

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
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YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Wyndham Hill Metropolitan District No. 2
Frederick, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Wyndham Hill Metropolitan District No. 2, as of and for the year ended December 31, 2017, 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. 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 the major fund of Wyndham Hill Metropolitan District No. 2 as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3-7 and page 25 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
April 2, 2018

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2017**

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader on the District's financial issues and activities. The Management's Discussion and Analysis (MD & A) should be read in conjunction with the District's financial statements.

Financial Highlights

- The net position of the District decreased by \$1,715,013 in 2017, to \$(17,968,528). An overall net deficit is typical in a metropolitan district like District No. 2, which retains the related debt in the District until it is paid off and the assets are held by District No. 1.
- Actual expenditures were less than budgeted expenditures by \$1,153,280 due to less than expected intergovernmental payments to District No. 1.
- The District has one bond issue outstanding in the amount of \$8,230,000, Series 2015 Subordinate Limited Tax General Obligation Bonds, scheduled to be fully retired in 2054. The District also has a Limited Tax General Obligation Note outstanding in the amount of \$9,787,071, scheduled to be fully retired in 2046.
- The District has no tangible capital assets.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements, presented on pages 8-23 are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other required supplementary information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader of the District's basic financial statements a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The statement of net position presents information about all of the District's assets, liabilities and deferred outflows and inflows of resources. The difference between assets, liabilities and deferred outflows and inflow of resources is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements consolidate governmental activities that are supported from taxes and intergovernmental revenues. Governmental activities consolidate governmental funds including the general fund. The government-wide financial statements can be found on pages 8-9.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for special objectives. The District uses governmental funds to account for its activity.

Governmental funds account for essentially the same information reported in the governmental activities of the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, reconciliations are provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

All of the District's activities are reported in a single governmental fund, the general fund, which focuses on how money flows into and out of that fund and the balance left at year-end available for spending in future periods.

The District adopts an annual budget for the governmental fund. A budgetary comparison schedule for the general fund is included in the required supplementary information.

The basic governmental fund financial statements can be found on pages 10-13 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 14-23 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the District's budgetary comparisons. Required supplementary information can be found on page 25 of this report.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Government-wide Financial Analysis

Government-wide Net Position

The assets of the District are classified as current assets. Cash and investments and receivables are current assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are property taxes receivable.

Current and noncurrent liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable and accrued interest. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal year 2018.

Total assets increased by \$192,382 primarily due to an increase in cash of \$135,692.

Deferred inflows of resources related to property tax revenue increased by \$54,388 due to an increase in the mill levy rate from 50 mills to 55.275 mills for property taxes to be collected in 2018.

There was an increase of \$1,781,043 noncurrent liabilities due primarily to the issuance of new debt in 2017.

The liabilities and deferred inflows of resources of the primary government activities exceed assets by \$17,968,528, with an unrestricted net position of \$(17,976,200).

**Government-wide Total Assets as compared to Total Liabilities,
Deferred Inflows of Resources and Total Net Position:**

	Net Position	
	2017	2016
Assets:		
Current	\$ 1,181,469	\$ 989,087
Total Assets	1,181,469	989,087
Liabilities:		
Current	313,124	241,160
Noncurrent	17,873,965	16,092,922
Total Liabilities	18,187,089	16,334,082
Deferred Inflows of Resources		
Property Tax Revenue	962,908	908,520
Total Deferred Inflows of Resources	962,908	908,520
Net Position:		
Restricted	7,672	38,931
Unrestricted	(17,976,200)	(16,292,446)
Total Net Position	\$ (17,968,528)	\$ (16,253,515)

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Government-wide Activities

Government activities decreased the net position of the District by \$1,715,013. The details of this decrease are shown in the following schedule:

The District's Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenue:		
Charges for Services	\$ -	\$ 27,200
General Revenue:		
Property Taxes	907,994	2,131,746
Specific Ownership Taxes	70,554	32,333
Royalties	778	284
Miscellaneous Income	408	398
Investment Income	2,411	1,325
Total Revenue	982,145	2,193,286
Expenses:		
Governmental Activities:		
General Government	1,616,688	5,293,939
Interest and Other Fiscal Charges	1,080,470	1,160,633
Total Expense	2,697,158	6,454,572
Total Change in Net Position	(1,715,013)	(4,261,286)
Net Position - Beginning of Year	(16,253,515)	(11,992,229)
Net Position - End of Year	\$ (17,968,528)	\$ (16,253,515)

Key elements of the decrease in net position for governmental activities are as follows:

- The District issued \$2,007,149 in new debt in 2017. Proceeds were used to pay accrued interest on the 2015 bonds. The remaining proceeds were transferred to District No. 1.
- Interest and other fiscal charges decreased \$80,163, primarily due to a decrease in loan origination fees which were higher with the initial issuance of the subordinate debt in 2016.
- Property tax revenues decreased by \$1,223,752 in 2017 due to a substantial reduction in assessed value from oil and gas operations within the District. This reduction is typical of newer horizontal wells with steeply declining production in their first five year of operations.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017**

Financial Analysis of the District's Governmental Fund

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District's activity is reported in a governmental fund, which focuses on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine where there are more or fewer financial resources that can be spent in the near future. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's one governmental fund, the general fund, reported an ending fund balance of \$218,540.

The general fund is the chief operating fund of the District. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Actual expenditures of the general fund amounted to \$2,851,299. Fund balance represents 7.66% percent of expenditures.

General Fund Budgetary Highlights

The fund balance for the general fund increased by \$137,995, resulting in an ending fund balance of \$218,540. Actual expenditures were less than budgeted expenditures by \$1,153,280.

Economic Factors and Next Year's Budgets and Rates

The assessed valuation of property in the District decreased by \$750,070 or 4.13% in 2017. Typically this would decrease the property tax revenue to be collected in 2018, however, the District increased the mill levy from 50 mills to 55.275 mills. The overall net effect is an increase in property taxes in the amount of \$54,389. See Note 1 for additional information on the increase in mills.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional information shall be addressed to:

Wyndham Hill Metropolitan District No. 2
Mr. Steve Rane
2500 Arapahoe, Suite 220
Boulder, Colorado 80302

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 207,865
Property Taxes Receivable	962,908
Due from Other Governments	4,940
Prepaid Expenses	5,756
Total Assets	<u>1,181,469</u>
LIABILITIES	
Due Within the Year:	
Accounts Payable	21
Accrued Interest and Non-Use Fees	169,997
Limited Tax Obligation Notes	143,106
Due in More Than One Year	
Limited Tax Obligation Notes	17,873,965
Total Liabilities	<u>18,187,089</u>
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	962,908
Total Deferred Inflows of Resources	<u>962,908</u>
NET POSITION	
Restricted for TABOR	7,672
Unrestricted	<u>(17,976,200)</u>
Total Net Position	<u><u>\$ (17,968,528)</u></u>

See accompanying Notes to Financial Statements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
General Government	\$ 1,616,688	\$ -	\$ (1,616,688)
Interest and Related Costs on Long-Term Debt	1,080,470	-	(1,080,470)
	<u>\$ 2,697,158</u>	<u>\$ -</u>	<u>(2,697,158)</u>
General Revenues:			
			907,994
			70,554
			778
			408
			2,411
			<u>982,145</u>
			Change in Net Position (1,715,013)
			Net Position - Beginning of Year <u>(16,253,515)</u>
			Net Position - End of Year <u>\$ (17,968,528)</u>

See accompanying Notes to Financial Statements.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2017**

	<u>General Fund</u>
ASSETS	
Cash and Investments	\$ 207,865
Property Tax Receivable	962,908
Due from Other Governments	4,940
Prepaid Items	<u>5,756</u>
 Total Assets	 <u><u>\$ 1,181,469</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
LIABILITIES	
Accounts Payable	<u>\$ 21</u>
Total Liabilities	21
DEFERRED INFLOWS OF RESOURCES	
Property Tax Revenue	<u>962,908</u>
Total Deferred Inflows of Resources	962,908
FUND BALANCE	
Nonspendable	5,756
Restricted for:	
TABOR	7,672
Debt Service	<u>205,112</u>
Total Fund Balance	<u>218,540</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balance	 <u><u>\$ 1,181,469</u></u>

See accompanying Notes to Financial Statements.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Total Fund Balance - Total Governmental Fund \$ 218,540

Amounts reported for governmental activities in the statement of net position are different because:

Some liabilities are not due in the current period and, therefore, are not reported in the fund balance sheet.

Limited Tax Obligation Notes	(18,017,071)
Accrued Interest and Non-Use Fees	(169,997)
	<u>(18,187,068)</u>

Net Position of Governmental Activities \$ (17,968,528)

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2017**

	General Fund
REVENUES	
Property Tax Income	\$ 907,994
Specific Ownership Taxes	70,554
Royalties	778
Miscellaneous Income	408
Net Investment Income	2,411
Total Revenues	982,145
EXPENDITURES	
Current:	
Audit	9,300
Treasurer's Fee	13,633
Insurance	3,400
Miscellaneous	369
Intergovernmental Payment to District No. 1	1,589,986
Debt Service:	
Principal	83,000
Interest and Fiscal Charges	1,115,080
Loan Origination Fees	20,071
Non-use Fees	13,460
Custodial Fees	3,000
Total Expenditures	2,851,299
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(1,869,154)
OTHER FINANCING SOURCES	
Proceeds from Debt Instrument	2,007,149
Total Other Financing Sources	2,007,149
NET CHANGES IN FUND BALANCE	137,995
Fund Balance - Beginning of Year	80,545
FUND BALANCE - END OF YEAR	\$ 218,540

See accompanying Notes to Financial Statements.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balance - Total Governmental Fund	\$ 137,995
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Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal on long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds from Debt Instrument	(2,007,149)
Payment of Principal	83,000

A decrease in accrued interest and non-use fees does not have any impact on governmental fund expenditures. This transaction, however, does decrease the amount of interest expense and non-use fees on the statement of activities.

Accrued Interest and Non-Use Fees	<u>71,141</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (1,715,013)</u></u>
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WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 DEFINITION OF REPORTING ENTITY

Wyndham Hill Metropolitan District No. 2 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court in Weld County on May 26, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District operates under a Consolidated Service Plan with Wyndham Hill Metropolitan District No. 1 (District No. 1) and Wyndham Hill Metropolitan District No. 3 (District No. 3) approved by the Town of Frederick on February 13, 2004 as amended on August 11, 2005, October 12, 2006, and February 14, 2008. Pursuant to the Service Plan, the District and District No. 3, the financing districts, are intended to provide funding to District No. 1, the operating district, for construction, operation and maintenance of the public improvements, while District No. 1 is intended to manage the financial, construction and operation and maintenance of such improvements.

The District was established to provide financing for the design, acquisition, construction, and completion of public improvements, including streets, traffic and safety controls and devices, transportation services, park and recreation, water, mosquito and pest control and sanitation facilities, generally located in the collector roadway system, services and programs. District No. 1 contracts with the Wyndham Hill Master Association, Inc. for the maintenance of park and recreation facilities including a District No. 1 operated pool and community building. The operation and maintenance of all other services and facilities is anticipated to be provided by other entities and not by the District.

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

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.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including District No. 1, District No. 3 and the Town of Frederick.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies of the District are described as follows:

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. Governmental activities are normally supported by taxes and intergovernmental revenues.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

The statement of net position reports all financial resources of the District. The difference between the assets, liabilities and deferred outflows and inflows of resources of the District is reported as net position.

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 related cash flows. Increases in bonds payable are recorded as an increase in liabilities.

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

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major revenue source susceptible to accrual is property taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The District reports the following major governmental fund:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government.

Budgets

In accordance with the State Budget Law, the District's board of directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. 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.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal instalments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally, sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District. During fiscal year 2017, the property tax mill rate increased from 50 mills to 55.275 mills due to a decrease in the residential assessment ratio from 7.96% to 7.20%. The increase in mills certified in December 2017 will be collected in fiscal year 2018.

Property taxes are recorded initially as deferred inflows of resources in the year they are levied and measurable. The property tax revenues are recorded as revenue in the year they are available or collected.

Fund Balance and Net Position

Net position is reported in the governmental activities and is classified as restricted or unrestricted. Restrictions of net position represent amounts that are not available for appropriation or are legally restricted. As of December 31, 2017, fund balances of governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not spendable in form or because they are legally or contractually required to be maintained intact. This includes amounts that are not expected to be converted to cash, for example, prepaid amounts

Restricted – amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – amounts that are subject to a purpose constraint imposed by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board.

Assigned – amounts that are subject to a purpose constraint that represents an intended use established by the District in its budget process. The purpose of the assignment must be narrower than the purpose of the General Fund.

Unassigned – represents the residual classification for the District's General Fund and could report a surplus or deficit.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado. In compliance with this requirement, \$7,672 of the General Fund balance has been restricted.

Nonspendable fund balance of \$5,756 is equal to the amount of prepaid insurance for the District that will benefit a future period.

The remaining fund balance of the District of \$205,112 is restricted to meet contractual commitments under the Series 2016 General Obligation Limited Tax Note (see Note 4) and intergovernmental agreements (see Notes 5 and 6).

The District's order of fund balance spending policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The District reserves the right to selectively spend unassigned fund balance.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2017 consist of the following:

Cash Deposits	\$ 143,465
Investments	64,400
Total Cash	<u>\$ 207,865</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District's cash deposits had a carrying balance of \$143,465.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy; however, it follows state statutes regarding investments. The District also follows investment policies in bond or note agreements when those agreements are more restrictive than state statutes. The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States, certain U.S. government agency securities and World Bank securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds*
- Guaranteed investment contracts
- Local government investment pools*
- Certain reverse repurchase agreements
- Certain corporate bonds
- Certain securities lending agreements

Colorado revised statutes limit investment maturities to five years or less depending on the specific investment held unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Revenue bonds of U.S. local government, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

As of December 31, 2017, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amortized Cost</u>
Money Market Fund - Fidelity Treasury	Less than One Year	<u>\$ 64,400</u>

As of December 31, 2017, the District had \$64,400 invested in Fidelity Treasury Money Market Funds. The investment is rated AAAM by Standard & Poor's and is valued at amortized cost because the investment instruments within the accounts are money market funds which are valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 LONG-TERM OBLIGATIONS

The District's long-term obligations consist of the following for the year ended December 31, 2017:

	Balance at January 1, 2017	Additions	Reductions	Balance at December 31, 2017	Due Within One Year
General Obligation Limited Tax Bonds - Series 2015	\$ 8,230,000	\$ -	\$ -	\$ 8,230,000	\$ -
General Obligation Limited Tax Notes - Series 2016	7,862,922	2,007,149	83,000	9,787,071	143,106
Total Long-Term Obligations	<u>\$ 16,092,922</u>	<u>\$ 2,007,149</u>	<u>\$ 83,000</u>	<u>\$ 18,017,071</u>	<u>\$ 143,106</u>

Series 2015 Bonds

The District issued the 2015 Subordinate Limited Tax General Obligation Bonds on May 1, 2015, in the amount of \$8,230,000. The proceeds of such debt was used for issuance costs and to repay the developer advances incurred by District No. 1 to fund the cost of public infrastructure improvements.

Bond interest is payable annually on December 15, with the principal due at maturity on December 15, 2054. The interest rate is 8.5% and interest is computed on the basis of a 360-day year of twelve 30-day months. The District incurred \$703,436 in interest expense on the 2015 Bonds during the year ended December 31, 2017.

The 2015 Subordinate Bonds are secured by and payable from Subordinate Pledged Revenue, which includes the residual property taxes derived from the Required Mill Levy, net of the cost of collection, specific ownership taxes allocable to the Required Mill Levy, Development Fees and any other legally available moneys of the District after payment of senior debt obligations. The Required Mill Levy is defined in the Trust Indenture as a mill levy imposed upon all taxable property of the District each year.

The following summarizes the debt services requirements to maturity for the bonds:

Year Ending December 31,	Principal	Interest	Total
2018	\$ -	\$ 699,550	\$ 699,550
2019	-	699,550	699,550
2020	-	699,550	699,550
2021	-	699,550	699,550
2022	-	699,550	699,550
2023-2027	-	3,497,750	3,497,750
2028-2032	-	3,497,750	3,497,750
2033-2037	-	3,497,750	3,497,750
2038-2042	-	3,497,750	3,497,750
2043-2047	-	3,497,750	3,497,750
2048-2052	-	3,497,750	3,497,750
2053-2054	8,230,000	1,368,009	9,598,009
Total	<u>\$ 8,230,000</u>	<u>\$ 25,852,259</u>	<u>\$ 34,082,259</u>

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Series 2016 Note

The District issued the 2016 Limited Tax Obligation Note on June 10, 2016 for an amount not to exceed \$10,000,000 with the ability to draw on the Note through June 10, 2019. The proceeds of such debt were used to refund all of the amounts due on the District's General Obligation Limited Tax Bonds, Series 2005; refunding of certain amounts on District No. 1's advances received from Developer; refunding of certain amounts due on District No. 1's outstanding Subordinate Bond Anticipation Note, Series 2005A; refunding of certain amounts due on the District's outstanding Subordinate Limited Tax Obligation Note, Series 2015; and the payment of costs of issuance of the 2016 Note. The District does not have optional prepayment of principal through the second anniversary of the date of the Note. A prepayment fee of 1% will be added to the principal balance if prepayment occurs after the second anniversary date but before the third anniversary date. No prepayment fee is incurred if prepayment occurs after the third anniversary date and before the fifth anniversary date of the Note. On May 25, 2021, and each five year anniversary until the maturity date, the interest rate will reset to the Bank Qualified Tax-Exempt Rate on the reset date. Interest payments are due on June 1 and December 1 of each year. The District is subject to non-use fees in the amount of 0.25% of the unfunded portion of the maximum advance amount computed on the basis of a 360-day year and actual days elapsed beginning on the commencement date of the Initial Advance stated below. The District incurred \$13,460 in non-use fees on the unfunded balance as of December 31, 2017.

Each advance is subject to the terms as noted above. Below is a summary of each draw made through December 31, 2017:

	Amount	Principal Paid in 2017	Interest Incurred in 2017	Date of Advance	Effective Interest Rate
Initial Advance	\$ 6,795,744	\$ 57,154	\$ 260,955	June 10, 2016	3.790%
Second Advance	1,067,178	8,972	39,736	September 1, 2016	3.675%
Third Advance	224,534	1,884	8,917	January 25, 2017	4.208%
Fourth Advance	1,110,515	9,338	25,792	June 1, 2017	3.930%
Fifth Advance	672,100	5,652	5,521	October 19, 2017	4.065%
Total	<u>\$ 9,870,071</u>	<u>\$ 83,000</u>	<u>\$ 340,921</u>		

The following summarizes the debt services requirements to maturity for the 2016 Note:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 143,106	\$ 379,212	\$ 522,318
2019	207,238	373,736	580,974
2020	212,742	366,712	579,454
2021	84,448	357,474	441,922
2022	94,183	354,206	448,389
2023-2027	657,786	1,700,302	2,358,088
2028-2032	899,215	1,564,915	2,464,130
2033-2037	1,590,983	1,339,190	2,930,173
2038-2042	2,547,036	961,835	3,508,871
2043-2046	3,350,334	355,451	3,705,785
Total	<u>\$ 9,787,071</u>	<u>\$ 7,753,033</u>	<u>\$ 17,540,104</u>

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 LONG-TERM OBLIGATIONS (CONTINUED)

Authorization

The District has been authorized to issue debt and the principal amount not to exceed \$140,100,000 as voted on in November 2004. The voted authorization has been limited by the service plan approved by the Town of Frederick. During November 2005, District voters authorized an additional \$406,000,000 of debt principal. The service plan limits the total new money revenue and general obligation debt of the District and District No. 1 and District No. 3 to \$36,000,000. At December 31, 2017, the District had remaining authorized but unissued indebtedness of \$387,982,929.

NOTE 5 RELATED PARTY

All of the members of the board of directors are employees or are associated with Bellock Construction Company, the Construction Manager and accountants for the District, and Frederick Development Company, Inc., the Developer within the District. During 2017, District No. 1, the District, and District No. 3 had the same board of directors.

Construction Management Agreement

A construction management agreement was entered into during 2005 between District No. 1 and Bellock Construction Company. The agreement calls for Bellock Construction Company to provide management services of all activities related to construction projects to be completed within Wyndham Hill Metropolitan Districts No. 1, No. 2 and No. 3. The agreement expires on December 31 of each year, but is automatically extended for a successive annual period so long as sufficient funds have been appropriated, unless contrary action is taken.

Accounting Services Agreement

An accounting services contract was entered into with Bellock Construction Company on March 10, 2005. Under this agreement, accounting services are provided to District No. 1, No. 2 and No. 3 at the hourly annual rates of Bellock Construction Company employees. During 2015, the District incurred \$0 in accounting services fees.

Other Agreements

As of December 31, 2017, District No. 1, as the operating district, has entered into the following agreement which the District and District No. 3 are parties to:

Funding and reimbursement agreement for administrative and operational and maintenance costs up to \$150,000 with Frederick Development Company, Inc. No advances have been made under this agreement as of December 31, 2017.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

**NOTE 6 DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT
(SERVICE CONTRACT) AND OTHER AGREEMENTS**

In order to implement the Service Plan, the District entered into an intergovernmental agreement with District No. 1 and District No. 3. The agreement shall remain in full force and effect until such time as each of the terms and conditions has been performed in their entirety or until the agreement is terminated by mutual written agreement of the Districts.

District No. 1 is to construct the facilities benefiting the three Districts and transfer them to the Town of Frederick or the HOA. The District and District No. 3 will, to the extent that they benefit, pay the capital costs and the service costs of operation and maintenance of such facilities (authorized service costs).

The District is required to fund, on an annual basis, the amount of actual service costs that it would be capable of funding through property tax revenue plus other fee revenue as determined in the annual budget. If the Districts disagree as to the amount to be paid, then the District must pay District No. 1 the amount set forth in the annual budget. During fiscal year 2017, the Colorado legislature reduced the residential assessment ratio from 7.96% to 7.20% causing the property tax mill rate for general obligation bonds and service costs to increase from 50 mills to 55.275 mills.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded insurance coverage in the past three years.

The District pays annual premiums to the Pool for liability and public official's liability. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

NOTE 8 TAX, SPENDING, AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, referred to as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations, which apply to the State of Colorado and all local governments.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 8 TAX, SPENDING, AND DEBT LIMITATIONS (CONTINUED)

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

On November 2, 2004, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all annual District revenue without regard to any limitations under TABOR.

NOTE 9 INTERGOVERNMENTAL REVENUES AND EXPENDITURES

The following intergovernmental revenue and expenses occurred during fiscal year ended December 31, 2017:

	Wyndham Hill Metropolitan District No. 1	Wyndham Hill Metropolitan District No. 2	Wyndham Hill Metropolitan District No. 3	Total Revenues
Wyndham Hill Metropolitan:				
District No. 1	\$ -	\$ 1,589,986	\$ 43,500	\$ 1,633,486
District No. 2	-	-	-	-
District No. 3	3,935	-	-	3,935
Total Expenditures	<u>\$ 3,935</u>	<u>\$ 1,589,986</u>	<u>\$ 43,500</u>	<u>\$ 1,637,421</u>

NOTE 10 NET POSITION

The District has net position consisting of two components - Restricted and unrestricted.

Restricted net position includes net position that is restricted for use either by externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

The District had a deficit net position at December 31, 2017 of \$17,968,528. This deficit amount is the result of the District being responsible for the repayment of bonds issued for public improvements, which are recorded as an asset with District No. 1.

REQUIRED SUPPLEMENTARY INFORMATION

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2017

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property Taxes	\$ 908,520	\$ 907,994	\$ (526)
Specific Ownership Taxes	44,063	70,554	26,491
Royalties	-	778	778
Miscellaneous Income	-	408	408
Net Investment Income	-	2,411	2,411
Total Revenues	<u>952,583</u>	<u>982,145</u>	<u>29,562</u>
EXPENDITURES			
Current:			
Audit	9,750	9,300	450
Treasurer's Fee	13,628	13,633	(5)
Insurance	4,000	3,400	600
Miscellaneous	10,000	369	9,631
Intergovernmental Payment:			
District No. 1	2,610,000	1,589,986	1,020,014
Debt Service			
Principal	75,225	83,000	(7,775)
Interest	1,233,633	1,115,080	118,553
Loan Origination Fees	30,000	20,071	9,929
Non-use Fees	15,343	13,460	1,883
Custodial Fees	3,000	3,000	-
Total Expenditures	<u>4,004,579</u>	<u>2,851,299</u>	<u>1,153,280</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(3,051,996)	(1,869,154)	1,182,842
OTHER FINANCING SOURCES			
Proceeds from Debt Instrument	3,000,000	2,007,149	(992,851)
Total Other Financing Sources	<u>3,000,000</u>	<u>2,007,149</u>	<u>(992,851)</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(51,996)	137,995	189,991
Fund Balances - Beginning of Year	<u>96,199</u>	<u>80,545</u>	<u>(15,654)</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 44,203</u></u>	<u><u>\$ 218,540</u></u>	<u><u>\$ 174,337</u></u>