TRADITIONS METROPOLITAN DISTRICT NO. 2

Financial Statements

Year Ended December 31, 2016

with

Independent Auditor's Report

CONTENTS

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, 2016, and the related notes to the financial statements, 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, 2016, and the respective changes in financial position and, where applicable, the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Required Supplemental Information

Management has not presented Management's Discussion and Analysis that U.S. GAAP requires be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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 this missing information.

4251 Kipling Street. Suite 410 | Wheat Ridge, CO 80033 | (303) 295-7077 | Fax (303) 295-6866

U.S. GAAP require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who consider is to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Debt Service Fund is 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Debt Service Requirements to Maturity was presented for the purpose of additional analysis and was not a required part of the basic financial statements The 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Assessed and Actual Valuation of Classes of Property in the District was presented for the purpose of additional analysis and was not a required part of the basic financial statements. The Assessed and Actual Valuation of Classes of Property in the District 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 Assessed and Actual Valuation of Classes of Property in the District 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 them.

Hiratsuka & Associates, LLP

July 24, 2017
Wheat Ridge, Colorado

TRADITIONS METROPOLITAN DISTRICT NO. 2

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS
December 31, 2016

	General	Debt Service	Total	Adjustments	Statement of Net Position
ASSETS					
Cash and investments	$ 19,379	$ -	$ 19,379	$ -	$ 19,379
Cash and investments - restricted	386	278,376	278,762	-	278,762
Receivable County Treasurer	141	3,418	3,559	-	3,559
Property taxes receivable	89,979	484,502	574,481	-	574,481
Prepaid expenses	2,355	-	2,355	-	2,355
Prepaid bond insurance, net of amortization	-	-	-	84,360	84,360
Total Assets	112,240	766,296	878,536	84,360	962,896
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	-	-	-	182,942	182,942
Total Deferred Outflows of Resources	-	-	-	182,942	182,942
Total Assets and Deferred Outflows of Resources	$ 112,240	$ 766,296	$ 878,536		
LIABILITIES					
Accounts payable	$ 18,731	$ -	$ 18,731	-	18,731
Accrued interest on bonds	-	-	-	24,845	24,845
Long-term liabilities:					
Due in more than one year	-	-	-	13,625,849	13,625,849
Total Liabilities	18,731	-	18,731	13,650,694	13,669,425
DEFERRED INFLOWS OF RESOURCES					
Deferred property taxes	89,979	484,502	574,481	-	574,481
Total Deferred Inflows of Resources	89,979	484,502	574,481	-	574,481
FUND BALANCE					
Nonspendable:					
Prepaids	2,355	-	2,355	(2,355)	-
Restricted:					
Emergencies	386	-	386	(386)	-
Debt service	-	281,794	281,794	(281,794)	-
Unassigned	789	-	789	(789)	-
Total Fund Balances	3,530	281,794	285,324	(285,324)	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 112,240	$ 766,296	$ 878,536		
NET POSITION					
Restricted for:					
Emergencies				386	386
Debt service				256,949	256,949
Unrestricted				(13,355,403)	(13,355,403)
Total Net Position (Deficit)				$ (13,098,068)	$ (13,098,068)

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, 2016

	General	Debt Service	Total	Adjustments	Statement of Activities
EXPENDITURES					
Accounting and audit	$ 4,163	$ 4,500	$ 8,663	$ -	$ 8,663
Legal	14,766	-	14,766	-	14,766
Insurance	2,898	-	2,898	-	2,898
Miscellaneous	57	-	57	-	57
Directors' fees and related taxes	1,300	-	1,300	-	1,300
Treasurer's fees	377	9,160	9,537	-	9,537
Bond principal payment	-	90,000	90,000	(90,000)	-
Bond interest expense	-	263,638	263,638	723,413	987,051
Bond issuance costs	-	237,509	237,509	-	237,509
Bond insurance	-	84,534	84,534	(84,534)	-
Amortization of bond insurance	-	-	-	174	174
Paying agent fees	-	5,000	5,000	-	5,000
Total Expenditures	23,561	694,341	717,902	549,053	1,266,955
GENERAL REVENUES					
Property taxes	25,149	610,414	635,563	-	635,563
Specific ownership taxes	1,929	46,818	48,747	-	48,747
Interest income	11	7,023	7,034	-	7,034
Total General Revenues	27,089	664,255	691,344	-	691,344
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,528	(30,086)	(26,558)	(549,053)	(575,611)
OTHER FINANCING SOURCES (USES)					
Refunding bonds	-	13,545,000	13,545,000	(13,545,000)	-
Bond premium	-	81,016	81,016	(81,016)	-
Payment to refunded bond escrow	-	(14,209,742)	(14,209,742)	14,209,742	-
Total Other Financing Source (Uses)	-	(583,726)	(583,726)	583,726	-
NET CHANGE IN FUND BALANCES	3,528	(613,812)	(610,284)	610,284	
CHANGES IN NET POSITION				(575,611)	(575,611)
FUND BALANCE/NET POSITION: BEGINNING OF YEAR	2	895,606	895,608	(13,418,065)	(12,522,457)
END OF YEAR	$ 3,530	$ 281,794	$ 285,324	$ (13,383,392)	$ (13,098,068)

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, 2016

	Original & Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Property taxes	$ 25,161	$ 25,149	$ (12)
Specific ownership taxes	1,761	1,929	168
Interest income	-	11	11
Total Revenues	26,922	27,089	167
EXPENDITURES			
Accounting and audit	3,500	4,163	(663)
Legal	5,000	14,766	(9,766)
Insurance	2,500	2,898	(398)
Miscellaneous	500	57	443
Directors' fees and related taxes	1,200	1,300	(100)
Treasurers fees	377	377	-
Contingency	12,853	-	12,853
Emergency reserve	356	-	356
Total Expenditures	26,286	23,561	2,725
CHANGE IN FUND BALANCE	636	3,528	2,892
FUND BALANCE - BEGINNING OF YEAR	(636)	2	638
FUND BALANCE - END OF YEAR	$ -	$ 3,530	$ 3,530

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

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. On November 14, 2016 the City approved a First Amendment to the Consolidated Service Plan. 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.

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 *availabl*e 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.

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 $1,119,099 to $15,000,000 primarily due to the 2016 bond issue and refunding (See Note 3).

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, 2016, 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.

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 has one item that qualifies for reporting in this category. This item is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. (See Note 3).

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.

Original Issue Premium, Prepaid Bond Insurance and Deferred Loss on Refunding

The Original Issue Premium and Prepaid Bond Insurance from the Series 2016 Bonds are being amortized over the life of the bonds using the effective interest method. The Deferred Loss on Refunding on the Series 2016 Bonds is being amortized over the life of the refunded bonds using the straight-line method. Accumulated amortization of the Original Issue Premium, Prepaid Bond Insurance, and Deferred Loss on Refunding amounted to $167, $174 and $383, respectively, at December 31, 2016.

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.

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.

The nonspendable fund balance in the General Fund in the amount of $2,355 represents prepaid expenditures.

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

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 $386 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 $281,794 is reserved for the payment of the General Obligation bonds (see Note 3).

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.

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, 2016, 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, 2016, cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	$ 19,379
Cash and investments – Restricted	278,762
Total	$ 298,141

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	$ 205
Investments – COLOTRUST	289,821
Investments – CSAFE	8,115
	$ 298,141

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.

Investments

Investment Valuation
The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds; money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District has the following recurring fair value measurements as of December 31, 2016:

An external investment pool that records its investments at fair value. The investment in COLOTRUST is categorized as a Level 2 Investment.

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, 2016, the District had the following investments:

COLOTRUST
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, a Level 2 investment under the fair value hierarchy. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. 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, 2016, the District had $289,821 invested in COLOTRUST.

CSAFE
The local government investment pool Colorado Surplus Asset Fund Trust ("CSAFE"), is rated AAAm by Standard and Poor's and the maturity is weighted average 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, 2016, the District had $8,115 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.

The Series 2006 Bonds were fully defeased as the result of the issuance of the Series 2016 Bonds on December 13, 2016.

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 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.

The Series 2008 Bonds were fully defeased as the result of the issuance of the Series 2016 Bonds on December 13, 2016.

$13,545,000 General Obligation Limited Tax Refunding Bonds, Series 2016

On December 13, 2016, the District issued $13,545,000 of General Obligation Refunding Bonds, Series 2016, ("Series 2016 Bonds") dated December 13, 2016, for the purpose of refunding the District's General Obligation Limited Tax (convertible to unlimited tax) Bonds Series 2006, maturing on and after December 1, 2016, in the amount of $4,495,000, refunding the District's Subordinate General Obligation (limited tax convertible to unlimited tax) Convertible Capital Appreciation Bonds Series 2008, maturing on and after December 15, 2016, in the amount of $8,780,000, purchasing a municipal bond insurance policy, and paying the costs of the issuance of the Bonds. The 2016 Bonds bear interest at rates from 4% to 5%, payable semiannually on each June 1 and December 1, commencing on June 1, 2017, and mature on December 1, 2046. The Bonds are subject to early redemption at the option of the District commencing December 1, 2026 without redemption premium, and are subject to mandatory sinking fund redemption, prior to maturity, commencing on December 1, 2027. The 2016 Bonds are secured by Pledged Revenues including the Required Mill Levy and the Specific Ownership Taxes related to the Required Mill Levy.

As a result of the issuance of the Series 2016 Bonds, the refunded bonds are considered to be defeased and the liabilities have been removed from the governmental activities column of the statement of net position. The reacquisition price of the old debt exceeded the net carrying amount by $183,325. This amount is recorded as a deferred outflow and is being amortized over the life of the refunded bonds. The refunding resulted in an economic gain of $4,243,268 due to the average interest rate of the Series 2016 Bonds being lower than the refunded bonds.

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

	Principal	Interest	Total
2017	$ -	$ 571,451	$ 571,451
2018	-	591,156	591,156
2019	-	591,156	591,156
2020	85,000	591,156	676,156
2021	170,000	587,756	757,756
2022-2026	1,305,000	2,805,830	4,110,830
2027-2031	1,810,000	2,445,530	4,255,530
2032-2036	2,510,000	1,951,800	4,461,800
2037-2041	3,315,000	1,361,814	4,676,814
2042-2046	4,350,000	573,752	4,923,752
	$ 13,545,000	$ 12,071,401	$ 25,616,401

The following is an analysis of changes in long-term debt for the period ending December 31, 2016:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016	Current Portion
G.O. Bonds, Series 2006	$ 4,585,000	$ -	$ 4,585,000	$ -	$ -
Subordinate G.O. Bonds Series 2008	8,780,000	-	8,780,000	-	-
G.O. Bonds Series 2016	-	13,545,000	-	13,545,000	-
	13,365,000	13,545,000	13,365,000	13,545,000	-
G.O. Bonds Series 2016 - Premium	-	81,016	167	80,849	-
	$13,365,000	$ 13,626,016	$13,365,167	$ 13,625,849	$ -

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 electoral authorization remaining at December 31, 2016, is $25,345,000 of public improvements general obligation debt and $38,900,000 or refunding general obligation debt. The District's Service Plan includes a debt authorization limit of $17,500,000. As of December 31, 2016, 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.

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 and 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,

2) governmental funds report developer advances and/or bond proceeds as revenue; and,
.
3) governmental funds report long-term debt payments as expenditures, however, in the statement of activities, the payment of long-term debt is recorded as a decrease of long-term liabilities.

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, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	$ 610,715	$ 610,715	$ 610,414	$ (301)
Specific ownership	42,750	42,750	46,818	4,068
Interest income	1,000	1,000	7,023	6,023
Total Revenues	654,465	654,465	664,255	9,790
EXPENDITURES				
Bond principal payment	90,000	90,000	90,000	-
Bond interest expense	1,009,938	265,000	263,638	1,362
Bond issuance costs	-	325,000	237,509	87,491
Bond insurance	-	-	84,534	(84,534)
Accounting and audit	5,000	5,000	4,500	500
Paying agent fees	5,000	5,000	5,000	-
Treasurers' fees	9,161	9,161	9,160	1
Total Expenditures	1,119,099	699,161	694,341	4,820
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(464,634)	(44,696)	(30,086)	14,610
OTHER FINANCING SOURCES (USES)				
Refunding bonds	-	13,545,000	13,545,000	-
Bond premium	-	-	81,016	81,016
Payment to refunded bond escrow	-	(14,300,839)	(14,209,742)	91,097
Total Other Financing Source (Uses)	-	(755,839)	(583,726)	172,113
CHANGE IN FUND BALANCE	(464,634)	(800,535)	(613,812)	186,723
FUND BALANCE - BEGINNING OF YEAR	898,396	898,396	895,606	(2,790)
FUND BALANCE - END OF YEAR	$ 433,762	$ 97,861	$ 281,794	$ 183,933

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, 2016

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016
Interest Payable June 1 and December 1
Principal Due December 1

Year Ended December 31,	Principal	Interest	Total
2017	$ -	$ 571,451	$ 571,451
2018	-	591,156	591,156
2019	-	591,156	591,156
2020	85,000	591,156	676,156
2021	170,000	587,756	757,756
2022	220,000	580,956	800,956
2023	240,000	572,156	812,156
2024	265,000	562,556	827,556
2025	275,000	551,956	826,956
2026	305,000	538,206	843,206
2027	320,000	522,956	842,956
2028	335,000	506,956	841,956
2029	355,000	490,206	845,206
2030	390,000	472,456	862,456
2032	445,000	432,456	877,456
2033	470,000	410,206	880,206
2034	505,000	390,819	895,819
2035	525,000	369,988	894,988
2036	565,000	348,331	913,331
2037	590,000	325,025	915,025
2038	630,000	300,688	930,688
2039	655,000	273,913	928,913
2040	705,000	246,075	951,075
2041	735,000	216,113	951,113
2042	785,000	184,875	969,875
2043	820,000	151,513	971,513
2044	870,000	116,663	986,663
2045	910,000	79,688	989,688
2046	965,000	41,013	1,006,013
	$ 13,545,000	$ 12,071,401	$ 25,616,401

CONTINUING DISCLOSURE ANNUAL FINANCIAL INFORMATION - UNAUDITED

TRADITIONS METROPOLITAN DISTRICT NO. 2

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2016

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mills Levied		Total Property Tax		Percent Collected to Levied
		General Fund	Debt Service	Levied	Collected	
2014	$ 7,271,250	2.060	50.000	$ 378,541	$ 378,399	99.96%
2015	$ 9,302,647	2.060	50.000	$ 484,296	$ 484,294	100.00%
2016	$ 12,214,296	2.060	50.000	$ 635,876	$ 635,563	99.95%
Estimated for year ending December 31, 2017	$ 13,842,918	6.500	35.000	$ 574,481		

NOTE

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