investment pool for a period greater than 181 days. The State Treasurer's investment pool shall be invested as provided for State funds under Section 60-10-10 NMSA 1978. The District has not formally adopted a deposit and investment policy that limits the government's allowable deposits or investments and addresses the specific types of risk to which the government is exposed.

Cash and investments held by the District include cash on deposit with financial institutions. Deposits are secured by Federal depository insurance. Under New Mexico law, all deposits with financial institutions must be collateralized in an amount not less than 50% (102% for overnight deposits) of the uninsured balance. Market values of all cash and deposits approximate the cost of those assets.

At June 30, 2010, the District's cash deposits had a bank balance of \$123,788 and a carrying balance of \$256,272.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 2: Cash and Investments (continued)

Investments

At June 30, 2010, the District had no investments.

Note 3: Long Term Obligations

A description of the long-term obligations as of June 30, 2010, is as follows:

Advance and Reimbursement Agreement

On July 28, 2009, the District entered into an Advance and Reimbursement Agreement (Agreement) with UCAR Development, LLC (UCAR). The purpose of the Agreement was to provide for UCAR to make advances to the District and for the District to make reimbursements to the UCAR. UCAR was formed as a joint venture between Carma Colorado, Inc. (Carma) and Ma'Laga Village, Inc. (Ma'Laga). During 2010, per the terms of a Purchase and Sale Agreement, Carma agreed to purchase Ma'Laga's interest in UCAR. Subsequent to the end of the fiscal year, the District entered into an Advance and Reimbursement Agreement with Twelve Shores, LLC (Developer), a wholly owned subsidiary of Carma. Any prior and current advances and reimbursements made to the District will now be governed by this agreement.

Per the Agreement, the District is to reimburse the Developer for any advances together with interest at the rate seven percent (7%) per annum. Interest accrues as of the date of each advance provided, however, that no interest shall begin to accrue on any advance made to the District prior to May 27, 2004. The Developer understands and acknowledges that the District's obligation to reimburse the Developer is not a multiple fiscal year obligation. Payments by the District shall be applied first to interest and then to principal. This reimbursement obligation is and shall be subordinate to any bonded indebtedness of the District.

As of June 30, 2010, the District has outstanding general operating advances totaling \$49,736 and there is accrued interest due of \$4,145. As of June 30, 2010 and as of the date of this report, the District is in the process of reviewing invoices for infrastructure improvements submitted by the Developer for reimbursement. Any improvements accepted by the Board of Directors will be recorded as developer advances as of the date of the advance. The total amount of accepted improvements is estimated to be approximately \$9,000,000 - \$13,000,000.

Debt Authorization

As of June 30, 2010, the District had remaining debt authorization of \$40,000,000. The District has not budgeted to issue any new debt during the next fiscal year.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2010

Note 4: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the Developer and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

Note 5: Economic Dependency

The District has not yet established a revenue base sufficient to pay for the District's capital improvements and ongoing operational requirements. Until an independent revenue base is established, continuation of operations in the District will be dependent on funding by the Developer to pay operations and capital improvement obligations.

Note 6: Risk Management

The District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District is insured through private carriers for liability, casualty and director liability insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 7: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Assets includes an adjustments column. The adjustments have the following elements:

- 1) long-term liabilities such as developer advances payable and accrued interest payable are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) expenses reported in the statement of activities such as accrued interest on developer advances do not require the use of current financial resources and, therefore, are not reported in the governmental funds; and,
- 2) governmental funds report developer advances received as income: however, in the government-wide financial statements, they are reported as changes in advances payable.

SUPPLEMENTAL INFORMATION

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended June 30, 2010

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 234,806	\$ 233,349	\$ (1,457)
Miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>
 Total Revenues	 <u>234,806</u>	 <u>233,349</u>	 <u>(1,457)</u>
 EXPENDITURES			
Legal	-	-	-
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 <u>-</u>	 <u>-</u>	 <u>-</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 234,806	 233,349	 (1,457)
 FUND BALANCE - BEGINNING OF YEAR	 <u>-</u>	 <u>-</u>	 <u>-</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 234,806</u>	 <u>\$ 233,349</u>	 <u>\$ (1,457)</u>

The notes to the financial statements are an integral part of these statements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CAPITAL PROJECTS FUND

For the Year Ended June 30, 2010

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Infrastructure/system development fees	\$ -	\$ 106,000	\$ 106,000
Miscellaneous income	-	-	-
	<hr/>	<hr/>	<hr/>
Total Revenues	-	106,000	106,000
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Miscellaneous	-	-	-
Capital improvements	-	-	-
	<hr/>	<hr/>	<hr/>
Total Expenditures	-	-	-
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	106,000	106,000
FUND BALANCE - BEGINNING OF YEAR	-	-	-
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ -	\$ 106,000	\$ 106,000
	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of these statements.

**Independent Accountants' Report on
Applying Agreed-Upon Procedures**

Ute Lake Ranch Public Improvement District No. 2
Tucumcari, New Mexico

State Auditor Hector Balderas
Office of the State Auditor of New Mexico
Santa Fe, New Mexico

We have performed the procedures enumerated below, which were agreed to by the Ute Lake Ranch Public Improvement District No. 2 (the District) and the Office of the State Auditor of New Mexico (the State Auditor), solely to assist the State Auditor in evaluating whether the District is in compliance with Tier 6 of the Audit Act (Section 12-6-1 NMSA 1978 et seq.) for the year ended June 30, 2010. District management is responsible for the compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

Agreed-Upon Procedures Related to Tier 6 of the Audit Act (Section 12-6-1 NMSA 1978 et seq.)

1) Cash

The District opened a bank account on June 8, 2010. We reviewed the sole bank reconciliation performed for the fiscal year and verified it had been performed in a timely manner and was supported by the bank statement.

We tested the bank reconciliation for accuracy and determined that ending balances agreed to the District's general ledger, to other supporting documentation, and to the financial report submitted to DFA-Local Government division, noting no exceptions.

We determined that the District's deposits were insured up to FDIC limits during the fiscal year and that as of December 17, 2010, an agreement was signed with their financial institution to insure any deposits in excess of FDIC by pledging a minimum collateral of 50% on all uninsured deposits. As of June 30, 2010, the District had a cash balance of \$256,272, which exceeds the FDIC limits by \$6,272.

2) Capital Assets

We reviewed the compiled financial statements, board minutes, budget and disbursement records, noting the District has accepted no capital assets for the fiscal year 2010 and thus no further procedures were performed.

3) Debt

The District has a developer advance payable outstanding as of year end, related to operating advances. At June 30, 2010, the principal balance was \$49,736 and, per the agreement with the Developer, accrues interest at 7%. No payments were required in 2010, and there were no required reserves related to the developer advance. We reviewed the compilation statements, board minutes, budget and disbursement records, noting the District has no other debt for the fiscal year 2010 and, thus, no further procedures were performed.

4) Revenue

We performed an analytical review, testing actual revenue compared to budgeted revenue for the year, for each type of revenue. Overall, the actual revenues exceeded budgeted revenues by \$140,220. Variances between actual and budgeted, by revenue type, are summarized below:

Property taxes - Actual revenues were \$259,277 and 1% less than budgeted. This is an insignificant variance resulting from collections less than property tax levies.

Water/Sewer usage fees - Actual revenues were \$0 and budgeted were \$14,059. As of June 30, 2010, the District had sold eight units within the development, three of which are occupied. The special levy for water/sewer usage fees on units within the development has not yet been implemented.

Infrastructure fees - These revenues represent funds which were held in escrow after the sale of the eight units within the development and were \$106,000. There was no budget established for these revenues.

Developer advances (operations) - No capital improvements have been accepted into the District. The District accrued expenditures in the general fund related to the operation expenses which were advanced by the developer during the year and recorded the advance as an other financing source.

Property tax revenues amount to \$259,277 for the fiscal year and represent 62% of the District's total revenues. As this is the District's most significant revenue source, we tested the revenue transactions recorded in the general ledger by verifying the amounts recorded agreed to supporting documentation and the bank statements. We also reviewed the supporting documentation to verify the accuracy of the classification, amount and period of the revenues recorded in the general ledger under modified accrual basis of accounting, noting no exceptions.

5) Expenditures

We selected a sample of 28 transactions, or 53%, during the fiscal year ended June 30, 2010, and determined the following without exception:

- a. The disbursed amount, payee, date and description agreed to the corresponding information on the vendor invoice or supporting documentation.
- b. The transaction was authorized in accordance with the Developer Advance contract, the District's budget, legal requirements and established policies and procedures.
- c. The bid process, purchase orders, contracts and agreements were processed in accordance with the New Mexico Procurement Code (Section 13-1-28 through 13-1-199 NMSA 1978) and State Purchasing Regulations (1.4.1. NMAC).

6) Journal Entries

We obtained the general journal and reviewed for any non-routine entries, such as adjustments or reclassifications. We noted that the District recorded a total of six entries for the year, all for routine purposes. No further procedures performed.

7) Budget

We obtained the fiscal year 2010 budget and the Board Resolution approving the budget. Also, we verified the budget had been approved by the DFA-LGD.

We reviewed the budget to actual statements included in the District's compilation report, noting the actual expenditures did not exceed the final budgeted expenditures.

8) Capital Outlay Appropriations

We reviewed the board minutes, budget documents and disbursement records to verify that no capital improvements had been accepted into the District as of June 30, 2010.

We were not engaged to, and did not audit or conduct an examination, the objective of which would be the expression of an opinion on the financial statements or subject matter. Accordingly, we do not express any such opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Greenwood Village, Colorado
February 14, 2010

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2010**

PART II – FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2010-01

Criteria: The Ute Lake Ranch Public Improvement District No. 2 (District) filed the Tier 6 report with the New Mexico Office of the State Auditor on March 1, 2011. The report was due December 1, 2010 in accordance with NMAC 2.2.2.16(H).

Condition: The Contract between the District and Clifton Gunderson (Contractor) to perform Tier 6 engagement was executed on December 21, 2010. In the contract the Contractor was granted an extension until March 1, 2011.

Effect: The report was not submitted in accordance with NMAC 2.2.2.16(H) although the Contract dated December 21, 2010 required the report to be filed by March 1, 2011.

Context: The District should monitor the reporting deadlines and adhere to NMAC 2.2.2.16(H).

Cause: The untimely execution of the Contract caused the report not to meet the deadlines required by NMAC 2.2.2.16(H).

Recommendation: We recommend the District monitor the reporting requirements outlined in NMAC 2.2.2.16(H) to avoid late filings of required reports.

Management Response: Management will monitor the reporting requirements as outlined in NMAC 2.2.2.16(H) effective immediately.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**EXIT CONFERENCE
For the Year Ended June 30, 2010**

Exit Conference

An exit conference was held on February 14, 2011 to discuss the annual financial report and agreed-upon procedures report. Attending were the following:

Representing the Ute Lake Ranch Public Improvement District No. 2:

Chris Bremmer	President of the Board
Miles Stephens	Clerk of the Board
Ashley Snedden	CARMA of Colorado
Virginia Hemphill	Simmons and Wheeler P.C., Contract Accountant

Representing the Independent Auditor:

Paul Niedermuller, CPA, Partner
Xochil Quijano, Senior Associate

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

**EXIT CONFERENCE
For the Year Ended June 30, 2010**

Exit Conference

An exit conference was held on February 14, 2011 to discuss the annual financial report and agreed-upon procedures report. Attending were the following:

Representing the Ute Lake Ranch Public Improvement District No. 2:

Chris Bremmer	President of the Board
Miles Stephens	Clerk of the Board
Ashley Snedden	CARMA of Colorado
Virginia Hemphill	Simmons and Wheeler P.C., Contract Accountant

Representing the Independent Auditor:

Paul Niedermuller, CPA, Partner
Xochil Quijano, Senior Associate