

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Financial Statements

Year Ended June 30, 2013

C O N T E N T S

	<u>Page</u>
<u>Official Roster</u>	1
<u>Independent Auditors' Report</u>	2
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	7
Notes to Financial Statements	8
<u>Supplementary Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	20
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Capital Projects Fund	21
Summary of Assessed Valuation, Mill Levy and Property Taxes Collected	22
<u>Other Information</u>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Schedule of Findings and Responses	25
Summary Schedule of Prior Year Audit Findings	26
Exit Conference	27

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

OFFICIAL ROSTER

As of June 30, 2013

BOARD OF DIRECTORS

Chris Bremner	President
Ashley Snedden	Clerk
Vacant	Treasurer
Tom Morton	Director
Dan Romero	Director



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ute Lake Ranch Public Improvement District No. 2
And Mr. Hector H. Balderas
Quay County, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the budgetary comparison for the general fund of Ute Lake Ranch Public Improvement District No. 2, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Ute Lake Ranch Public Improvement District No. 2 as of June 30, 2013, and the respective changes in financial position and budgetary comparison for the general fund and the respective budgetary comparison for the major capital project and debt services fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Ute Lake Ranch Public Improvement District No. 2 has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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's basic financial statements. The individual schedules of revenues, expenditures and changes in fund balances – budget and actual for the Debt Service Fund and Capital Projects Fund and summary of assessed valuation, mill levy, and property taxes collected are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual schedules of revenues, expenditures and changes in fund balances – budget and actual for the Debt Service Fund and Capital Projects Fund and summary of assessed valuation, mill levy, and property taxes collected is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual schedules of revenues, expenditures and changes in fund balances – budget and actual for the Debt Service Fund and Capital Projects Fund and summary of assessed valuation, mill levy, and property taxes collected is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013, 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

accordance with *Government Auditing Standards* in considering Ute Lake Ranch Public Improvement District No. 2's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
November 7, 2013

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Activities</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments - restricted	\$ -	\$ 80,941	\$ -	\$ 80,941	\$ -	\$ 80,941
Property taxes receivable	33,086	119,110	-	152,196	-	152,196
Prepaid expenses	10,639	-	-	10,639	-	10,639
Capital assets, net of depreciation	-	-	-	-	13,818,207	13,818,207
Total Assets	<u>\$ 43,725</u>	<u>\$ 200,051</u>	<u>\$ -</u>	<u>\$ 243,776</u>	<u>13,818,207</u>	<u>14,061,983</u>
LIABILITIES						
Accounts payable	\$ 5,904	\$ 1,053	\$ -	\$ 6,957	-	6,957
Accrued interest on advances - capital	-	-	-	-	3,683,102	3,683,102
Accrued interest on advances - operations	-	-	-	-	26,652	26,652
Long-term liabilities:						
Developer advances payable - capital	-	-	-	-	13,905,537	13,905,537
Developer advances payable - operations	-	-	-	-	193,625	193,625
Total Liabilities	<u>5,904</u>	<u>1,053</u>	<u>-</u>	<u>6,957</u>	<u>17,808,916</u>	<u>17,815,873</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>33,086</u>	<u>119,110</u>	<u>-</u>	<u>152,196</u>	<u>-</u>	<u>152,196</u>
Total Deferred Inflows of Resources	<u>33,086</u>	<u>119,110</u>	<u>-</u>	<u>152,196</u>	<u>-</u>	<u>152,196</u>
FUND BALANCES/NET POSITION						
Fund balances:						
Nonspendable						
Prepays	10,639	-	-	10,639	(10,639)	-
Restricted						
Capital projects	-	79,888	-	79,888	(79,888)	-
Unassigned	<u>(5,904)</u>	<u>-</u>	<u>-</u>	<u>(5,904)</u>	<u>5,904</u>	<u>-</u>
Total Fund Balances	<u>4,735</u>	<u>79,888</u>	<u>-</u>	<u>84,623</u>	<u>(84,623)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 43,725</u>	<u>\$ 200,051</u>	<u>\$ -</u>	<u>\$ 243,776</u>		
Net Position:						
Net investment in capital assets					(3,770,432)	(3,770,432)
Restricted for:						
Capital projects					79,888	79,888
Unrestricted					<u>(215,542)</u>	<u>(215,542)</u>
Total Net Position					<u>\$ (3,906,086)</u>	<u>\$ (3,906,086)</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, 2013

	<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	\$ 1,351	\$ 5,403	\$ -	\$ 6,754	\$ -	\$ 6,754
Audit	7,400	-	-	7,400	-	7,400
Insurance	22,883	-	-	22,883	-	22,883
Legal	3,260	13,043	-	16,303	-	16,303
Operating costs	40,973	-	-	40,973	-	40,973
Capital improvements	-	168,877	-	168,877	(168,877)	-
Repay developer advances	-	-	337,102	337,102	(337,102)	-
Interest expense - developer advances	-	-	-	-	957,799	957,799
Total Expenditures	<u>75,867</u>	<u>187,323</u>	<u>337,102</u>	<u>600,292</u>	<u>451,820</u>	<u>1,052,112</u>
GENERAL REVENUES						
Property taxes	29,496	-	106,184	135,680	-	135,680
Interest income	6	-	-	6	-	6
Total General Revenues	<u>29,502</u>	<u>-</u>	<u>106,184</u>	<u>135,686</u>	<u>-</u>	<u>135,686</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(46,365)	(187,323)	(230,918)	(464,606)	(451,820)	(916,426)
OTHER FINANCING SOURCES (USES)						
Developer advances - capital	-	267,211	-	267,211	(267,211)	-
Developer advances - operations	51,100	-	-	51,100	(51,100)	-
Total Other Financing Sources (Uses)	<u>51,100</u>	<u>267,211</u>	<u>-</u>	<u>318,311</u>	<u>(318,311)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	4,735	79,888	(230,918)	(146,295)	146,295	-
CHANGE IN NET POSITION					(916,426)	(916,426)
FUND BALANCES/NET POSITION:						
BEGINNING OF YEAR (RESTATED)	<u>-</u>	<u>-</u>	<u>230,918</u>	<u>230,918</u>	<u>(3,220,578)</u>	<u>(2,989,660)</u>
END OF YEAR	<u>\$ 4,735</u>	<u>\$ 79,888</u>	<u>\$ -</u>	<u>\$ 84,623</u>	<u>\$ (3,990,709)</u>	<u>\$ (3,906,086)</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, 2013

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 30,203	\$ 29,496	\$ (707)
Water/sewer service fees	12,500	-	(12,500)
Interest income	<u>-</u>	<u>6</u>	<u>6</u>
 Total Revenues	 <u>42,703</u>	 <u>29,502</u>	 <u>(13,201)</u>
 EXPENDITURES			
Accounting	6,000	1,351	4,649
Audit	10,000	7,400	2,600
Insurance	30,000	22,883	7,117
Legal	15,000	3,260	11,740
Operating costs	115,000	40,973	74,027
Contingency	<u>4,000</u>	<u>-</u>	<u>4,000</u>
 Total Expenditures	 <u>180,000</u>	 <u>75,867</u>	 <u>104,133</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 (137,297)	 (46,365)	 90,932
 OTHER FINANCING SOURCES (USES)			
Developer advances - operations	<u>137,297</u>	<u>51,100</u>	<u>(86,197)</u>
 Total Other Financing Sources (Uses)	 <u>137,297</u>	 <u>51,100</u>	 <u>(86,197)</u>
 NET CHANGE IN FUND BALANCE	 -	 4,735	 4,735
 FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
 END OF YEAR	 <u>\$ -</u>	 <u>\$ 4,735</u>	 <u>\$ 4,735</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, 2013

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 Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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 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 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, 2013

Recently Issued and Adopted Accounting Pronouncements

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 required the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB 54 in fiscal year 2011.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components, which are, assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB Statement 63 in fiscal year 2012.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also limits the use of the term deferred to items reported as deferred outflows of resources or deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 although the District elected to early implement GASB Statement 65 in fiscal year 2012.

Recently Issued Accounting Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has not adopted Statement 61.

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.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements June 30, 2013

The government-wide financial statements (i.e. governmental funds balance sheet/statement of net position 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 net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. 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 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.

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.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements June 30, 2013

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 Position

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, 2013, 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.

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.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements June 30, 2013

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 Position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

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, 2013

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 inflows 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.

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

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

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements June 30, 2013

The restricted fund balance in the Capital Projects Fund is restricted for the payment of the costs for capital improvements within the District.

Any 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)

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all funds can report negative amounts.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Due to the implementation of GASB 65, the District has restated the prior year's net assets equal to the net position as of the beginning of the year.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2013

Note 2: Cash and Investments

As of June 30, 2013, cash and investments are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments - restricted	<u>\$ 80,941</u>
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Cash and investments as of June 30, 2013 consist of the following:

Deposits with financial institutions	<u>\$ 80,941</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, 2013, none of the District's bank balances exceeded the FDIC limits.

At June 30, 2013, the District's cash deposits had a bank balance and a carrying balance of \$80,941.

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2013

Investments

At June 30, 2013, the District had no investments.

Note 3: Capital Assets

An analysis of the changes in capital assets for the fiscal year ended June 30, 2013 follows:

<u>Governmental Type Activities:</u>	<u>Balance 07-01-12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6-30-13</u>
<u>Capital assets not being depreciated:</u>				
Engineering and organization	\$ 404,020	\$ 53,286	\$ -	\$ 457,306
Water	3,530,385	39,832	-	3,570,217
Sewer	3,877,232	75,759	-	3,952,991
Storm sewer	1,516,574	-	-	1,516,574
Streets	1,463,723	-	-	1,463,723
Utilities	<u>2,857,396</u>	<u>-</u>	<u>-</u>	<u>2,857,396</u>
Total Governmental type assets	<u>\$ 13,649,330</u>	<u>\$ 168,877</u>	<u>\$ -</u>	<u>\$ 13,818,207</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 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, 2013

Note 4: Long Term Obligations

A description of the long-term obligations as of June 30, 2013, 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 (Colorado) LLC (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, 2013:

	Balance			Balance	Current
	<u>7-01-12</u>	<u>Additions</u>	<u>Deletions</u>	<u>6-30-13</u>	<u>Portion</u>
Developer advances:					
Capital - principal	\$ 13,415,513	\$ 490,024	\$ -	\$ 13,905,537	\$ -
Capital - interest	3,073,909	946,295	337,102	3,683,102	-
Operations - principal	131,182	62,443	-	193,625	-
Operations - interest	15,149	11,503	-	26,652	-
	<u>\$ 16,635,753</u>	<u>\$ 1,510,265</u>	<u>\$ 337,102</u>	<u>\$ 17,808,916</u>	<u>\$ -</u>

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

Notes to Financial Statements
June 30, 2013

Debt Authorization

As of June 30, 2013, 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 two years.

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position 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, 2013

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.

SUPPLEMENTARY 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, 2013

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 108,730	\$ 106,184	\$ (2,546)
Total Revenues	<u>108,730</u>	<u>106,184</u>	<u>(2,546)</u>
EXPENDITURES			
Repay developer advances	<u>338,148</u>	<u>337,102</u>	<u>1,046</u>
Total Expenditures	<u>338,148</u>	<u>337,102</u>	<u>1,046</u>
NET CHANGE IN FUND BALANCE	(229,418)	(230,918)	(1,500)
FUND BALANCE:			
BEGINNING OF YEAR	<u>229,418</u>	<u>230,918</u>	<u>1,500</u>
END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2013

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENDITURES			
Accounting	\$ -	\$ 5,403	\$ (5,403)
Legal	-	13,043	(13,043)
Capital improvements	<u>1,000,000</u>	<u>168,877</u>	<u>831,123</u>
Total Expenditures	<u>1,000,000</u>	<u>187,323</u>	<u>812,677</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,000,000)	(187,323)	812,677
OTHER FINANCING SOURCES (USES)			
Developer advances - capital	<u>1,000,000</u>	<u>267,211</u>	<u>(732,789)</u>
Total Other Financing Sources (Uses)	<u>1,000,000</u>	<u>267,211</u>	<u>(732,789)</u>
NET CHANGE IN FUND BALANCE	-	79,888	79,888
FUND BALANCE:			
BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
END OF YEAR	<u>\$ -</u>	<u>\$ 79,888</u>	<u>\$ 79,888</u>

UTE LAKE RANCH PUBLIC IMPROVEMENT DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

June 30, 2013

Year Ended <u>June 30,</u>	Prior Year Assessed Valuation for Current Year Property <u>Tax Levy</u>	Mills Levied		Total Property Tax		Percent Collected to Levied
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2010	\$ 8,696,505	3.000	27.000	\$ 260,896	\$ 259,277	99.38%
2011	\$ 9,959,747	3.000	10.800	\$ 137,444	\$ 132,421	96.35%
2012	\$ 10,077,162	3.000	10.800	\$ 139,064	\$ 141,194	101.53%
2013	\$ 10,067,587	3.000	10.800	\$ 138,933	\$ 135,680	97.66%
Estimated for year ending June 30, 2014	\$ 11,028,731	3.000	10.800	\$ 152,196		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.

OTHER INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the budgetary comparisons of the general fund of Ute Lake Ranch Public Improvement District No. 2, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Ute Lake Ranch Public Improvement District No. 2's basic financial statements, and the combining and individual funds and related budgetary comparison of Ute Lake Ranch Public Improvement District No. 2, presented as supplementary information and have issued our report thereon dated November 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ute Lake Ranch Public Improvement District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ute Lake Ranch Public Improvement District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Ute Lake Ranch Public Improvement District No. 2's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
November 7, 2013

UTE LAKE RANCH IMPROVEMENT DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013

Section II—Financial Statement Findings

None.

**UTE LAKE RANCH IMPROVEMENT DISTRICT NO. 2
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2012**

Financial Statement Findings

There were no findings required to be reported under *Government Auditing Standards* for the fiscal year ended June 30, 2012.

UTE LAKE RANCH IMPROVEMENT DISTRICT NO. 2
EXIT CONFERENCE
June 30, 2013

An exit conference was held on November 7th, 2013. In attendance were:

Ute Lake Ranch Improvement District No. 2

Chris Bremner, Board President
Ashley Snedden, Clerk
Dan Romero, Director
Tom Morton, Director

Miller & Associates Law Offices, LLC

Bradley Neiman, Attorney

Simmons & Wheeler, P.C

Virginia Hemphill, Contracted Accountant

CliftonLarsonAllen, LLP

Georgie Ortiz, CPA, Partner
Jeran Dahl, Associate

PREPARATION OF FINANCIAL STATEMENTS

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