

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
Town of Frederick, Colorado

FINANCIAL STATEMENTS
December 31, 2015

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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, 2015, 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.

Opinion

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, 2015, 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 budgetary comparison information on pages III-VII and 19 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.

Other Information

The secondary market financial information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$8,634,521 in 2015, to \$(11,992,229). 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.
- Budgeted revenues exceeded actual revenues by \$3,817, primarily due to lower facility fees collected than anticipated in 2015.
- Actual expenditures were less than budgeted expenditures by \$3.
- The District has two bond issues outstanding, the Series 2005 General Obligation Limited Tax Bonds, scheduled to be fully retired in 2035, and the Series 2015 Subordinate Limited Tax General Obligation Bonds, scheduled to be fully retired in 2054.
- 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 1-17 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 and unaudited secondary market financial 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 1-2.

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 3-6 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 7-17 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, and other secondary market information (unaudited). Required supplementary information can be found on page 19 of this report, and secondary market information can be found on pages 20-21 of this report.

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 2016.

Total assets increased by \$207,677 primarily due to an increase in property tax receivable of \$208,422.

Deferred inflows of resources related to property tax revenue increased by \$208,422 due to an increase in property taxes receivable in 2015. The increase in the property tax receivable is due to an increase in assessed valuation within the District during fiscal year 2015.

There was an increase of \$8,165,000 in noncurrent liabilities due primarily to the issuance of new subordinate debt in 2015.

The liabilities and deferred inflows of resources of the primary government activities exceed assets by \$11,992,229, with an unrestricted net position of \$(11,996,648).

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

	Net Position	
	2015	2014
Assets:		
Current	\$ 597,709	\$ 390,032
Total assets	<u>597,709</u>	<u>390,032</u>
Liabilities:		
Current	546,901	78,125
Noncurrent	<u>11,475,000</u>	<u>3,310,000</u>
Total liabilities	<u>12,021,901</u>	<u>3,388,125</u>
Deferred inflows of resources		
Property tax revenue	<u>568,037</u>	<u>359,615</u>
Total deferred inflows of resources	<u>568,037</u>	<u>359,615</u>
Net position:		
Restricted	4,419	3,156
Unrestricted (deficit)	<u>(11,996,648)</u>	<u>(3,360,864)</u>
Total net position	<u>\$ (11,992,229)</u>	<u>\$ (3,357,708)</u>

Government-wide Activities

Government activities decreased the net position of the District by \$8,634,521. The details of this decrease are shown in the following schedule:

The District's Changes in Net Position

	Governmental Activities	
	2015	2014
Revenues:		
Program revenue:		
Charges for services	\$ 41,600	\$ 45,600
General revenue:		
Property taxes	355,047	360,634
Specific ownership taxes	26,575	30,400
Royalties	593	1,149
Miscellaneous income	404	404
Investment income	396	188
Total revenue	<u>424,615</u>	<u>438,375</u>
Expenses:		
Governmental activities:		
General government	8,381,544	230,372
Interest and other fiscal charges	<u>677,592</u>	<u>213,480</u>
Total expenses	<u>9,059,136</u>	<u>443,852</u>
Total change in net position	(8,634,521)	(5,477)
Net position - Beginning of year	<u>(3,357,708)</u>	<u>(3,352,231)</u>
Net position - End of year	<u>\$ (11,992,229)</u>	<u>\$ (3,357,708)</u>

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

- The District issued \$8,230,000 in new subordinate debt and transferred the proceeds from this debt instrument to District No. 1.
- Interest and other fiscal charges increased \$464,112, primarily from the new subordinate debt issuance in 2015.

Business-type activities are comprised of services that would be provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District does not have any business-type activities.

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 \$29,672. All amounts are restricted.

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 both unassigned fund balance and total fund balance to total fund expenditures. Actual expenditures of the general fund amounted to \$8,655,025. Fund balance represents 0.34% percent of expenditures.

General Fund Budgetary Highlights

The fund balance for the general fund decreased by \$410, resulting in an ending fund balance of \$29,672. Total revenues were \$3,817 less than budget, principally due to facility fees. Actual expenditures were less than budgeted expenditures by \$3. During fiscal year 2015, the board of directors approved a supplemental appropriation of \$8,263,300 primarily to transfer more funds to District No. 1.

Economic Factors and Next Year's Budgets and Rates

The assessed valuation of property in the District increased by \$4,168,440 or 58.0% in 2015, which will increase the tax revenue for 2016. Interest rates on short-term deposits remain at historic lows, but continued construction of new homes are anticipated and would further the increase the assessed value of the District.

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

BASIC FINANCIAL STATEMENTS

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF NET POSITION
December 31, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 22,153
Property tax receivable	568,037
Due from other governments	2,583
Prepaid items	<u>4,936</u>
TOTAL ASSETS	<u>597,709</u>
Accrued interest payable	481,901
Noncurrent liabilities:	
Due in less than one year	65,000
Due in more than one year	<u>11,475,000</u>
TOTAL LIABILITIES	<u>12,021,901</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	<u>568,037</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>568,037</u>
NET POSITION	
Restricted for TABOR	4,419
Unrestricted (deficit)	<u>(11,996,648)</u>
TOTAL NET POSITION	<u>\$ (11,992,229)</u>

The accompanying notes are an integral part of the financial statements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
			<u>Governmental Activities</u>
Governmental activities:			
General government	\$ 8,381,544	\$ 41,600	\$ (8,339,944)
Interest and related costs on long-term debt	<u>677,592</u>	<u>-</u>	<u>(677,592)</u>
	<u>\$ 9,059,136</u>	<u>\$ 41,600</u>	<u>(9,017,536)</u>
 General revenues:			
Property tax revenue			355,047
Specific ownership tax			26,575
Royalties			593
Miscellaneous income			404
Net investment income			<u>396</u>
Total general revenues			<u>383,015</u>
 Change in net position			 (8,634,521)
 Net position - Beginning of year			 <u>(3,357,708)</u>
Net position - End of year			<u>\$ (11,992,229)</u>

The accompanying notes are an integral part of the financial statements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUND
December 31, 2015

	General Fund
ASSETS	
Cash and investments	\$ 22,153
Property tax receivable	568,037
Due from other governments	2,583
Prepaid items	4,936
Total assets	\$ 597,709
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
 DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	568,037
Total deferred inflows of resources	568,037
 FUND BALANCE	
Non-spendable	4,936
Restricted for:	
TABOR	4,419
Debt service	20,317
Total fund balance	29,672
 TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 \$ 597,709

The accompanying notes are an integral part of the financial statements.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION
December 31, 2015**

Total fund balance - Total governmental fund \$ 29,672

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.

Bonds payable	(11,540,000)
Accrued interest payable	<u>(481,901)</u>
	<u>(12,021,901)</u>

Net position of governmental activities \$ (11,992,229)

The accompanying notes are an integral part of the financial statements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
GOVERNMENTAL FUND
Year Ended December 31, 2015

	General Fund
REVENUES	
Property tax income	\$ 355,047
Specific ownership tax	26,575
Facilities fees	41,600
Royalties	593
Miscellaneous income	404
Net investment income	396
Total revenues	424,615
EXPENDITURES	
Current	
Audit	9,125
Treasurer's fee	5,334
Trustee fees	2,150
Insurance	3,687
Loan origination fee	30,850
Miscellaneous	398
Intergovernmental payment to District No. 1	8,330,000
Debt service	
Principal	60,000
Interest and fiscal charges	213,481
Total expenditures	8,655,025
DEFICIENCY OF REVENUES OVER EXPENDITURES	(8,230,410)
OTHER FINANCING SOURCES	
Bond Proceeds	8,230,000
Total other financing sources	8,230,000
NET CHANGES IN FUND BALANCE	(410)
FUND BALANCE - BEGINNING OF YEAR	30,082
FUND BALANCE - END OF YEAR	\$ 29,672

The accompanying notes are an integral part of the financial statements.

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2015**

Net change in fund balance - Total governmental fund \$ (410)

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.

Bond proceeds	(8,230,000)
Payment of principal	60,000

An increase in accrued interest does not have any impact on governmental fund expenditures. This transaction, however, does increase the amount of interest expense on the statement of activities.

Accrued interest	<u>(464,111)</u>
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Change in net position of governmental activities \$ (8,634,521)

The accompanying notes are an integral part of the financial statements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 deficit.

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. During fiscal year 2015, the board of directors approved a supplemental appropriation of \$8,263,300.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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.

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.

Facilities Fees

Pursuant to a Fee Resolution duly adopted by the board of directors, the District imposed a Facilities Fee upon property within the District in the amount of \$800 on each single family residential unit and \$400 on each multi-family unit. The Facilities Fees are due and payable within 30 days following the end of the month in which the building permit is issued. The Facilities Fees are pledged to debt service on the bonds during the term the bonds are outstanding.

Fund Balance

As of December 31, 2015, fund balances of governmental funds are classified as follows:

Non-spendable – 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, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Fund Balance/Restricted Net Position

Emergency Reserves have been provided for as required by Article X, Section 20 of the Constitution of the State of Colorado (see note 8) \$4,419 of the General Fund balance has been restricted in compliance with this requirement.

Non-spendable fund balance of \$4,936 is equal to the amount of pre-paid insurance for the District that will benefit a future period.

The remaining fund balance of the District of \$20,317 is restricted to meet contractual commitments under the Series 2005A General Obligation Limited Tax Bonds (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 INVESTMENTS

Cash and investments as of December 31, 2015 consist of the following:

Deposits	\$ 18,063
Investments	<u>4,090</u>
Total cash and investments	<u>\$ 22,153</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, 2015, the District's cash deposits had a carrying balance of \$18,063.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. 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 credit risk. Additionally, the District is not subjected to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in 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 and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market mutual funds
- . Guaranteed investment contracts
- * Local government investment pools
- . Certain corporate bonds
- . Certain reverse repurchase agreements
- . 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 governments, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to three years or less.

As of December 31, 2015, the District had the following investments:

Investment	Weighted Average Maturity	Fair Value
Colorado Surplus Asset Fund Trust (CSAFE)	Less than one year	<u>\$ 4,090</u>

CSAFE

As of December 31, 2015, the District had invested \$4,090 in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. The pool is rated AAAM by Standard & Poor's.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2015:

	<u>Balance at January 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2015</u>	<u>Due Within One Year</u>
General obligation limited tax bonds					
Series 2005A	\$ 3,370,000	\$ -	\$ 60,000	\$ 3,310,000	\$ 65,000
Series 2015	-	8,230,000	-	8,230,000	-
Total long-term obligations	<u>\$ 3,370,000</u>	<u>\$ 8,230,000</u>	<u>\$ 60,000</u>	<u>\$ 11,540,000</u>	<u>\$ 65,000</u>

Series 2005A Bonds

The District issued the Series 2005 Bonds on September 1, 2005, in the amount of \$10,900,000. The proceeds of such debt were used for issuance costs, capitalized interest and to fund the cost of eligible public infrastructure improvements incurred by District No. 1.

The bonds are term bonds. Term bonds are subject to mandatory sinking fund redemption and mature as follows:

<u>Original Principal</u>	<u>Remaining Principal</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Mandatory Sinking Fund Redemption Date</u>
\$4,000,000	\$1,025,000	6.250%	December 1, 2025	December 1, 2009
\$6,900,000	\$2,285,000	6.375%	December 1, 2035	December 1, 2026

Bond interest is payable semiannually on June 1 and December 1, with annual mandatory sinking fund principal payments on December 1 of each year, with a final maturity on December 1, 2035. The District incurred \$213,481 in interest expense on the Series 2005 Bonds during the year ended December 31, 2015.

The Series 2005 Bonds are secured by and payable from Pledged Revenue, which include 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. The Required Mill Levy is defined in the Trust Indenture as a mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay principal and interest on the Series 2005 Bonds, but not in excess of 40 mills and, for so long as the Debt to Assessed Ratio is higher than 50%, not less than 33 mills, and, as adjusted for changes in the ratio of actual value to assessed value of property within the District after February 13, 2004.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

In the event that there are any moneys remaining in the Restricted Account of the District on October 15, 2008, in amounts sufficient to redeem any Series 2005 Bonds on December 1, 2008, such moneys are to be applied to the mandatory excess funds redemption of the Series 2005 Bonds on December 1, 2008. As of December 31, 2015, \$-0- was held in the restricted account of the construction fund. In December 2008, the District applied \$7,530,000 of the capital construction fund to the mandatory excess funds redemption based on the aforementioned clause.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 65,000	\$ 209,731	\$ 274,731
2017	70,000	205,669	275,669
2018	80,000	201,294	281,294
2019	85,000	196,294	281,294
2020	100,000	190,971	290,971
2021-2025	625,000	851,781	1,476,781
2026-2030	930,000	618,694	1,548,694
2031-2035	1,355,000	272,531	1,627,531
	<u>\$ 3,310,000</u>	<u>\$ 2,746,965</u>	<u>\$ 6,056,965</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 \$464,423 in interest expense on the 2015 Bonds during the year ended December 31, 2015.

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.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 699,550	\$ 699,550
2017	-	699,550	699,550
2018	-	699,550	699,550
2019	-	699,550	699,550
2020	-	699,550	699,550
2021-2025	-	3,497,750	3,497,750
2026-2030	-	3,497,750	3,497,750
2031-2035	-	3,497,750	3,497,750
2036-2040	-	3,497,750	3,497,750
2041-2045	-	3,497,750	3,497,750
2046-2050	-	3,497,750	3,497,750
2051-2054	8,230,000	2,767,109	10,997,109
	<u>\$ 8,230,000</u>	<u>\$ 27,251,359</u>	<u>\$ 35,481,359</u>

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, which has been effectively issued as of December 31, 2013. The debt called in the amount of \$7,530,000 discussed above will not count towards the authorized debt limit. At December 31, 2015, the District had remaining authorized by unissued indebtedness of \$394,460,000.

NOTE 5 - RELATED PARTY

Two of the three 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. and CR 7, Inc., the Developer within the District. During 2015, District No. 1, the District, and District No. 3 had the same board of directors.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - RELATED PARTY (CONTINUED)

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, 2015, 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, 2015.

NOTE 6 - DISTRICT FACILITIES CONSTRUCTION AND SERVICE AGREEMENT (SERVICE CONTRACT)

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 as long as the property tax mill rate for general obligation bonds and service costs does not exceed 50 mills.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015. 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.

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.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 9 – 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, 2015 of \$11,992,229. 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.

This information is an integral part of the accompanying financial statements.

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, 2015

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Property tax revenue	\$ 360,000	\$ 355,047	\$ 355,047	\$ -
Specific ownership tax	25,000	23,992	26,575	2,583
Intergovernmental revenue - District No. 3	12,850	-	-	-
Facilities fees	-	48,997	41,600	(7,397)
Royalties	-	-	593	593
Miscellaneous income	-	-	404	404
Net investment income	150	396	396	-
Total revenues	<u>398,000</u>	<u>428,432</u>	<u>424,615</u>	<u>(3,817)</u>
EXPENDITURES				
Current				
Audit	8,850	9,125	9,125	-
Treasurer's fee	5,397	5,334	5,334	-
Trustee fees	-	2,150	2,150	-
Insurance	3,000	3,690	3,687	3
Loan origination fees/ bond counsel	-	30,850	30,850	-
Miscellaneous	1,000	398	398	-
Intergovernmental payment - District No. 1	100,000	8,330,000	8,330,000	-
Debt Service				
Principal	60,000	60,000	60,000	-
Interest	213,481	213,481	213,481	-
Total expenditures	<u>391,728</u>	<u>8,655,028</u>	<u>8,655,025</u>	<u>3</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	6,272	(8,226,596)	(8,230,410)	(3,814)
OTHER FINANCING SOURCES				
Bond proceeds	-	8,230,000	8,230,000	-
Total other financing sources	<u>-</u>	<u>8,230,000</u>	<u>8,230,000</u>	<u>-</u>
EXCESS REVENUES AND				
OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES	6,272	3,404	(410)	(3,814)
FUND BALANCE - BEGINNING				
OF YEAR	<u>1,287</u>	<u>21,378</u>	<u>30,082</u>	<u>8,704</u>
FUND BALANCE - END OF YEAR				
	<u>\$ 7,559</u>	<u>\$ 24,782</u>	<u>\$ 29,672</u>	<u>\$ 4,890</u>

SECONDARY MARKET FINANCIAL INFORMATION – UNAUDITED

**WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2015**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year <u>Property Tax Levy</u>	Mills <u>Levied</u>	<u>Total Property Taxes</u>		Percent Collected to Levied
			<u>Levied</u>	<u>Collected</u>	
2011	\$ 4,672,290	50.000 (1)	\$ 252,705	\$ 254,097	100.55%
2012	\$ 4,954,800	50.000 (1)	\$ 233,615	\$ 233,614	100.00%
2013	\$ 5,655,880	50.000 (1)	\$ 282,794	\$ 247,740	87.60%
2014	\$ 7,219,655	50.000 (2)	\$ 360,983	\$ 360,634	99.90%
2015	\$ 7,192,300	50.000 (2)	\$ 359,615	\$ 355,047	98.73%
Estimated for the year ending December 31, 2016	\$ 11,360,740	50.000 (3)	\$ 568,037		

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.

- (1) 10 mills is for operations and maintenance and 40 mills is for debt service requirements.
- (2) 11.976 mills is for operations and maintenance and 38.024 mills is for debt service requirements.
- (3) 50 mills is for operations and maintenance and 0 mills is for debt service requirements.

WYNDHAM HILL METROPOLITAN DISTRICT NO. 2
2015 ASSESSED VALUATION OF CLASSES OF PROPERTY IN THE DISTRICT
December 31, 2015

Class	Total Assessed Valuation	Percent of Total Assessed Valuation
Residential	\$ 7,578,230	66.20%
State assessed	225,900	2.00%
Vacant	900,070	7.90%
Agricultural	23,510	0.20%
Natural resources	2,633,030	23.00%
Total	\$ 11,360,740	99.30%
Exempt	79,630	0.70%
Total Including Exempt	\$ 11,440,370	100.00%

Source: <http://www.co.weld.co.us/Departments/Assessor/TaxingAuthorityInformation/index.html>