

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Financial Statements

Year Ended June 30, 2011

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UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

OFFICIAL ROSTER

As of June 30, 2011

BOARD OF DIRECTORS

Chris Bremner	President
Miles Stephens	Clerk
Vacant	Treasurer
Tom Morton	Director
Mike Partheymuller	Director

Independent Auditor's Report

Board of Directors
Ute Lake Ranch Public Improvement District No. 2
Quay County, New Mexico

We have audited the accompanying financial statements of the governmental activities, and each major fund of Ute Lake Ranch Public Improvement District No. 2 as of and for the year ended June 30, 2011, which collectively comprise Ute Lake Ranch Public Improvement District No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ute Lake Ranch Public Improvement District No. 2's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of Ute Lake Ranch Public Improvement District No. 2 as of June 30, 2011, and its changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ute Lake Ranch Improvement District No. 2 has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2011 on our consideration of Ute Lake Ranch Public Improvement District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ute Lake Ranch Public Improvement District No. 2 basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Greenwood Village, Colorado
October 31, 2011

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Activities</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ -	\$ 52,889	\$ 52,889	\$ -	\$ 52,889
Property taxes receivable - deferred	30,231	-	108,833	139,064	-	139,064
Developer advances receivable	9,519	203,590	-	213,109	(213,109)	-
Prepaid expenses	13,180	-	-	13,180	-	13,180
Due from other funds	-	-	176,529	176,529	(176,529)	-
Capital assets, net of depreciation	-	-	-	-	13,457,385	13,457,385
Total Assets	<u>\$ 52,930</u>	<u>\$ 203,590</u>	<u>\$ 338,251</u>	<u>\$ 594,771</u>	<u>13,067,747</u>	<u>13,662,518</u>
LIABILITIES						
Accounts payable	\$ 13,689	\$ 36,071	\$ -	\$ 49,760	-	49,760
Deferred property taxes	30,231	-	108,833	139,064	-	139,064
Due to other funds	9,010	167,519	-	176,529	(176,529)	-
Accrued interest on advances - capital	-	-	-	-	2,251,410	2,251,410
Accrued interest on advances - operations	-	-	-	-	7,683	7,683
Long-term liabilities:						
Developer advances payable - capital	-	-	-	-	13,223,042	13,223,042
Developer advances payable - operations	-	-	-	-	69,542	69,542
Total Liabilities	<u>52,930</u>	<u>203,590</u>	<u>108,833</u>	<u>365,353</u>	<u>15,375,148</u>	<u>15,740,501</u>
FUND BALANCE/NET ASSETS						
Nonspendable	13,180	-	-	13,180	(13,180)	-
Restricted	-	-	229,418	229,418	(229,418)	-
Unassigned	(13,180)	-	-	(13,180)	13,180	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>229,418</u>	<u>229,418</u>	<u>(229,418)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 52,930</u>	<u>\$ 203,590</u>	<u>\$ 338,251</u>	<u>\$ 594,771</u>		
Invested in capital assets net of related debt					234,343	234,343
Restricted for:						
Debt service					229,418	229,418
Unrestricted					(2,541,744)	(2,541,744)
Total Net Assets (Deficit)					<u>\$ (2,077,983)</u>	<u>\$ (2,077,983)</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 BALANCES/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	<u>General</u>	<u>Capital Project</u>	<u>Debt Service</u>	<u>Total Governmental Activities</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting	\$ 2,380	\$ 11,099	\$ -	\$ 13,479	\$ -	\$ 13,479
Audit	3,352	-	-	3,352	-	3,352
Insurance	16,166	-	-	16,166	-	16,166
Legal	32,272	60,948	-	93,220	-	93,220
Miscellaneous	-	3,200	-	3,200	-	3,200
Operating costs	29,095	-	-	29,095	-	29,095
Capital improvements	-	13,457,385	-	13,457,385	(13,457,385)	-
Repay developer advances	-	-	107,565	107,565	(107,565)	-
Interest expense - developer advances	-	-	-	-	2,362,513	2,362,513
Total Expenditures	<u>83,265</u>	<u>13,532,632</u>	<u>107,565</u>	<u>13,723,462</u>	<u>(11,202,437)</u>	<u>2,521,025</u>
GENERAL REVENUES						
Property taxes	28,787	-	103,634	132,421	-	132,421
Interest income	39	-	-	39	-	39
Total General Revenues	<u>28,826</u>	<u>-</u>	<u>103,634</u>	<u>132,460</u>	<u>-</u>	<u>132,460</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(54,439)	(13,532,632)	(3,931)	(13,591,002)	11,202,437	(2,388,565)
OTHER FINANCING SOURCES (USES)						
Developer advances - capital	-	13,426,632	-	13,426,632	(13,426,632)	-
Developer advances - operations	29,325	-	-	29,325	(29,325)	-
Total Other Financing Sources (Uses)	<u>29,325</u>	<u>13,426,632</u>	<u>-</u>	<u>13,455,957</u>	<u>(13,455,957)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	(25,114)	(106,000)	(3,931)	(135,045)	135,045	-
CHANGE IN NET ASSETS					(2,388,565)	(2,388,565)
FUND BALANCE/NET ASSETS:						
BEGINNING OF YEAR	<u>25,114</u>	<u>106,000</u>	<u>233,349</u>	<u>364,463</u>	<u>(53,881)</u>	<u>310,582</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 229,418</u>	<u>\$ 229,418</u>	<u>\$ (2,307,401)</u>	<u>\$ (2,077,983)</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, 2011

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 29,879	\$ 28,787	\$ (1,092)
Water/sewer service fees	7,500	-	(7,500)
Interest income	-	39	39
Miscellaneous income	<u>56</u>	<u>-</u>	<u>(56)</u>
 Total Revenues	 <u>37,435</u>	 <u>28,826</u>	 <u>(8,609)</u>
EXPENDITURES			
Accounting	6,000	2,380	3,620
Audit	3,000	3,352	(352)
Insurance	3,000	16,166	(13,166)
Legal	15,000	32,272	(17,272)
Miscellaneous	2,462	-	2,462
Operating costs	110,000	29,095	80,905
Contingency	<u>5,538</u>	<u>-</u>	<u>5,538</u>
 Total Expenditures	 <u>145,000</u>	 <u>83,265</u>	 <u>61,735</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (107,565)	 (54,439)	 53,126
OTHER FINANCING SOURCES (USES)			
Developer advances - operations	<u>107,565</u>	<u>29,325</u>	<u>(78,240)</u>
 Total Other Financing Sources (Uses)	 <u>107,565</u>	 <u>29,325</u>	 <u>(78,240)</u>
 NET CHANGE IN FUND BALANCE	 -	 (25,114)	 (25,114)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>25,114</u>	<u>25,114</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2011

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 improvements 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, 2011

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments. Individual fund financial statements are presented on a GAAP basis of accounting.

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*. The expenditures listed are a part of the general government with the exception of those expenses related to debt service.

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, 2011

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 developer advances. The period of availability for developer advances could be greater than the 60 days (but not to exceed one year) due to the timing of the occurrence of the actual expenses and the related developer fundings and repayments. 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 not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

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, 2011, 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, 2011

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.

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 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.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements June 30, 2011

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

Beginning with fiscal year ending June 30, 2011, the District implemented GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. In the fund financial statements, the District considers all restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. The District considers all committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for the purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The nonspendable fund balance in the General Fund represents prepaid expenditures.

The restricted fund balance in the Debt Service Fund is restricted for the repayment of any outstanding developer advances through a contractual obligation approved by the Board of Directors. (See Note 4)

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2011

Note 2: Cash and Investments

As of June 30, 2011, cash and investments are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments - restricted	<u>\$ 52,889</u>
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Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions	<u>\$ 52,889</u>
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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, 2011, none of the District's bank balances exceeded the FDIC limits.

At June 30, 2011, the District's cash deposits had a bank balance and a corresponding carrying balance of \$52,889.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2011

Investments

At June 30, 2011, the District had no investments.

Note 3: Capital Assets

An analysis of the changes in capital assets for the fiscal year ended June 30, 2011 follows:

<u>Governmental Type Activities:</u>	<u>Balance 07-01-10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6-30-11</u>
<u>Capital assets not being depreciated:</u>				
Engineering and organization	\$ -	\$ 384,507	\$ -	\$ 384,507
Water	-	3,413,610	-	3,413,610
Sewer	-	3,824,430	-	3,824,430
Storm sewer	-	1,514,127	-	1,514,127
Streets	-	1,463,315	-	1,463,315
Utilities	-	2,857,396	-	2,857,396
Total Governmental type assets	<u>\$ -</u>	<u>\$ 13,457,385</u>	<u>\$ -</u>	<u>\$ 13,457,385</u>

On May 12, 2011, the District accepted improvements totaling \$12,892,500 from Twelve Shores, LLC (“Developer”) per the terms of an Advance and Reimbursement Agreement (see Note 4). These improvements were certified as completed and district eligible by an independent engineering firm. Any additional improvements for this fiscal year were paid for directly by the District. Upon completion of any related warranty period and subsequent acceptance, the District may convey a portion of these assets to other governmental entities.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2011

Note 4: Long Term Obligations

A description of the long-term obligations as of June 30, 2011, 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.

In May 2011, the District entered into an Advance and Reimbursement Agreement with Twelve Shores, LLC (“Developer”), a wholly owned subsidiary of Brookfield Residential (CO) Inc. (formerly 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 August 11, 2008, the date on which the District was officially formed. 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.

The following is an analysis of the changes in long-term obligations for the period ending June 30, 2011:

	Balance			Balance		Current
	<u>7-01-10</u>	<u>Additions</u>	<u>Deletions</u>	<u>6-30-11</u>	<u>Portion</u>	
Developer advances:						
Capital - principal	\$ -	\$ 13,223,042	\$ -	\$ 13,223,042	\$ -	\$ -
Capital - interest	-	2,358,975	107,565	2,251,410	-	-
Operations - principal	49,736	19,806	-	69,542	-	-
Operations - interest	4,145	3,538	-	7,683	-	-
	<u>\$ 53,881</u>	<u>\$ 15,605,361</u>	<u>\$ 107,565</u>	<u>\$ 15,551,677</u>	<u>\$ -</u>	<u>\$ -</u>

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2011

Debt Authorization

As of June 30, 2011, 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.

Note 5: 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 6: 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 7: 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 year.

Note 8: 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) capital improvements used in governmental activities are not financial resources and, therefore, are not reported in the fund statements; and,
- 2) 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 fund statements.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2011

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) governmental funds report capital outlays as expenditures, however, in the government-wide financial statements, the costs of those assets are held in construction in progress or depreciated over their useful lives;
- 2) 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,
- 3) 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, 2011

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 107,565	\$ 103,634	\$ (3,931)
Total Revenues	<u>107,565</u>	<u>103,634</u>	<u>(3,931)</u>
EXPENDITURES			
Miscellaneous	538	-	538
Repay developer advances	<u>107,027</u>	<u>107,565</u>	<u>(538)</u>
Total Expenditures	<u>107,565</u>	<u>107,565</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	(3,931)	(3,931)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>233,349</u>	<u>233,349</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 229,418</u>	<u>\$ 229,418</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, 2011

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENDITURES			
Accounting	\$ -	\$ 11,099	\$ (11,099)
Legal	-	60,948	(60,948)
Miscellaneous	-	3,200	(3,200)
Capital improvements	<u>30,000,000</u>	<u>13,457,385</u>	<u>16,542,615</u>
Total Expenditures	<u>30,000,000</u>	<u>13,532,632</u>	<u>16,467,368</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,000,000)	(13,532,632)	16,467,368
OTHER FINANCING SOURCES (USES)			
Developer advances - capital	<u>30,000,000</u>	<u>13,426,632</u>	<u>(16,573,368)</u>
Total Other Financing Sources (Uses)	<u>30,000,000</u>	<u>13,426,632</u>	<u>(16,573,368)</u>
NET CHANGE IN FUND BALANCE	-	(106,000)	(106,000)
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>106,000</u>	<u>106,000</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

OTHER INFORMATION

Board of Directors
Ute Lake Ranch Public Improvement District No. 2
Quay County, New Mexico

We have audited the accompanying financial statements of the governmental activities, and each major fund information of Ute Lake Ranch Public Improvement District No. 2 as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ute Lake Ranch Public Improvement District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ute Lake Ranch Public Improvement District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State of New Mexico and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Greewood Village, Colorado
October 31, 2011

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

Section II—Financial Statement Findings

None.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

EXIT CONFERENCE

June 30, 2011

An exit conference was held on October 20, 2011. In attendance were:

Ute Lake Ranch Public Improvement District No. 2

Chris Bremner, Board President

Simmons & Wheeler, P.C

Virginia Hemphill, District's contracted accountant

Clifton Gunderson, LLP

Paul Niedermuller, CPA, Partner

Shawn Sonnkalb, CPA, Manager

PREPARATION OF FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by the District's contracted accountant. However, they are the responsibility of management, as addressed in the Independent Auditor's report.