

STEAMBOAT II METROPOLITAN DISTRICT

Financial Statements

December 31, 2017

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June 20, 2018

STEAMBOAT II METROPOLITAN DISTRICT

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Independent Auditor's Report

Board of Directors
Steamboat II Metropolitan District
Routt County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Steamboat II Metropolitan District (the District), as of and for the year ended December 31, 2017, 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; 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Steamboat II Metropolitan District as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 26, 2017. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-5, the General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual on page 28, and the defined benefit pension plan on pages 29-30 as listed in the table of contents, 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 the 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Enterprise Fund Schedule of Revenues, Expenditures and Changes in Net Position – Budget and Actual on page 31 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Catterson + Company, P.C.

Steamboat Springs, Colorado
June 18, 2018

Steamboat II Metropolitan District

Management Discussion and Analysis

December 31, 2017

As management of Steamboat II Metropolitan District (the “District”), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statement, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets and liabilities, with the difference between the two reported as net positions. Over time, increases or decreases in net positions may serve as a useful indicator on whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net positions changed during the most recent year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of District revenues that are principally supported by taxes, user and tap fees and other revenues.

Effective January 1, 2015, the District is required to apply the Governmental Accounting Standards Board Statement No. 68 Accounting and Financial Reporting for Pensions (GASB 68). The change requires the District to report its proportionate share of the total PERA net pension liability in its government-wide financial statements. The District will show a negative net position greater than in previous years due to GASB 68.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds to the District can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District has one governmental fund – the General Fund to account the parks and recreation activities of the District.

Proprietary Funds

Proprietary (Enterprise) funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The District maintains one Enterprise Fund to account for its water and sanitation operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current assets	\$ (39,063)	\$ 1,596,637	\$ 1,557,574	\$ (61,788)	\$ 1,577,073	\$ 1,515,285
Capital assets, net	140,745	1,006,603	1,147,348	109,652	1,064,414	1,174,066
Total assets	101,682	2,603,240	2,704,922	47,864	2,641,487	2,689,351
Deferred outflows of resources:						
Related to pension	60,727	60,859	121,586	48,494	51,540	100,034
Liabilities:						
Current liabilities	-	31,971	31,971	-	23,688	23,688
Noncurrent liabilities:						
Net pension liability	218,089	218,561	436,650	181,451	192,853	374,304
Total liabilities	218,089	250,532	468,621	181,451	216,541	397,992
Deferred inflows of resources:						
Deferred property tax revenue	180,310	132,261	312,571	158,478	129,335	287,813
Related to pension	4,650	4,659	9,309	4,110	4,369	8,479
Total deferred inflows of resources	184,960	136,920	321,880	162,588	133,704	296,292
Net position:						
Invested in capital assets	140,745	1,006,603	1,147,348	109,652	1,064,414	1,174,066
Restricted	-	21,885	21,885	-	21,353	21,353
Unrestricted	(381,385)	1,248,159	866,774	(357,333)	1,257,015	899,682
Total net position	(240,640)	2,276,647	2,036,007	(247,681)	2,342,782	2,095,101
Program revenues:						
Charges for services	-	385,754	385,754	-	360,914	360,914
Capital grants & contributions	-	15,297	15,297	-	24,728	24,728
Total program revenues	-	401,051	401,051	-	385,642	385,642
General revenues:						
Taxes	158,454	152,275	310,729	158,501	149,753	308,254
Other	23,654	12,096	35,750	6,305	11,557	17,862
Total general revenues	182,108	164,371	346,479	164,806	161,310	326,116
Total revenues	182,108	565,422	747,530	164,806	546,952	711,758
Expenses:						
Parks and recreation	236,610	-	236,610	189,471	-	189,471
Water and sanitation	-	467,461	467,461	-	439,758	439,758
Administration	-	102,553	102,553	-	93,111	93,111
Total expenses	236,610	570,014	806,624	189,471	532,869	722,340
Interfund transfer	61,543	(61,543)	-	-	-	-
Change in net position	7,041	(66,135)	(59,094)	(24,665)	14,083	(10,582)
Beginning net position	(247,681)	2,342,782	2,095,101	(223,016)	2,328,699	2,105,683
Change in accounting principles	-	-	-	-	-	-
Ending net position	\$ (240,640)	\$ 2,276,647	\$ 2,036,007	\$ (247,681)	\$ 2,342,782	\$ 2,095,101

Fund Analysis

The District has a single governmental fund, the General Fund. As of the end of 2017, the unassigned ending fund balance deficit was \$(219,373).

The General Fund has been in deficit since its inception for capital improvement projects.

The District has a single proprietary fund, the Enterprise Fund, accounting for water and sanitation operations. The Enterprise Fund recorded a loss of \$66,135, a result of a supplemental budget fund transfer.

Budgetary Highlights

Development is gaining activity within the District resulting in higher tap fees.

Capital Assets.

The District's investment in capital assets for its governmental and business type activities as of December 31, 2017 totals \$1,147,348 (net of accumulated depreciation). This investment includes all land, buildings, machinery, equipment, and infrastructure.

Request 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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Steamboat II Metropolitan District P.O. Box 771277, Steamboat Springs, CO 80477 or you may call 970 879-7671.

STEAMBOAT II METROPOLITAN DISTRICT
Statement of Net Position
December 31, 2017
(with summarized financial information as of December 31, 2016)

	2017			2016 Total
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and cash equivalents	\$ -	\$ 1,191,524	\$ 1,191,524	\$ 1,170,785
Accounts receivable	-	37,702	37,702	38,681
Due from other governments	-	1,934	1,934	1,808
Property taxes receivable	180,310	132,261	312,571	287,813
Prepaid expenses	-	13,843	13,843	16,198
Interfund balances	(219,373)	219,373	-	-
Capital assets, net	140,745	1,006,603	1,147,348	1,174,066
Total assets	101,682	2,603,240	2,704,922	2,689,351
Deferred Outflows of Resources:				
Deferred outflows related to pension	60,727	60,859	121,586	100,034
Total deferred outflows of resources	60,727	60,859	121,586	100,034
Liabilities:				
Accounts payable	-	31,971	31,971	23,688
Noncurrent liabilities:				
Due in more than one year:				
Net pension liability	218,089	218,561	436,650	374,304
Total liabilities	218,089	250,532	468,621	397,992
Deferred Inflows of Resources:				
Deferred property tax revenues	180,310	132,261	312,571	287,813
Deferred inflows related to pension	4,650	4,659	9,309	8,479
Total deferred inflows of resources	184,960	136,920	321,880	296,292
Net Position (Deficit):				
Net investment in capital assets	140,745	1,006,603	1,147,348	1,174,066
Restricted for:				
Emergencies	-	21,885	21,885	21,353
Unrestricted	(381,385)	1,248,159	866,774	899,682
Total net position (deficit)	\$ (240,640)	\$ 2,276,647	\$ 2,036,007	\$ 2,095,101

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

STEAMBOAT II METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

Functions/Programs	2017						2016 Total
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental Activities:							
Parks and recreation	\$ 236,610	\$ -	\$ -	\$ (236,610)	\$ -	\$ (236,610)	\$ (189,471)
Total governmental activities	236,610	-	-	(236,610)	-	(236,610)	(189,471)
Business-type Activities:							
Water and sanitation	467,461	385,754	15,297	-	(66,410)	(66,410)	(54,116)
Administrative	102,553	-	-	-	(102,553)	(102,553)	(93,111)
Total business-type activities	570,014	385,754	15,297	-	(168,963)	(168,963)	(147,227)
Total primary government	<u>\$ 806,624</u>	<u>\$ 385,754</u>	<u>\$ 15,297</u>	(236,610)	(168,963)	(405,573)	(336,698)
General Revenues:							
Taxes:							
Property				158,454	129,316	287,770	287,855
Specific ownership				-	22,959	22,959	20,399
Intergovernmental				5,619	-	5,619	6,305
Interest				-	12,096	12,096	11,557
Gain on disposal of capital assets				18,035	-	18,035	-
Interfund transfer				61,543	(61,543)	-	-
Total general revenues				<u>243,651</u>	<u>102,828</u>	<u>346,479</u>	<u>326,116</u>
Change in net position				7,041	(66,135)	(59,094)	(10,582)
Net position, beginning of year				<u>(247,681)</u>	<u>2,342,782</u>	<u>2,095,101</u>	<u>2,105,683</u>
Net position, end of year				<u>\$ (240,640)</u>	<u>\$ 2,276,647</u>	<u>\$ 2,036,007</u>	<u>\$ 2,095,101</u>

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

STEAMBOAT II METROPOLITAN DISTRICT
General Fund
Balance Sheet
December 31, 2017
(with summarized financial information as of December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets:		
Property taxes receivable	<u>\$ 180,310</u>	<u>\$ 158,478</u>
Total assets	<u><u>\$ 180,310</u></u>	<u><u>\$ 158,478</u></u>
Liabilities, Deferred Inflows of Resources and Fund Balance:		
Liabilities:		
Due to enterprise fund	<u>\$ 219,373</u>	<u>\$ 220,266</u>
Total liabilities	<u>219,373</u>	<u>220,266</u>
Deferred inflows of resources:		
Deferred property tax revenues	<u>180,310</u>	<u>158,478</u>
Total deferred inflows of resources	<u>180,310</u>	<u>158,478</u>
Fund balance (deficit):		
Unassigned	<u>(219,373)</u>	<u>(220,266)</u>
Total fund balance (deficit)	<u>(219,373)</u>	<u>(220,266)</u>
Total liabilities, deferred inflows of resources and fund balance	<u><u>\$ 180,310</u></u>	<u><u>\$ 158,478</u></u>

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

STEAMBOAT II METROPOLITAN DISTRICT
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
For the Year Ended December 31, 2017

Governmental fund balance (deficit)		\$	(219,373)
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore are not reported as assets in the governmental fund:			
Costs of capital assets	\$	374,880	
Less accumulated depreciation		<u>(234,135)</u>	140,745
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the governmental fund:			
Net pension liability			(218,089)
Deferred inflows related to pension			(4,650)
Deferred outflows related to pension			<u>60,727</u>
Net position (deficit) of governmental activities		<u>\$</u>	<u>(240,640)</u>

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

STEAMBOAT II METROPOLITAN DISTRICT
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
Revenues:		
Taxes	\$ 158,454	\$ 158,501
Intergovernmental	5,619	6,305
Total revenues	164,073	164,806
Expenditures:		
Parks and recreation	195,051	166,439
Capital outlay	29,672	2,000
Total expenditures	224,723	168,439
Excess (deficiency) of revenues over expenditures	(60,650)	(3,633)
Other financing sources:		
Interfund transfer	61,543	-
Fund balance (deficit), beginning of year	(220,266)	(216,633)
Fund balance (deficit), end of year	\$ (219,373)	\$ (220,266)

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

STEAMBOAT II METROPOLITAN DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of the Governmental Fund to the Statement of Activities
For the Year Ended December 31, 2017

Changes in fund balance - governmental fund \$ 893

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay	\$ 47,707	
Depreciation	<u>(16,614)</u>	31,093

In the governmental fund, expenditures for the defined benefit pension plan are measured by the amount of financial resources used, whereas in the statement of activities, they are measured as the liability is accrued according to actuarial estimates. This is the amount the net pension liability and related deferred inflows and outflows changed during the current year.

(24,945)

Change in net position of governmental activities

\$ 7,041

STEAMBOAT II METROPOLITAN DISTRICT
Enterprise Fund
Statement of Net Position
December 31, 2017
(with summarized financial information as of December 31, 2016)

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,191,524	\$ 1,170,785
Accounts receivable	37,702	38,681
Due from other government	1,934	1,808
Prepaid expenses	13,843	16,198
Property taxes receivable	132,261	129,335
Due from general fund	<u>219,373</u>	<u>220,266</u>
 Total current assets	 <u>1,596,637</u>	 <u>1,577,073</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>1,006,603</u>	<u>1,064,414</u>
 Total noncurrent assets	 <u>1,006,603</u>	 <u>1,064,414</u>
 Total assets	 <u>2,603,240</u>	 <u>2,641,487</u>
Deferred Outflows of Resources:		
Deferred outflows related to pension	<u>60,859</u>	<u>51,540</u>
 Total deferred outflows of resources	 <u>60,859</u>	 <u>51,540</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	<u>31,971</u>	<u>23,688</u>
 Total current liabilities	 <u>31,971</u>	 <u>23,688</u>
Noncurrent liabilities:		
Net pension liability	<u>218,561</u>	<u>192,853</u>
 Total noncurrent liabilities	 <u>218,561</u>	 <u>192,853</u>
 Total liabilities	 <u>250,532</u>	 <u>216,541</u>
Deferred Inflows of Resources:		
Deferred property tax revenues	132,261	129,335
Deferred inflows related to pension	<u>4,659</u>	<u>4,369</u>
 Total deferred inflows of resources	 <u>136,920</u>	 <u>133,704</u>
Net Position:		
Net investment in capital assets	1,006,603	1,064,414
Restricted for emergencies	21,885	21,353
Unrestricted	<u>1,248,159</u>	<u>1,257,015</u>
 Total net position	 <u>\$ 2,276,647</u>	 <u>\$ 2,342,782</u>

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

STEAMBOAT II METROPOLITAN DISTRICT
Enterprise Fund
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
Operating Revenues:		
Charges for services	\$ 385,754	\$ 360,914
Total operating revenues	385,754	360,914
Operating Expenses:		
Operations	405,768	375,844
Administrative	102,553	93,111
Depreciation	57,811	60,030
Total operating expenses	566,132	528,985
Operating income (loss)	(180,378)	(168,071)
Non-Operating Revenues (Expenses):		
Taxes	152,275	149,753
Interest income	12,096	11,557
Other expense	(3,882)	(3,884)
Net non-operating revenues	160,489	157,426
Income before contributions and transfers	(19,889)	(10,645)
Contributions and Transfers:		
Tap fees	15,297	24,728
Interfund transfer	(61,543)	-
Change in net position	(66,135)	14,083
Net position, beginning of year	2,342,782	2,328,699
Net position, end of year	\$ 2,276,647	\$ 2,342,782

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

STEAMBOAT II METROPOLITAN DISTRICT
Enterprise Fund
Statement of Cash Flows
For the Year Ended December 31, 2017
(with summarized financial information for the year ended December 31, 2016)

	2017	2016
Cash Flows From Operating Activities:		
Cash received from customers	\$ 386,733	\$ 356,967
Cash paid to suppliers of goods and services	(360,985)	(367,172)
Cash paid to employees	(120,019)	(102,273)
Net cash provided (used) by operating activities	(94,271)	(112,478)
Cash Flows From Non-Capital Financing Activities:		
Cash receipts from taxes	152,149	149,558
Cash payments for tax collection fees	(3,882)	(3,884)
Net payments (to) from general fund	(60,650)	(3,633)
Net cash provided by non-capital financing activities	87,617	142,041
Cash Flows From Capital and Related Financing Activities:		
Tap fees collected, including amounts due to City	38,629	52,060
Payments of tap fees to City	(23,332)	(27,332)
Purchases of capital assets	-	(44,725)
Net cash provided by capital and related financing activities	15,297	(19,997)
Cash Flows From Investing Activities:		
Interest received	12,096	11,557
Net cash provided by investing activities	12,096	11,557
Net change in cash and cash equivalents	20,739	21,123
Cash and cash equivalents, beginning of year	1,170,785	1,149,662
Cash and cash equivalents, end of year	\$ 1,191,524	\$ 1,170,785
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ (180,378)	\$ (168,071)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	57,811	60,030
Defined benefit pension plan accruals	16,679	7,541
(Increase) decrease in:		
Accounts receivable	979	(3,947)
Prepaid expense	2,355	(11,328)
(Decrease) increase in:		
Accounts payable and accrued expenses	8,283	3,297
Net cash provided (used) by operating activities	\$ (94,271)	\$ (112,478)

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

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 1: Summary of Significant Accounting Policies

The Steamboat II Metropolitan District (the District) was originally organized as the Steamboat II Water and Sanitation District and was established as a political subdivision of the State of Colorado pursuant to the Colorado Special District Act. On November 4, 1997, voters approved a referendum allowing the Steamboat II Water and Sanitation District to become the Steamboat II Metropolitan District, with the powers and duties of a metropolitan district. An elected Board of Directors governs the District. The District provides water and sanitation services and provides construction and maintenance of parks and recreation facilities. The District's service area is located within Routt County, Colorado.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The reporting entity consists of (a) the primary government, i.e., the District, and (b) organizations for which the District is financially accountable. The District does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The government-wide financial statements and proprietary (enterprise) fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Governmental fund financial statements use a current financial resources measurement focus and are maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues collected within 60 days after year end to be available and thus recognizes them as revenues in the current year.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial Statement Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities report information about the nonfiduciary activities of the District. The District's activities are categorized as either governmental activities or business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental functions and business-type activities. The governmental functions are supported by general revenues (e.g., taxes, interest). The statement of activities reduces gross expenses (including depreciation) by related program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenues include (a) charges for services and (b) grants and contributions that are restricted for the operating or capital requirements of a specific program. All taxes and other revenues not meeting the criteria for classification as program revenues are reported as general revenues.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 1: Summary of Significant Accounting Policies (continued)

Fund Financial Statements

The fund financial statements report information about the District's funds.

The District reports the following major governmental fund:

The *General Fund* is used to account for the District's parks and recreation activities. The primary source of revenue is from an allocation of property taxes.

The District reports the following major proprietary or business-type fund:

The *Enterprise Fund* accounts for the activities of the water and sewer services provided to the District's residents. The major sources of revenue are from charges for services and an allocation of property taxes.

Fund Balance Presentation

Fund balances of the governmental fund are classified as follows:

- Non-spendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted – includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments.
- Committed – includes amounts that can be spent only for specific purposes pursuant to constraints imposed by formal action of the District. Such formal action may be in the form of an ordinance or resolution and may only be modified or rescinded by a subsequent formal action.
- Assigned – includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Assignments may be made only by the Board of Directors.
- Unassigned – represents the residual positive balance within the General Fund, which has not been restricted, committed or assigned.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, amounts on deposit with financial institutions, and certificates of deposit.

Accounts Receivable

Accounts receivable consist primarily of amounts due from residents for services provided by the District. Receivables are reviewed periodically to establish an allowance for uncollectible accounts. The District considers all receivables to be fully collectible as of December 31, 2017 and 2016. Therefore, no allowance for uncollectible accounts has been established.

Capital Assets

Capital assets include the water system, buildings, vehicles, equipment and easements. Capital assets are defined by the District as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Water system	10-40
Buildings	40
Equipment and vehicles	5-20

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until that time. The District's deferred outflows of resources relate to the net pension liability.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist of unavailable revenues from property taxes and the net pension liability.

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routt County Treasurer's office collects property taxes and remits collections to the District on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenditures/expenses. Actual results could differ from these estimates.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with US GAAP for the General Fund. The Enterprise Fund adopts a budget on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures. All annual appropriations lapse at year end.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental budget appropriations during the year ended December 31, 2017.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 2: Stewardship, Compliance and Accountability (continued)

Compliance

The District's General Fund expenditures exceeded appropriations by \$61,543 for the year ended December 31, 2017.

TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future 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.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

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 has reserved \$21,885 of the December 31, 2017 fund balance in the Enterprise Fund for this purpose.

The District's voters passed a ballot question on May 2, 2000, authorizing the District to collect, retain and expend the full proceeds of the District's tax levy, non-federal grants and all other revenues for the 2000 fiscal year and every year thereafter.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

Note 3: Detailed Notes on the Funds

Deposits

The carrying amount of the District's deposits as of December 31, 2017 and 2016 was \$1,191,449 and \$1,170,710, respectively, and bank balances were \$1,209,847 and \$1,187,541, respectively. Of the bank balances, \$585,225 and \$549,847 as of December 31, 2017 and 2016, respectively, was covered by federal deposit insurance and \$624,622 and \$637,694, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The 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 collateral 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 equal or exceed 102% of the aggregate uninsured deposits.

STEAMBOAT II METROPOLITAN DISTRICT

Notes to Financial Statements

December 31, 2017

(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 3: Detailed Notes on the Funds (continued)

Capital Assets

Capital asset activity for the year ended December 31, 2017 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Equipment and vehicles	\$ 262,879	\$ 47,707	\$ (28,795)	\$ 281,791
Buildings	93,089	-	-	93,089
Less accumulated depreciation	<u>(246,316)</u>	<u>(16,614)</u>	<u>28,795</u>	<u>(234,135)</u>
Governmental activities capital assets, net	<u>\$ 109,652</u>	<u>\$ 31,093</u>	<u>\$ -</u>	<u>\$ 140,745</u>
Business-type activities:				
Easements	\$ 1,500	\$ -	\$ -	\$ 1,500
Other capital assets:				
Water system	2,555,720	-	-	2,555,720
Equipment	164,377	-	-	164,377
Buildings	95,488	-	-	95,488
Total other capital assets at cost	<u>2,815,585</u>	<u>-</u>	<u>-</u>	<u>2,815,585</u>
Less accumulated depreciation for:				
Water system	(1,631,656)	(41,736)	-	(1,673,392)
Equipment	(100,328)	(13,249)	-	(113,577)
Buildings	<u>(20,687)</u>	<u>(2,826)</u>	<u>-</u>	<u>(23,513)</u>
Total accumulated depreciation	<u>(1,752,671)</u>	<u>(57,811)</u>	<u>-</u>	<u>(1,810,482)</u>
Other capital assets, net	<u>1,062,914</u>	<u>(57,811)</u>	<u>-</u>	<u>1,005,103</u>
Business-type activities capital assets, net	<u>\$ 1,064,414</u>	<u>\$ (57,811)</u>	<u>\$ -</u>	<u>\$ 1,006,603</u>

STEAMBOAT II METROPOLITAN DISTRICT

Notes to Financial Statements

December 31, 2017

(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 3: Detailed Notes on the Funds (continued)

Capital Assets (continued)

Capital asset activity for the year ended December 31, 2016 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Equipment and vehicles	\$ 260,879	\$ 2,000	\$ -	\$ 262,879
Buildings	93,089	-	-	93,089
Less accumulated depreciation	<u>(228,801)</u>	<u>(17,515)</u>	<u>-</u>	<u>(246,316)</u>
Governmental activities capital assets, net	<u>\$ 125,167</u>	<u>\$ (15,515)</u>	<u>\$ -</u>	<u>\$ 109,652</u>
Business-type activities:				
Easements	\$ 1,500	\$ -	\$ -	\$ 1,500
Other capital assets:				
Water system	2,552,120	3,600	-	2,555,720
Equipment	147,593	41,125	(24,341)	164,377
Buildings	95,488	-	-	95,488
Total other capital assets at cost	<u>2,795,201</u>	<u>44,725</u>	<u>(24,341)</u>	<u>2,815,585</u>
Less accumulated depreciation for:				
Water system	(1,580,606)	(51,050)	-	(1,631,656)
Equipment	(118,514)	(6,155)	24,341	(100,328)
Buildings	<u>(17,862)</u>	<u>(2,825)</u>	<u>-</u>	<u>(20,687)</u>
Total accumulated depreciation	<u>(1,716,982)</u>	<u>(60,030)</u>	<u>24,341</u>	<u>(1,752,671)</u>
Other capital assets, net	<u>1,078,219</u>	<u>(15,305)</u>	<u>-</u>	<u>1,062,914</u>
Business-type activities capital assets, net	<u>\$ 1,079,719</u>	<u>\$ (15,305)</u>	<u>\$ -</u>	<u>\$ 1,064,414</u>

Depreciation expense was charged to functions of the District as follows during 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Governmental activities:		
Parks and recreation	<u>\$ 16,614</u>	<u>\$ 17,515</u>
Business-type activities:		
Water and sanitation	<u>\$ 57,811</u>	<u>\$ 60,030</u>

Interfund Balances

The District's General Fund has accumulated an interfund balance due to the Enterprise Fund of \$280,916 as of December 31, 2017. The District does not expect this interfund balance to be settled within the next year.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 3: Detailed Notes on the Funds (continued)

Governmental Fund Balance

The District has no restricted governmental fund balance as of December 31, 2017 as all Colorado Lottery proceeds from the State of Colorado Conservation Trust Fund were expended for parks and recreation activities prior to the end of year.

The District commits the following fund balance by establishing separate governmental funds:

- General Fund to account for the parks and recreation activities of the District funded by property taxes.

When expenditures are incurred and both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

Note 4: Pension Plans

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Pension Plan

Plan Description. Eligible employees of the District are provided with pensions through the LGDTF. Plan benefits are specified in Title 24, Article 51 of CRS, administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at CRS § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 4: Pension Plans (continued)

Defined Benefit Pension Plan (continued)

General Information About the Pension Plan (continued)

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the CRS. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the LGDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the District are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under CRS § 24-51-401, et seq. Eligible employees are required to contribute 8.00% of their PERA-includable salary. Employer contribution requirements, as a percentage of salary for the years ended December 31, 2017 and 2016, are summarized as follows:

Employer contribution rate	10.00%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in CRS § 24-51-208(1)(f)	-1.02%
Amount apportioned to the LGDTF	<u>8.98%</u>
Amortization Equalization Disbursement (AED) as specified in CRS § 24-51-411	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in CRS § 24-51-411	1.50%
Total Employer Contribution Rate to the LGDTF	<u><u>12.68%</u></u>

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$30,404 and \$25,170, respectively, for the years ended December 31, 2017 and 2016.

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pension

As of December 31, 2017, the District reported a net pension liability of \$436,650 for its proportionate share of the collective net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on the District's contributions to the LGDTF for the calendar year 2016 relative to the total contributions of participating employers to the LGDTF.

As of December 31, 2016, the District proportion was 0.0323363105%, which was a decrease of 0.001642447% from its proportion measured as of December 31, 2015.

STEAMBOAT II METROPOLITAN DISTRICT

Notes to Financial Statements

December 31, 2017

(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 4: Pension Plans (continued)

Defined Benefit Pension Plan (continued)

For the years ended December 31, 2017 and 2016, the District recognized pension expense of \$72,028 and \$38,227, respectively. As of December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 7,770	\$ -
Changes of assumptions or other inputs	30,972	1,263
Net difference between projected and actual investment earnings	52,440	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	8,046
Contributions subsequent to the measurement date	30,404	-
Total	\$ 121,586	\$ 9,309

The deferred outflows of resources of \$30,404 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2017	\$ 51,410
2018	16,204
2019	13,762
2020	497
	\$ 81,873

Actuarial Assumptions. The roll-forward calculation of the total pension liability as of December 31, 2016 from the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 - 10.45 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve (AIR)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 4: Pension Plans (continued)

Defined Benefit Pension Plan (continued)

The actuarial assumptions used in the December 31, 2016 roll-forward valuation were based the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions adopted by the PERA's Board on November 18, 2016.

Changes in assumptions or other inputs since the December 31, 2015 actuarial valuation are as follows.

- For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

The LGDTF's long-term rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term results that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 4: Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and the SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits, reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is not a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted). AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

STEAMBOAT II METROPOLITAN DISTRICT

Notes to Financial Statements

December 31, 2017

(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 4: Pension Plans (continued)

Defined Benefit Pension Plan (continued)

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Discount Rate:	Sensitivity of the NPL		
	6.25%	7.25%	8.25%
Proportionate share of the NPL	\$ 643,821	\$ 436,650	\$ 265,090

Pension Plan Fiduciary Net Position. Detailed information about the LGDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Defined Contribution Pension Plan

Voluntary Investment Plan

Plan Description. Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the Program provisions to the PERA Board. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy. The Voluntary Investment Program is funded by voluntary member contributions of up to a maximum limits set by the IRS, as established under Title 24, Article 51, Section 1402 of the CRS, as amended. In addition, the District has agreed to match employee contributions up to 3.50% of covered salary as determined by the IRS. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the years ended December 31, 2017, 2016, and 2015, program members and employer matching contributions from the District were each \$6,012, \$5,361 and \$5,289, respectively, for the Voluntary Investment Program.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description. The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy. The District is required to contribute at a rate of 1.02% of PERA includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the CRS, as amended. For the years ended December 31, 2017, 2016, and 2015, the District's employer contributions to the HCTF were \$2,446, \$2,024 and \$1,983, respectively, equal to their required contributions for each year.

STEAMBOAT II METROPOLITAN DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of December 31, 2016 and for the year then ended)

Note 5: Other Information

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

Intergovernmental Agreement

The District has entered into a wastewater agreement and a regional water purchase agreement with the City of Steamboat Springs (City) whereby a portion of tap fees received by the District will be paid to the City. The funds are to be used for capital and debt expenses related to the Regional Wastewater Treatment Plant and the Fish Creek Water Treatment Plant. The District records these funds as a payable when received and as a reduction to the payable when paid to the City.

In 2003, the District and City entered into a Settlement Agreement that retroactively changed the calculation of the City's portion of tap fees collected by the District. The following summarizes the activity under this agreement for the years ended December 31, 2017 and 2016:

	2017	2016
Due to City, beginning of year	\$ -	\$ -
Tap fees collected for the City	23,332	27,332
Tap fees paid to the City	(23,332)	(27,332)
Due to City, end of year	\$ -	\$ -

Commitments

Yamcolo Reservoir Storage Agreement

The District entered into an extension and amendment agreement with the Upper Yampa Water Conservancy District effective July 14, 2011 for 50 acre feet of storage water in the Yamcolo Reservoir for thirty years terminating July 15, 2041. The purchase price for the storage water was \$68.38 per acre foot in 2011 and is subject to an annual CPI increase thereafter. The District paid \$79.53 per acre foot of storage water for the year ended December 31, 2017.

Subsequent Events

The District has evaluated subsequent events through June 18, 2018, the date these financial statements were available to be issued.

STEAMBOAT II METROPOLITAN DISTRICT
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance
Revenues:			
Property taxes	\$ 158,478	\$ 158,454	\$ (24)
Intergovernmental	5,000	5,619	619
Total revenues	<u>163,478</u>	<u>164,073</u>	<u>595</u>
Expenditures:			
Parks and recreation:			
Wages and benefits	127,700	153,233	(25,533)
Operations	9,200	21,736	(12,536)
Tax collection fees	4,680	4,756	(76)
Repairs and maintenance	6,000	4,671	1,329
Other	15,600	10,655	4,945
Capital outlay	-	29,672	(29,672)
Total expenditures	<u>163,180</u>	<u>224,723</u>	<u>(61,543)</u>
Excess (deficiency) of revenues over expenditures	298	(60,650)	<u>\$ (60,948)</u>
Other financing sources:			
Interfund transfer	61,543	61,543	
Fund balance (deficit), beginning of year	<u>(220,267)</u>	<u>(220,267)</u>	
Fund balance (deficit), end of year	<u>\$ (158,426)</u>	<u>\$ (219,374)</u>	

STEAMBOAT II METROPOLITAN DISTRICT
Required Supplementary Information
Schedule of the District's Proportionate Share
of the Net Pension Liability
Local Government Division Trust Fund (LGDTF)
Last 10 Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0323%	0.0340%	0.0345%
District's proportionate share of the net pension liability	\$ 436,650	\$ 374,304	\$ 309,621
District's covered-employee payroll	\$ 239,779	\$ 198,499	\$ 194,372
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	182.11%	188.57%	159.29%
Plan fiduciary net position as a percentage of the total pension liability	73.60%	76.87%	80.72%

* The amounts presented for each year were determined as of 12/31.

STEAMBOAT II METROPOLITAN DISTRICT
Required Supplementary Information
Schedule of the District Contributions
Local Government Division Trust Fund (LGDTF)
Last 10 Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 30,404	\$ 25,170	\$ 24,646
Contributions in relation to the contractually required contribution	<u>\$ (30,404)</u>	<u>\$ (25,170)</u>	<u>\$ (24,646)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 239,779	\$ 198,499	\$ 194,372
Contributions as a percentage of covered-employee payroll	12.68%	12.68%	12.68%

STEAMBOAT II METROPOLITAN DISTRICT
Enterprise Fund
Statement of Revenues, Expenditures and Changes in Net Position
Budget (Non-US GAAP Basis) and Actual With Reconciliation to US GAAP Basis
For the Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance
Operating Revenues:			
Charges for services:			
Water	\$ 150,000	\$ 178,071	\$ 28,071
Sewer	196,500	204,335	7,835
Other	750	3,348	2,598
Total revenues	<u>347,250</u>	<u>385,754</u>	<u>38,504</u>
Expenditures:			
Operations:			
Wages and benefits	124,500	140,201	(15,701)
Water purchase	40,000	46,187	(6,187)
Wastewater treatment	162,500	165,557	(3,057)
Repairs and maintenance	25,000	13,630	11,370
Other	14,000	23,514	(9,514)
Administrative:			
Wages and benefits	28,000	33,181	(5,181)
Insurance	17,500	15,769	1,731
Rent and utilities	19,200	18,764	436
Professional fees	10,300	7,498	2,802
Office	12,250	13,337	(1,087)
Other	13,500	14,004	(504)
Capital outlay	<u>41,313</u>	<u>-</u>	<u>41,313</u>
Total expenditures	<u>508,063</u>	<u>491,642</u>	<u>16,421</u>
Operating loss - budget basis	<u>(160,813)</u>	<u>(105,888)</u>	<u>54,925</u>
Non-operating Revenues (Expenses):			
Taxes:			
Property	129,335	129,316	(19)
Specific ownership	15,000	22,959	7,959
Tap fees	10,000	15,297	5,297
Interest	10,000	12,096	2,096
Tax collection fees	<u>(3,820)</u>	<u>(3,882)</u>	<u>62</u>
Total non-operating revenues (expenses)	<u>160,515</u>	<u>175,786</u>	<u>15,395</u>
Other Financing Uses:			
Interfund transfer	<u>-</u>	<u>(61,543)</u>	<u>61,543</u>
Change in net position - budget basis	(298)	69,898	<u>70,196</u>
Reconciliation to US GAAP basis:			
Depreciation		(57,811)	
Defined benefit pension plan accruals		<u>(16,679)</u>	
Change in net position - US GAAP basis		(4,592)	
Net position, beginning of year	<u>2,342,782</u>	<u>2,342,782</u>	
Net position, end of year	<u>\$ 2,342,484</u>	<u>\$ 2,338,190</u>	