

"CASDF"

DEBTOR: Castle Arch Secure Development Fund, LLC

**MONTHLY OPERATING REPORT
CHAPTER 11**

CASE NUMBER 11-35243

**Form 2-A
COVER SHEET**

For Period Ending 05/31/12

Accounting Method: Accrual Basis Cash Basis

THIS REPORT IS DUE 14 DAYS AFTER THE END OF THE MONTH

Mark One Box for Each
Required Document:

Debtor must attach each of the following reports/documents unless the U. S. Trustee has waived the requirement in writing. File the original with the Clerk of Court. Submit a duplicate, with original signature, to the U. S. Trustee.

Report/Document Attached	Previously Waived	REQUIRED REPORTS/DOCUMENTS
<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. Cash Receipts and Disbursements Statement (Form 2-B)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Balance Sheet (Form 2-C)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. Profit and Loss Statement (Form 2-D)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. Supporting Schedules (Form 2-E)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. Quarterly Fee Summary (Form 2-F)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. Narrative (Form 2-G)
<input type="checkbox"/>	<input type="checkbox"/>	7. Bank Statements for All Bank Accounts
<input type="checkbox"/>	<input type="checkbox"/>	8. Bank Statement Reconciliations for all Bank Accounts

IMPORTANT: Redact account numbers and remove check images

I declare under penalty of perjury that the following Monthly Operating Report, and any attachments thereto are true, accurate and correct to the best of my knowledge and belief.

Executed on: 7/03/12

Print Name: D.Ray Strong

Signature: 

Title: Manager

DEBTOR: Castle Arch Secure Development Fund, LLC CASE NO: 11-35243

Form 2-B
CASH RECEIPTS AND DISBURSEMENTS STATEMENT

For Period: 5/1/12 to 5/31/12

CASH RECEIPTS DETAIL
(attach additional sheets as necessary)

Account No: Preferred Bank ***4712

Date	Payer	Description	Amount
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\$

None

Total Cash Receipts \$ (1)

(1) Total for all accounts should agree with total cash receipts listed on Form 2-B, page 1

DEBTOR: Castle Arch Secure Development Fund, LLC

CASE NO: 11-35243

Form 2-B
CASH RECEIPTS AND DISBURSEMENTS STATEMENT

For Period: 5/1/12 to 5/31/12

CASH DISBURSEMENTS DETAIL
(attach additional sheets as necessary)

Account No: Preferred Bank ***4712

Date	Check No.	Payee	Description (Purpose)	Amount
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\$

None

Total Cash Disbursements \$ 0 (1)

(1) Total for all accounts should agree with total cash disbursements listed on Form 2-B, page 1

Form 2-C
COMPARATIVE BALANCE SHEET
 For Period Ended: 05/31/12

ASSETS	Current Month (1)	Petition Date (2)
Current Assets:		
Cash (from Form 2-B, line 5)	\$ 0.00	\$ 0.00
Accounts Receivable (from Form 2-E)	0.00	0.00
Receivable from Officers, Employees, Affiliates	0.00	0.00
Inventory	0.00	0.00
Other Current Assets :(List) <u>I/C Notes Receivable</u>	11,790,069.49	2,216,669.87
<u>Capitalized Interest</u>	0.00	10,714,959.14
Total Current Assets	\$ 11,790,069.49	\$ 12,931,629.01
Fixed Assets:		
Land	\$ 0.00	\$ 0.00
Building	0.00	0.00
Equipment, Furniture and Fixtures	0.00	0.00
Total Fixed Assets	<u>0.00</u>	<u>0.00</u>
Less: Accumulated Depreciation	(0.00)	(0.00)
Net Fixed Assets	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Other Assets (List): _____	0.00	0.00
_____	0.00	0.00
TOTAL ASSETS	\$ 11,790,069.49	\$ 12,931,629.01
LIABILITIES		
Post-petition Accounts Payable (from Form 2-E)	\$ 211.67	\$ 0.00
Post-petition Accrued Professional Fees (from Form 2-E)	11,026.00	0.00
Post-petition Taxes Payable (from Form 2-E)	0.00	0.00
Post-petition Notes Payable	0.00	0.00
Other Post-petition Payable(List): <u>Note Interest Payable</u>	1,228,502.12	0.00
_____	0.00	0.00
Total Post Petition Liabilities	\$ 1,239,739.79	\$ 0.00
Pre Petition Liabilities:		
Secured Debt	0.00	0.00
Priority Debt	0.00	0.00
Unsecured Debt	2,926,198.20	2,926,198.20
Total Pre Petition Liabilities	<u>2,926,198.20</u>	<u>\$ 2,926,198.20</u>
TOTAL LIABILITIES	\$ 4,165,937.99	\$ 2,926,198.20
OWNERS' EQUITY		
Owner's/Stockholder's Equity	\$ 7,723,417.42	\$ 7,723,417.42
Retained Earnings - Prepetition	2,282,013.39	2,282,013.39
Retained Earnings - Post-petition	-2,381,299.31	0.00
TOTAL OWNERS' EQUITY	<u>\$ 7,624,131.50</u>	<u>\$ 10,005,430.81</u>
TOTAL LIABILITIES AND OWNERS' EQUITY	\$ 11,790,069.49	\$ 12,931,629.01

(1) The Manager has not conducted a detailed analysis of the historical accounting balances contained herein to determine the accuracy of the information presented.

(2) Petition date values are taken from the Debtor's balance sheet as of the petition date or are the values listed on the Debtor's schedules.

DEBTOR: Castle Arch Secure Development Fund, LLC

CASE NO: 11-35243

Form 2-D
PROFIT AND LOSS STATEMENT
 For Period 05/01/12 to 05/31/12

	Current Month (1)	Accumulated Total (2)
Gross Operating Revenue	\$ -	\$ -
Less: Discounts, Returns and Allowances	(-)	(-)
Net Operating Revenue	\$ -	\$ -
Cost of Goods Sold	-	-
Gross Profit	\$ -	\$ -
Operating Expenses		
Officer Compensation	\$ -	\$ -
Selling, General and Administrative	-	211.67
Rents and Leases	-	-
Depreciation, Depletion and Amortization	-	-
Other (list): _____	-	-
_____	-	-
Total Operating Expenses	\$ -	\$ 211.67
Operating Income (Loss)	\$ -	\$ (211.67)
Non-Operating Income and Expenses		
Other Non-Operating Expenses	\$ -	\$ -
Gains (Losses) on Sale of Assets	-	-
Interest Income	-	1,075,110.35
Interest Expense	-	(3,445,171.99)
Other Non-Operating Income	-	-
Net Non-Operating Income or (Expenses)	\$ -	\$ (2,370,061.64)
Reorganization Expenses		
Legal and Professional Fees (3)	\$ 11,026.00	\$ 11,026.00
Other Reorganization Expense	-	-
Total Reorganization Expenses	\$ 11,026.00	\$ 11,026.00
Net Income (Loss) Before Income Taxes	\$ (11,026.00)	\$ (2,381,299.31)
Federal and State Income Tax Expense (Benefit)	-	-
NET INCOME (LOSS)	\$ (11,026.00)	\$ (2,381,299.31)

(1) The Manager has not conducted a detailed analysis of the historical accounting balances contained herein to determine the accuracy of the information presented.
 (2) Accumulated Totals include all revenue and expenses since the petition date.
 (3) Professional fees and expenses have not previously been accrued in the MOR. This amount represents all accrued amounts through May 31, 2012. Future MOR reports will included the monthly professional fee accrual. The professional fees and expenses for May 2012 are \$990. The accrued professional fees and costs were provided after the April 2012 MOR report was filed.

DEBTOR: Castle Arch Secure Development Fund, LLC

CASE NO: 11-35243

Form 2-E
SUPPORTING SCHEDULES
For Period: 05/01/12 to 05/31/12

POST PETITION TAXES PAYABLE SCHEDULE

	<u>Beginning Balance (1)</u>	<u>Amount Accrued</u>	<u>Amount Paid</u>	<u>Date Paid</u>	<u>Check Number</u>	<u>Ending Balance</u>
Income Tax Withheld:						
Federal	\$ 0	\$ 0	0		\$	0
State	0	0	0			0
FICA Tax Withheld	0	0	0			0
Employer's FICA Tax	0	0	0			0
Unemployment Tax						
Federal	0	0	0			0
State	0	0	0			0
Sales, Use & Excise Taxes	0	0	0			0
Property Taxes	0	0	0			0
Accrued Income Tax:						
Federal	0	0	0			0
State	0	0	0			0
Other: _____	0	0	0			0
TOTALS	\$ 0	\$ 0	\$ 0		\$	0

(1) For first report, Beginning Balance will be \$0; thereafter, Beginning Balance will be Ending Balance from prior report.

INSURANCE SCHEDULE

	<u>Carrier</u>	<u>Amount of Coverage</u>	<u>Expiration Date</u>	<u>Premium Paid Through</u>
Workers' Compensation		\$	\$	
General Liability	Travelers (1)	\$ 2,000,000	10/20/12	\$ 10/20/12
Property (Fire, Theft)		\$	\$	
Vehicle		\$	\$	
Other (list):		\$	\$	
		\$	\$	

(1) The Manager was informed in late May that the vacant land policy for the Tooele, Kingman, Star Valley, and Smyrna properties was terminate. The Manager worked with Travelers to get the policy reinstated in June 2012.

DEBTOR: Castle Arch Secure Development Fund, LLC

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**Form 2-E
SUPPORTING SCHEDULES**

For Period 05/01/12 to 05/31/12

ACCOUNTS RECEIVABLE AND POST PETITION PAYABLE AGING

<u>Due</u>	<u>Accounts Receivable</u>	<u>Post Petition Accounts Payable</u>
Under 30 days	\$ 0.00	\$ 0.00
30 to 60 days	0.00	0.00
61 to 90 days	0.00	0.00
91 to 120 days	0.00	0.00
Over 120 days	0.00	211.67
Total Post Petition	0.00	
Pre Petition Amounts	0.00	
Total Accounts Receivable	\$ 0.00	
Less: Bad Debt Reserve	0.00	
Net Accounts Receivable (to Form 2-C)	\$ 0.00	
	Total Post Petition Accounts Payable \$	211.67

* Attach a detail listing of accounts receivable and post-petition accounts payable

SCHEDULE OF PAYMENTS TO ATTORNEYS AND OTHER PROFESSIONALS

	<u>Month-end Retainer Balance</u>	<u>Current Month's Accrual</u>	<u>Paid in Current Month</u>	<u>Date of Court Approval</u>	<u>Month-end Balance Due *</u>
Debtor's Counsel	\$ -	\$ 990.00	\$ -		\$ 11,026.00
Counsel for Unsecured Creditors' Committee	-	-	-		-
Trustee's Counsel	-	-	-		-
Accountant	-	-	-		-
Other:	-	-	-		-
Total	\$ -	\$ 990.00	\$ -		\$ 11,026.00

*Balance due to include fees and expenses incurred but not yet paid.

SCHEDULE OF PAYMENTS AND TRANSFERS TO PRINCIPALS/EXECUTIVES**

<u>Payee Name</u>	<u>Position</u>	<u>Nature of Payment</u>	<u>Amount</u>
_____	_____	_____	\$ _____
_____	_____	_____	_____
_____	_____	_____	_____

**List payments and transfers of any kind and in any form made to or for the benefit of any proprietor, owner, partner, shareholder, officer or director.

DEBTOR: Castle Arch Secure Development Fund, LLC

CASE NO: 11-35243

Form 2-F
QUARTERLY FEE SUMMARY *
 For the Month Ended: 05/31/12

<u>Month</u>	<u>Year</u>	<u>Cash Disbursements **</u>	<u>Quarterly Fee Due</u>	<u>Check No.</u>	<u>Date Paid</u>
January	<u>2012</u>	\$ 0			
February	<u>2012</u>	0			
March	<u>2012</u>	0			
TOTAL 1st Quarter		\$ 0	\$325.00		
April	<u>2012</u>	\$ 0			
May	<u>2012</u>	0			
June		0			
TOTAL 2nd Quarter		\$ 0			
July		\$ 0			
August		0			
September		0			
TOTAL 3rd Quarter		\$ 0			
October	<u>2011</u>	\$ 0			
November	<u>2011</u>	0			
December	<u>2011</u>	0			
TOTAL 4th Quarter		\$ 0	\$325.00		

FEE SCHEDULE (as of JANUARY 1, 2008)

Subject to changes that may occur to 28 U.S.C. §1930(a)(6)

<u>Quarterly Disbursements</u>	<u>Fee</u>	<u>Quarterly Disbursements</u>	<u>Fee</u>
\$0 to \$14,999.....	\$325	\$1,000,000 to \$1,999,999.....	\$6,500
\$15,000 to \$74,999.....	\$650	\$2,000,000 to \$2,999,999.....	\$9,750
\$75,000 to \$149,999.....	\$975	\$3,000,000 to \$4,999,999.....	\$10,400
\$150,000 to \$224,999.....	\$1,625	\$5,000,000 to \$14,999,999.....	\$13,000
\$225,000 to \$299,999.....	\$1,950	\$15,000,000 to \$29,999,999....	\$20,000
\$300,000 to \$999,999.....	\$4,875	\$30,000,000 or more	\$30,000

* This summary is to reflect the current calendar year's information cumulative to the end of the reporting period

** Should agree with line 3, Form 2-B. Disbursements are net of transfers to other debtor in possession bank accounts

*Failure to pay the quarterly fee is cause for conversion or dismissal of the chapter 11 case. [11 U.S.C. Sec. 1112(b)(10)]
 In addition, unpaid fees are considered a debt owed to the United States and will be assessed interest under 31 U.S.C. §3717*

DEBTOR: Castle Arch Secure Development Fund, LLC

CASE NO: 11-35243

Form 2-G
NARRATIVE

For Period Ending: 05/31/12

Please provide a brief description of any significant business and legal actions taken by the debtor, its creditors, or the court during the reporting period, any unusual or non-recurring accounting transactions that are reported in the financial statements, and any significant changes in the financial condition of the debtor which have occurred subsequent to the report date.

On May 3, 2012, D. Ray Strong was appointed as Chapter 11 Trustee ("Trustee") of Castle Arch Real Estate Investment Company, LLC ("CAREIC"). Pursuant the Trustee's appointment and the existing ownership structure of the other related debtors, the Trustee also functions as the Manager ("Manager") of CAOP Managers, LLC, Castle Arch Opportunity Partners I, LLC ("CAOPI"), Castle Arch Opportunity Partners II, LLC ("CAOPII"), Castle Arch Secured Development Fund, LLC ("CASDF"), Castle Arch Kingman, LLC ("CAK"), and Castle Arch Smyrna, LLC ("CAS") (collectively the "Debtors"). The CASDF case is jointly administered with the other Debtors.

Shortly after his appointment, the Trustee engaged Dorsey & Whitney, LLP as his counsel and Berkeley Research Group, LLC as his accountants for the CAREIC debtor. Their employment was approved by the Bankruptcy Court on June 13, 2012. The existing counsel for CASDF remains engaged until a plan of reorganization is confirmed to address issues pertaining to this debtor.

Upon the Trustee's appointment, the Trustee terminated all existing management of CAREIC except Glen Martinsen who was retained to assist with the day-to-day operations and accounting. The Trustee is utilizing a payroll services, Paychex, for the calculation and reporting of payroll. The payroll related expenses are netted and paid to Paychex in a lumpsum for the payroll period. Mr. Martinsen provides services for the Manager relating to CASDF.

The Trustee has began, among other things: (a) an investigation of Debtor's assets and claims including Longview; (b) reviewed and analyzed the cash needs of the Debtors; (c) developed interim management fees and cash budget; (d) an investigation of Blackstar and Conix transactions; (e) an investigation of the accounting activity of the Debtors; (f) formulation of a plan of reorganization concept; (g) and to develop a detailed Trustee website to provide case information.

CASDF had not previously established a debtor-in-possession bank account since the entity since there has been no post-petition activity. The Manager has setup a bank account in order to make required US Trustee payments until a plan of reorganization is confirmed.

On May 14, 2012, the Trustee filed an emergency motion seeking approval of proposed use of cash on an interim basis. This motion setforth a limited cash budget and proposed management fees for May 2012 and June 2012 with an understanding that an additional motion would be filed seeking approval for future management fees. The emergency motion was granted by the Bankruptcy Court on May 21, 2012.

The Manager has relied on the currently available records and records prepared by the Debtors to obtain historical activity included on the balance sheet referenced in Form 2C and the profit and loss statement in Form 2D. Work is ongoing to ascertain and determine appropriate balances. Balances may be over or understated and are subject to material modification. The financial statements may change as information becomes available to the Manager. The Manager may dispute the nature and amount of the assets and liabilities presented in these financial statements. As new information becomes available, these balances may be adjusted and updated to reflect the correct amounts. The fact that liabilities and assets may have been omitted, listed and/or adjusted, does not necessarily reflect the final opinion as to the eventual treatment under a plan of reorganization or otherwise.

Historically, activity between the Debtors was recorded through various intercompany accounts which have been very convoluted and commingled. In an effort to differentiate between the historical pre-petition amounts, the post-petition intercompany activity has been reclassified to Other Current Assets for better clarity.

Legal fees have not historically been accrued and reflected in the balance sheet and profit and loss statements. In May, the balance sheet and profit and loss statement has been adjusted to reflect the accrued professional fees. The adjustment of \$11,026.00 was reflected in the May 2012 profit and loss statement representing and estimate of all accrued professional fees from the commencement of the bankruptcy cases in October 2011. Future monthly operating reports will reflect the monthly accruals of professional fees. The professional fee and expenses accrued for May 2012 are \$990

Previous financial statements reflected capitalized interest relating to the Kingman, AZ property. In December 11, 2011, the capitalized interest and related activity was written off.

In an effort to provide interested parties with as much information as possible, a website has been created located at www.castlearchtrustee.com. Interested parties should reference the website for more detailed information.

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06/26/12
Accrual Basis

Castle Arch Secured Development Fund, LLC
Balance Sheet
As of May 31, 2012

	<u>May 31, 12</u>
ASSETS	
Other Assets	
23501 · Kingman, AZ N12	1,280,000.00
23502 · Kingman, AZ N13	3,200,000.00
23503 · Kingman, AZ N20	3,325,892.81
23506 · Kingman, AZ N12 Interest	576,946.85
23507 · Kingman, AZ N13 Interest	1,343,095.89
23508 · Kingman, AZ N20 Interest	1,449,839.30
23511 · Kingman, AZ Debt Issue Fees Rec	614,294.64
Total Other Assets	<u>11,790,069.49</u>
TOTAL ASSETS	<u>11,790,069.49</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
20000 · Accounts Payable	211.67
20001 · Professional Fees Payable	11,026.00
Total Accounts Payable	<u>11,237.67</u>
Other Current Liabilities	
23200 · Interest Payable	3,194,445.58
23300 · Accrued Commissions	50,712.32
25050 · Intercompany Notes	
25056 · CAREIC	909,542.42
Total 25050 · Intercompany Notes	<u>909,542.42</u>
Total Other Current Liabilities	<u>4,154,700.32</u>
Total Current Liabilities	<u>4,165,937.99</u>
Total Liabilities	4,165,937.99
Equity	
30000 · Preferred Units Round A	
30010 · Preferred Redemptions Round A	-671,600.00
30000 · Preferred Units Round A - Other	8,395,017.42
Total 30000 · Preferred Units Round A	<u>7,723,417.42</u>
39000 · Retained Earnings	-88,259.92
Net Income	-11,026.00
Total Equity	<u>7,624,131.50</u>
TOTAL LIABILITIES & EQUITY	<u>11,790,069.49</u>

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06/26/12
Accrual Basis

Castle Arch Secured Development Fund, LLC
Profit & Loss
May 2012

	<u>May 12</u>
Ordinary Income/Expense	
Expense	
6270 · Professional Fees	
6280 · Legal Fees	11,026.00
Total 6270 · Professional Fees	<u>11,026.00</u>
Total Expense	<u>11,026.00</u>
Net Ordinary Income	<u>-11,026.00</u>
Net Income	<u><u>-11,026.00</u></u>

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06/26/12

Castle Arch Secured Development Fund, LLC
A/P Aging Summary
As of May 31, 2012

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>91 - 120</u>	<u>> 120</u>	<u>TOTAL</u>
Colonial Stock Transfer	0.00	0.00	0.00	0.00	0.00	211.67	211.67
Pearson, Butler & Carson	11,026.00	0.00	0.00	0.00	0.00	0.00	11,026.00
TOTAL	<u>11,026.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>211.67</u>	<u>11,237.67</u>