

TRADITIONS METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2015

with

Independent Auditor's Report

## C O N T E N T S

	<u>Page</u>
<u>Independent Auditor's Report</u>	I
<u>Basic Financial Statements</u>	
Balance Sheet/Statement of Net Position - Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities - Governmental Funds	2
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	3
Notes to Financial Statements	4
<u>Supplemental Information</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	15
Schedule of Debt Service Requirements to Maturity	16



Hiratsuka & Associates, L.L.P.  
Certified Public Accountants & Business Advisors

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Traditions Metropolitan District No. 2  
Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Traditions Metropolitan District No. 2 (the District), Arapahoe County, Colorado, as of and for the year ended December 31, 2015, which collectively comprise the District'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 (U.S. GAAP); 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 of 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 auditor's 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Traditions Metropolitan District No. 2, Arapahoe County, Colorado, as of December 31, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

### **Other Matters**

#### *Required Supplementary Information*

U.S. GAAP requires that the budgetary comparison information on page 15 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 (GASB), 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

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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.

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund and Schedule of Debt Service Requirements to Maturity was presented for the purpose of additional analysis and was not a required part of the financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund and Schedule of Debt Service Requirements to Maturity was the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Hiratsuka & Associates, LLP*

July 15, 2016  
Wheat Ridge, Colorado

TRADITIONS METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION -  
GOVERNMENTAL FUNDS  
December 31, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>					
Cash and investments	\$ 24,075	\$ -	\$ 24,075	\$ -	\$ 24,075
Cash and investments - restricted	356	898,078	898,434	-	898,434
Receivable County Treasurer	79	1,928	2,007	-	2,007
Property taxes receivable	<u>25,161</u>	<u>610,715</u>	<u>635,876</u>	<u>-</u>	<u>635,876</u>
Total Assets	<u>\$ 49,671</u>	<u>\$ 1,510,721</u>	<u>\$ 1,560,392</u>	<u>-</u>	<u>1,560,392</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 24,508	\$ 4,400	\$ 28,908	-	28,908
Accrued interest on bonds	-	-	-	53,065	53,065
Long-term liabilities:					
Due within one year	-	-	-	90,000	90,000
Due in more than one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,275,000</u>	<u>13,275,000</u>
Total Liabilities	<u>24,508</u>	<u>4,400</u>	<u>28,908</u>	<u>13,418,065</u>	<u>13,446,973</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred property taxes	<u>25,161</u>	<u>610,715</u>	<u>635,876</u>	<u>-</u>	<u>635,876</u>
Total Deferred Inflows of Resources	<u>25,161</u>	<u>610,715</u>	<u>635,876</u>	<u>-</u>	<u>635,876</u>
<b>FUND BALANCE</b>					
Restricted:					
Emergencies	356	-	356	(356)	-
Debt service	-	895,606	895,606	(895,606)	-
Unassigned	<u>(354)</u>	<u>-</u>	<u>(354)</u>	<u>354</u>	<u>-</u>
Total Fund Balances	<u>2</u>	<u>895,606</u>	<u>895,608</u>	<u>(895,608)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 49,671</u>	<u>\$ 1,510,721</u>	<u>\$ 1,560,392</u>		
<b>NET POSITION</b>					
Restricted for:					
Emergencies				356	356
Debt service				842,541	842,541
Unrestricted				<u>(13,365,354)</u>	<u>(13,365,354)</u>
Total Net Position (Deficit)				<u>\$ (12,522,457)</u>	<u>\$ (12,522,457)</u>

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

TRADITIONS METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES -  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>EXPENDITURES</b>					
Accounting and audit	\$ 4,501	\$ 4,400	\$ 8,901	\$ -	\$ 8,901
Legal	5,914	4,500	10,414	-	10,414
Insurance	2,214	-	2,214	-	2,214
Miscellaneous	34	-	34	-	34
Directors' fees and related taxes	108	-	108	-	108
Treasurer's fees	287	6,979	7,266	-	7,266
Bond principal payment	-	80,000	80,000	(80,000)	-
Bond interest expense	-	1,014,538	1,014,538	(383)	1,014,155
Paying agent fees	-	2,500	2,500	-	2,500
	<u>13,058</u>	<u>1,112,917</u>	<u>1,125,975</u>	<u>(80,383)</u>	<u>1,045,592</u>
<b>GENERAL REVENUES</b>					
Property taxes	19,162	465,132	484,294	-	484,294
Specific ownership taxes	1,446	35,093	36,539	-	36,539
Interest income	5	2,343	2,348	-	2,348
	<u>20,613</u>	<u>502,568</u>	<u>523,181</u>	<u>-</u>	<u>523,181</u>
NET CHANGE IN FUND BALANCES	7,555	(610,349)	(602,794)	602,794	
CHANGES IN NET POSITION				(522,411)	(522,411)
<b>FUND BALANCE/NET POSITION:</b>					
BEGINNING OF YEAR	<u>(7,553)</u>	<u>1,505,955</u>	<u>1,498,402</u>	<u>(13,498,448)</u>	<u>(12,000,046)</u>
END OF YEAR	<u>\$ 2</u>	<u>\$ 895,606</u>	<u>\$ 895,608</u>	<u>\$ (13,418,065)</u>	<u>\$ (12,522,457)</u>

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

TRADITIONS METROPOLITAN DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
GENERAL FUND

For the Year Ended December 31, 2015

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Property taxes	\$ 19,164	\$ 19,162	\$ (2)
Specific ownership taxes	1,340	1,446	106
Interest income	<u>-</u>	<u>5</u>	<u>5</u>
Total Revenues	<u>20,504</u>	<u>20,613</u>	<u>109</u>
<b>EXPENDITURES</b>			
Accounting and audit	3,000	4,501	(1,501)
Legal	4,000	5,914	(1,914)
Insurance	2,500	2,214	286
Miscellaneous expenses	500	34	466
Miscellaneous expenses	-	108	(108)
Treasurers fees	287	287	-
Contingency	3,659	-	3,659
Emergency reserve	<u>309</u>	<u>-</u>	<u>309</u>
Total Expenditures	<u>14,255</u>	<u>13,058</u>	<u>1,197</u>
CHANGE IN FUND BALANCE	6,249	7,555	1,306
FUND BALANCE - BEGINNING OF YEAR	<u>(6,249)</u>	<u>(7,553)</u>	<u>(1,304)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ 2</u>

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

## TRADITIONS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2015

### Note 1: Summary of Significant Accounting Policies

The accounting policies of the Traditions Metropolitan District No. 2 (“the District”), located in Arapahoe County, within the City of Aurora (“City”), Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

#### Definition of Reporting Entity

The District was organized in 2003, concurrently with Traditions Metropolitan District No. 1 (“District No. 1”), as a quasi-municipal organization established under the State of Colorado Special District Act. The District was organized to provide water, wastewater, park and recreation, and other related improvements for the benefit of taxpayers and service users located within the City. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

The District serves as the “Taxing District” while District No.1 serves as the “Operating District”. The Operating District is responsible for providing the day to day operations and administrative management for both Districts. District No. 1 dissolved in 2011 and the day to day operating and administration were transferred to the District.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

#### Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 - Special Purpose Governments Section Sp 20.

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

TRADITIONS METROPOLITAN DISTRICT NO. 2  
Notes to Financial Statements  
December 31, 2015

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

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

Budgetary Accounting

Budgets are adopted on a GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Subsequent to year end, the District amended its total appropriations in the Debt Service Fund from \$1,111,515 to \$1,113,000 primarily due to higher legal expenditures.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents and accounts receivable. The District estimates that the fair value of all financial instruments at December 31, 2015, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

#### Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category at December 31, 2015.

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

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

#### 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 installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August, and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

#### Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

#### Nonspendable Fund Balance

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

#### Restricted Fund Balance

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

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$356 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$895,606 is reserved for the payment of the General Obligation bonds (see Note 3). The 2008 Bond Reserve balance was \$201,124 and was held by the trustee as a "reserve requirement", as defined by the Reimbursement Agreement and is used to secure the District's obligation to the Bank and does not secure payment of debt service on the bonds.

#### Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

#### Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

#### Unassigned Fund Balance

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

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

TRADITIONS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2015

Net Position

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

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets. At December 31, 2015, the District did not have any amounts to report in this category.

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

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

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

Note 2: Cash and Investments

As of December 31, 2015, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	\$ 24,075
Cash and investments – Restricted	<u>898,434</u>
Total	<u>\$ 922,509</u>

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

Deposits with financial institutions	\$ 81
Investments – COLOTRUST	18,966
Investments – CSAFE	<u>903,462</u>
	<u>\$ 922,509</u>

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

#### Deposits

##### Custodial Credit Risk

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of 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.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

##### Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

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

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAM by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2015, the District had \$18,966 invested in COLOTRUST.

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

The local government investment pool Colorado Surplus Asset Fund Trust (“CSAFE”), is rated AAAM by Standard and Poor’s with a weighted average maturity of under 60 days. CSAFE is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds, and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE’s portfolio pursuant to custodian agreements. The custodian acts as safekeeping agent for CSAFE’s investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodians’ internal records identify the investments owned by CSAFE. At December 31, 2015, the District had \$903,462 invested in CSAFE, held by a trustee.

#### Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

#### Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

#### Note 3: Long Term Debt

General Obligation Limited Tax (convertible to unlimited tax) Bonds Series 2006 – On November 21, 2006, the District issued \$4,775,000 of general obligation limited tax bonds Series 2006 (“Series 2006 Bonds”) for the purpose of paying the costs of acquiring, constructing, relocating, completing and otherwise providing street, safety protection, water and sanitation improvements and facilities within the boundaries of the District, partially funding a surplus fund, providing capitalized interest for payment of a portion of the interest on the Bonds, and paying the costs of issuance of the bonds. The Series 2006 Bonds are term bonds due December 1, 2036, with mandatory sinking fund payments beginning December 1, 2013, and increasing annually thereafter. The Series 2006 Bonds bear interest at 5.75%, to be paid on June 1 and December 1 of each year beginning June 1, 2007.

The Series 2006 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2016 and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The Series 2006 Bonds are payable from the District’s levy of an ad valorem tax of not more than 50 mills, specific ownership taxes and any other legally available moneys which the District determines, in its sole discretion, to credit to the Bond Fund.

TRADITIONS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2015

Subordinate General Obligation (limited tax convertible to unlimited tax) Convertible Capital Appreciation Bonds Series 2008 - On May 9, 2008, the District issued \$5,129,188 in Subordinate General Obligation Bonds Series 2008 (“Series 2008”). The Series 2008 Bonds are Subordinate General Obligation (limited tax convertible to unlimited tax) Convertible Capital Appreciation Bonds. The aggregate maturity value of the Series 2008 Bonds will be \$8,780,000. Until the Conversion Date, December 15, 2014, the Series 2008 Bonds shall be treated as capital appreciation bonds. The Bonds shall accrete in value at 8.5% and shall convert to current interest bonds on December 15, 2014. Interest is payable on December 15, 2015 and on December 15, in each year thereafter until maturity on December 15, 2037, at 8.5%. The Bonds were fully accreted as of December 31, 2015, with a principal balance of \$8,780,000.

The Series 2008 Bonds are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 15, 2016 and on any date thereafter, upon payment of par and accrued interest, and a redemption premium of 2% of the principal amount so redeemed. The Bonds maturing on December 15, 2037, also are subject to mandatory sinking fund redemption, in part, by lot, on December 15, 2020 and on each December 15 thereafter prior to the mandatory date of such Bonds, upon payment of par and accrued interest, without redemption premium.

On December 15, 2015, the District transferred \$312,319 from the 2008 Bond Reserve account to the Bond Payment Fund to pay the interest due on the Bonds.

The following is a summary of the annual long-term debt principal and interest requirements.

	Principal	Interest	Total
2016	\$ 90,000	\$ 1,009,938	\$ 1,099,938
2017	95,000	1,004,763	1,099,763
2018	110,000	999,300	1,109,300
2019	115,000	992,975	1,107,975
2020	200,000	986,362	1,186,362
2021 - 2025	1,735,000	4,642,876	6,377,876
2026 - 2030	2,865,000	3,856,512	6,721,512
2031 - 2035	4,470,000	2,572,749	7,042,749
2036 - 2037	3,685,000	456,225	4,141,225
	<u>\$ 13,365,000</u>	<u>\$ 16,521,700</u>	<u>\$ 29,886,700</u>

TRADITIONS METROPOLITAN DISTRICT NO. 2

Notes to Financial Statements  
December 31, 2015

The following is an analysis of changes in long-term debt for the period ending December 31, 2015:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015	Current Portion
G.O. Bonds, Series 2006	\$ 4,665,000	\$ -	\$ 80,000	\$ 4,585,000	\$ 90,000
Subordinate G.O. Bonds Series 2008	8,780,000	-	-	8,780,000	-
	<u>\$ 13,445,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 13,365,000</u>	<u>\$ 90,000</u>

In 2003, a majority of the qualified electors of the District who voted in the election authorized the issuance of indebtedness of \$38,900,000 for new improvements. The District's Service Plan includes a debt authorization limit of \$17,500,000. As of December 31, 2015, the amount of unissued debt authorized under the Service Plan was \$3,945,000.

Note 4: Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer 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 3, 2003 a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

## TRADITIONS METROPOLITAN DISTRICT NO. 2

### Notes to Financial Statements December 31, 2015

Note 5: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The District has elected to participate in the Colorado Special Districts Property and Liability Pool (“the Pool”) which is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public officials’ liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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 6: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities.

SUPPLEMENTAL INFORMATION

TRADITIONS METROPOLITAN DISTRICT NO. 2

SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
DEBT SERVICE FUND

For the Year Ended December 31, 2015

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>				
Property taxes	\$ 465,132	\$ 465,132	\$ 465,132	\$ -
Specific ownership	32,559	32,559	35,093	2,534
Interest income	<u>1,000</u>	<u>1,000</u>	<u>2,343</u>	<u>1,343</u>
Total Revenues	<u>498,691</u>	<u>498,691</u>	<u>502,568</u>	<u>3,877</u>
<b>EXPENDITURES</b>				
Bond principal payment	80,000	80,000	80,000	-
Bond interest	1,014,538	1,014,538	1,014,538	-
Accounting and audit	5,000	5,000	4,400	600
Legal	-	1,485	4,500	(3,015)
Paying agent fees	5,000	5,000	2,500	2,500
Treasurers' fees	<u>6,977</u>	<u>6,977</u>	<u>6,979</u>	<u>(2)</u>
Total Expenditures	<u>1,111,515</u>	<u>1,113,000</u>	<u>1,112,917</u>	<u>83</u>
CHANGE IN FUND BALANCE	(612,824)	(614,309)	(610,349)	3,960
FUND BALANCE - BEGINNING OF YEAR	<u>1,504,946</u>	<u>1,504,946</u>	<u>1,505,955</u>	<u>1,009</u>
FUND BALANCE - END OF YEAR	<u>\$ 892,122</u>	<u>\$ 890,637</u>	<u>\$ 895,606</u>	<u>\$ 4,969</u>

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

TRADITIONS METROPOLITAN DISTRICT NO. 2

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2015

\$4,775,000 General Obligation Limited Tax Bond Series 2006

Interest Payable June 1 and December 1

Principal Due December 1

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 90,000	\$ 263,638	\$ 353,638
2017	95,000	258,463	353,463
2018	110,000	253,000	363,000
2019	115,000	246,675	361,675
2020	130,000	240,062	370,062
2021	135,000	232,588	367,588
2022	150,000	224,825	374,825
2023	160,000	216,200	376,200
2024	175,000	207,000	382,000
2025	185,000	196,938	381,938
2026	205,000	186,300	391,300
2027	215,000	174,513	389,513
2028	235,000	162,150	397,150
2029	250,000	148,637	398,637
2030	270,000	134,262	404,262
2031	285,000	118,737	403,737
2032	310,000	102,350	412,350
2033	330,000	84,525	414,525
2034	355,000	65,550	420,550
2035	375,000	45,137	420,137
2036	<u>410,000</u>	<u>23,575</u>	<u>433,575</u>
	<u>\$ 4,585,000</u>	<u>\$ 3,585,125</u>	<u>\$ 8,170,125</u>

TRADITIONS METROPOLITAN DISTRICT NO. 2

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2015

\$5,129,188 Subordinate General Obligation Convertible Capital  
 Appreciation Bond Series 2008  
 Interest Payable December 15  
 Principal Due December 15

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 746,300	\$ 746,300
2017	-	746,300	746,300
2018	-	746,300	746,300
2019	-	746,300	746,300
2020	70,000	746,300	816,300
2021	130,000	740,350	870,350
2022	170,000	729,300	899,300
2023	180,000	714,850	894,850
2024	215,000	699,550	914,550
2025	235,000	681,275	916,275
2026	270,000	661,300	931,300
2027	295,000	638,350	933,350
2028	340,000	613,275	953,275
2029	365,000	584,375	949,375
2030	420,000	553,350	973,350
2031	455,000	517,650	972,650
2032	510,000	478,975	988,975
2033	555,000	435,625	990,625
2034	620,000	388,450	1,008,450
2035	675,000	335,750	1,010,750
2036	1,460,000	278,375	1,738,375
2037	<u>1,815,000</u>	<u>154,275</u>	<u>1,969,275</u>
	<u>\$ 8,780,000</u>	<u>\$ 12,936,575</u>	<u>\$ 21,716,575</u>