

**METROPOLITAN UTILITIES DISTRICT**

Financial Statements and Supplemental Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

# METROPOLITAN UTILITIES DISTRICT

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Metropolitan Utilities District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, each major fund, and the fiduciary fund type of the Metropolitan Utilities District (the District), as of and for the years ended December 31, 2017 and 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; 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 audits. We conducted our audits 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 audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the fiduciary fund type of the District, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 8, the District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The effect of this adoption of this standard was additional note disclosures and required supplementary information about the District's other postemployment benefit plan. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and other postemployment benefit plan and pension schedules, 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 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.

*Supplementary and Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

***RSM US LLP***

Omaha, Nebraska  
March 26, 2018

# METROPOLITAN UTILITIES DISTRICT

## Management’s Discussion and Analysis

December 31, 2017 and 2016

“Management’s Discussion and Analysis” presents management’s analysis and overview of the Metropolitan Utilities District’s (the District) financial condition and activities as of and for the years ended December 31, 2017 and 2016. This information should be read in conjunction with the Financial Statements, Notes to Basic Financial Statements and Required Supplementary Information.

### Overview of Financial Statements

Management’s discussion and analysis serves as an introduction to the financial statements and supplementary information. The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for proprietary funds of governmental entities.

The statement of net position presents information on the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the District’s financial position.

The statement of revenues, expenses, and changes in net position presents information on how the District’s net position changed during the year; all revenues and expenses are accounted for in this statement. All changes in net position 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 result in cash flows in future periods.

The notes to the financial statements provide required disclosures and additional information that is necessary to support the financial statements. The notes begin on page 19.

### Financial Highlights

The District’s overall financial position and results of operations for the current and prior years are summarized in the paragraphs and exhibits to follow.

#### Gas Department

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Sales, volume sold – DTH:		%		%		%
Firm gas sales	25,483,606	86	23,534,665	83	25,229,966	85
Interruptible gas sales	4,013,805	14	4,801,423	17	4,555,247	15
Total gas sales	<u>29,497,411</u>	<u>100</u>	<u>28,336,088</u>	<u>100</u>	<u>29,785,213</u>	<u>100</u>
Heating degree days	5,208		5,032		5,555	
Customers (at December 31):						
Firm customers	229,342		227,081		224,925	
Interruptible customers	23		25		25	
	<u>229,365</u>		<u>227,106</u>		<u>224,950</u>	

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Gas volumes sold in 2017 increased 1,161,323 DTH, or 4.1% from 2016 due to colder winter weather, as evidenced by the 3.5% increase in the number of degree days. There was an increase in firm gas customers in 2017 of 2,261 or 1%; the number of interruptible customers dropped by 2, from 25 to 23.

Gas volumes sold in 2016 decreased 1,449,125 DTH, or 4.9%, from 2015 due to warmer winter weather, as evidenced by the 9.4% decrease in the number of degree days. There was an increase in firm gas customers in 2016 of 2,156, or 1.0%; there was no change in the number of interruptible customers.

#### *Gas Department Summary of Results of Operations*

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Operating revenues:						
Firm and interruptible gas sales	\$ 186,381,676	92%	\$ 159,767,301	91%	\$ 178,917,603	91%
Infrastructure charge	12,983,793	6	12,959,695	7	12,640,132	6
Other	4,727,757	2	4,376,036	2	5,319,888	3
Less bad debt expense	<u>(413,588)</u>	—	<u>(489,434)</u>	—	<u>(897,783)</u>	—
Total operating revenues, net	<u>203,679,638</u>	<u>100%</u>	<u>176,613,598</u>	<u>100%</u>	<u>195,979,840</u>	<u>100%</u>
Operating expenses:						
Cost of natural gas	106,365,860	59%	88,543,519	49%	102,977,022	63%
Other operating expenses	<u>75,003,512</u>	<u>41</u>	<u>74,729,471</u>	<u>41</u>	<u>73,128,107</u>	<u>45</u>
Total operating expenses	<u>181,369,372</u>	<u>100%</u>	<u>163,272,990</u>	<u>90%</u>	<u>176,105,129</u>	<u>108%</u>
Nonoperating revenues (expenses), net	<u>(190,809)</u>		<u>(253,567)</u>		<u>(1,331,137)</u>	
Change in net position	22,119,457		13,087,041		18,543,574	
Net position, beginning of year (as restated for 2015)	<u>337,157,813</u>		<u>324,070,772</u>		<u>305,527,178</u>	
Net position, end of year	<u>\$ 359,277,270</u>		<u>\$ 337,157,813</u>		<u>\$ 324,070,752</u>	

Revenues for gas sales, net, were up 15.3% in 2017 vs. 2016, due to a 4.1% increase in volumes coupled with increased gas costs. Revenues from gas sales, net, were down 9.9% in 2016 vs. 2015, due to a 4.9% reduction in volumes, coupled with decreased gas costs. The annual revenues for the average residential gas customer were \$568.25 in 2017 as compared to \$510.35 in 2016 and to \$573.06 in 2015.

The District initiated an Infrastructure Replacement Charge effective January 2, 2008. This charge is included in the annual revenue for the average residential customer stated above for all years presented.

Total operating expenses in 2017 were up by \$18.1 million or 11.1% from 2016. In 2017, the cost of natural gas was \$17.8 million, or 20.1% greater than 2016, due to increased gas cost (\$14.1 million), and increased volumes (\$3.7 million). In 2017, other operating expenses were \$.3 million, or .4%, higher than 2016 due primarily to: increased depreciation and amortization expense, increased gas service reconnect expense (associated with ongoing cast iron main replacement program) and increased statutory payments attributed to higher revenues, partially offset by reduced Administrative and General expenses. The year-over-year reduction in Administrative and General expense is due primarily to costs incurred in 2016 related to manufactured gas plant remediation efforts; the clean-up was completed in 2016. Total operating expenses in 2016 were down by \$12.8 million or 7.3% from

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### Management's Discussion and Analysis

December 31, 2017 and 2016

2015. In 2016, the cost of natural gas was \$14.4 million, or 14.0% less than in 2015, due to decreased gas cost (\$9.3 million), and lower volumes (\$5.1 million). In 2016, other operating expenses were \$1.6 million, or 2.2% higher than 2015 due primarily to increased depreciation and amortization expense, increased Administrative and General expenses associated with additional manufactured gas plant remediation costs, partially offset by decreased Production operating and maintenance expenses, net, and lower statutory payments attributed to lower revenues.

Non-operating expenses pertain primarily to losses associated with asset retirements or write-offs; 2017's loss was immaterial, and was slightly lower than the amount incurred in 2016. Non-operating expenses in 2016 decreased by \$1.1 million due primarily to the 2015 write-off of mobile radio-related assets associated with the early termination of the contract with a third party provider; the early termination enabled the District to avoid substantial equipment replacement costs as well as the annual maintenance fee of \$.3 million.

The District contracts with Central Plains Energy Project (CPEP) for a significant portion of its gas purchases. CPEP is a public body created under Nebraska Interlocal Law for the purpose of securing long-term, economical, and reliable gas supplies. CPEP currently has three members: the District, Cedar Falls Utilities, and Hastings Utilities. CPEP has acquired gas through long-term prepaid gas purchase agreements and delivers gas to its members or customers through long-term gas supply contracts for specified volumes of gas at market-based pricing less a contractual discount. Under the current agreements, the District anticipates taking approximately 90% of the gas acquired in these transactions under a 20-year gas purchase agreement entered into with CPEP in 2007 (CPEP #1) and two 30-year gas purchase agreements, one entered into in 2009 (CPEP #2) and the other in 2012 (CPEP #3). Terms of the 2007 gas supply agreement (CPEP #1) were renegotiated in 2009 and again in 2012; the gas flows under this agreement will now expire on October 31, 2020. In 2017, the aforementioned prepaid gas purchase agreements accounted for approximately 41% of the District's annual natural gas requirements.

In January 2014, Royal Bank of Canada (RBC) filed a lawsuit in U.S. District Court in Omaha to terminate its 30-year obligation to deliver gas pursuant to CPEP #2, which originated in August 2009. The CPEP #2 supply agreement accounts for approximately 15% of the District's annual gas requirements. RBC asserted that a change in international bank regulations relative to a requirement to maintain increased reserves against prospective losses related to the CPEP deal, served as a "triggering event" to terminate the supply agreement. CPEP disputed RBC's position, and a countersuit was subsequently filed. On December 1, 2014, this matter was resolved; the renegotiation provided for the following: 1) ) \$12.5 million up-front proceeds at closing, which was recorded as unearned gas purchase discounts by the District, and will be recognized as a reduction of the cost of natural gas based on the pattern of gas purchases through October 2019; 2) locked-in discounts of \$.16 per DTH for the period November 1, 2014 through October 31, 2019, and 3) the ability to renegotiate discounts for the November 1, 2019 through June 30, 2039, the remaining duration of the contract. It should be noted that the aforementioned \$12.5 million up-front proceeds were restricted, in that they were to be spent on capital projects within three years from the closing date of December 1, 2014. During 2015, \$5.4 million was spent on qualifying projects, while the remaining \$7.1 million of the \$12.5 million up-front proceeds was spent on qualifying capital projects during 2016.

In December 2017, CPEP closed on an advanced refunding transaction of the CPEP #3 2012 bonds. This transaction will result in increased contractual discounts from market prices, resulting in reduced gas costs of approximately \$159 million over the 2022-2042 time period, an increase of \$77 million from the original transaction that was completed in 2012. Additionally, during the fourth quarter, the District entered into a 30 year gas supply contract with the Tennessee Energy Acquisition Corporation (TEAC) for three to four percent of our annual gas requirements. TEAC completed a 30-year natural gas pre-pay transaction using tax exempt bond

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Management's Discussion and Analysis

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financing that closed on November 7, 2017; the District was a participant in the deal. Gas flows will commence on April 1, 2018, and the District will achieve total gas cost savings of \$1.4 million vs. market prices over the initial five year term of the deal. At the conclusion of the initial five year term, TEAC, and the counterparty to the transaction, will negotiate an extension of the contractual gas discounts based on future interest rate levels at that time. The District is not required to purchase gas after the initial five year term unless the discount to market is \$.20 per Dth or greater.

***Gas Department Summary Financial Position***

	2017	2016	2015
Plant in service, net	\$ 417,087,906	\$ 397,281,159	\$ 376,642,587
Noncurrent assets	631,799	1,085,204	8,376,751
Current assets	<u>142,963,446</u>	<u>147,272,047</u>	<u>142,173,607</u>
Total assets	<u>560,683,151</u>	<u>545,638,410</u>	<u>527,192,945</u>
 Deferred outflows of resources			
Pension amounts	<u>4,050,289</u>	<u>7,243,680</u>	<u>10,775,819</u>
Total assets and deferred outflows of resources	<u>\$ 564,733,440</u>	<u>\$ 552,882,090</u>	<u>\$ 537,968,764</u>
 Deferred inflows of resources			
Pension amounts	\$ 10,554,908	\$ 738,615	\$ -
Contributions in aid of construction	<u>41,267,726</u>	<u>41,682,356</u>	<u>42,122,389</u>
Total deferred inflows of	<u>51,822,634</u>	<u>42,420,971</u>	<u>42,122,389</u>
 Current liabilities	58,557,128	64,551,837	63,874,127
Noncurrent liabilities	<u>95,076,408</u>	<u>108,751,469</u>	<u>107,901,476</u>
Total liabilities	<u>153,633,536</u>	<u>173,303,306</u>	<u>171,775,603</u>
 Net position			
Net investment in capital assets	375,101,336	354,652,000	333,351,210
Unrestricted	<u>(15,824,066)</u>	<u>(17,494,187)</u>	<u>(9,280,438)</u>
Total net position	<u>359,277,270</u>	<u>337,157,813</u>	<u>324,070,772</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 564,733,440</u>	<u>\$ 552,882,090</u>	<u>\$ 537,968,764</u>

***Gas Department Long-Term Debt Activity***

Debt totaled \$718,844 and \$946,803 in the Gas Department at December 31, 2017 and 2016, respectively, which relates to a low-interest loan obtained from the Nebraska Energy Office and its lending partner; the loan matures December 15, 2020 and the interest rate is fixed at 2.5% per annum.

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### Management's Discussion and Analysis

December 31, 2017 and 2016

#### ***Gas Department Capital Asset Activity***

The District remains committed to expending the funds necessary to allow for continued safe and reliable delivery of natural gas to the District's customers. A key component of this commitment is addressing the District's aging infrastructure, as evidenced by the District's ongoing efforts to replace all remaining cast iron gas mains, approximately 318 miles, over the next ten years; the District expended \$19.7 million to improve infrastructure and replace cast iron gas mains in 2017 and \$16.3 million in 2016. Significant projects in 2017 and 2016 are as follows:

In 2017, capital and construction-related costs totaled \$39.3 million, consisting of:

- 1) infrastructure replacement \$19.7 million (discussed above);
- 2) other gas mains and distribution \$12.0 million;
- 3) buildings, land and equipment \$3.1 million;
- 4) information technology-related \$1.9 million;
- 5) vehicles, equipment and all other general plant \$2.6 million.

In 2016, capital and construction-related costs totaled \$41.1 million, consisting of:

- 1) infrastructure replacement \$16.3 million (discussed above);
- 2) other gas mains and distribution \$12.3 million;
- 3) buildings, land and equipment \$2.2 million;
- 4) information technology-related \$5.1 million;
- 5) vehicles, equipment and all other general plant \$5.2 million.

#### ***Water Department***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Water sales (million gallons)	30,059.0	28,723.1	25,134.2

In 2017, the volume of water sales increased 1,335.9 million gallons, or 4.7%, due in part to full year precipitation levels that were in excess of 4 inches below normal, resulting in increased commercial and residential sprinkling. In 2016, the volume of water sales increased 3,588.9 million gallons, or 14.3%, due in part to full year precipitation levels that were nearly 10 inches less than 2015's level (2015 precipitation levels were nearly 14 inches above normal), resulting in increased commercial and residential sprinkling.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Customers (December 31)	214,142	211,623	208,256

The number of customers at the end of 2017 increased 2,519, or 1.2% over 2016. The number of customers at the end of 2016 increased 3,367, or 1.6% over 2015.

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### Management's Discussion and Analysis

December 31, 2017 and 2016

#### *Water Department Summary of Results of Operations*

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Operating revenues:						
Water sales	\$ 103,479,774	84%	\$ 96,989,172	84%	\$ 85,844,760	83%
Infrastructure charge	14,546,568	12	14,470,872	13	14,098,446	14
Other	4,494,121	4	3,954,889	3	3,492,962	3
Less bad debt expense	(192,277)	—	(320,307)	—	(472,268)	—
Total operating revenues, net	<u>122,328,186</u>	<u>100%</u>	<u>115,094,626</u>	<u>100%</u>	<u>102,963,900</u>	<u>100%</u>
Operating expenses	92,744,154		89,849,791		88,877,125	
Nonoperating expenses net	<u>6,717,715</u>		<u>6,540,515</u>		<u>7,908,533</u>	
Change in net position	22,866,317		18,704,320		6,178,242	
Net position, beginning of year (as restated for 2015)	<u>293,844,710</u>		<u>275,140,390</u>		<u>268,962,148</u>	
Net position, end of year	<u>\$ 316,711,027</u>		<u>\$ 293,844,710</u>		<u>\$ 275,140,390</u>	

Operating revenues, net, increased 6.3% in 2017 due to precipitation levels that were below normal by in excess of 4 inches, coupled with the impact of a 2.5% increase to the Service Charge and Commodity components of rates. Operating revenues, net, increased 11.8% in 2016 due to precipitation levels that were nearly 10 inches less than 2015, coupled with the impact of a 3.5% increase to the Service Charge and Commodity components of rates. The annual revenues for the average residential water customer were \$355.81 in 2017 compared to \$336.45 in 2016 and to \$ 320.34 in 2015.

Total operating expenses in 2017 were up by \$2.9 million, or 3.2%, due primarily to increased distribution maintenance expense (due to high number of main breaks), increased depreciation and amortization expense, and increased pumping and purification operating expense associated with increased volumes. The expense increases were partially offset by decreased Administrative and General expense due to additional amounts allocated to construction projects. Total operating expenses in 2016 were up \$1.0 million, or 1.1%, due primarily to increased depreciation and amortization expense, increased water service reconnection expense associated with infrastructure replacement and increased purification operating expense associated with increased volumes. The expense increases were partially offset by decreased Administrative and General expense due to additional amounts allocated to construction projects.

Non-operating expenses increased minimally in 2017 due primarily to less interest capitalized to construction projects. Non-operating expenses decreased by \$1.4 million in 2016, due primarily to \$1.1 million of bond issuance expenses associated with the Series 2015 water revenue bonds, recorded in 2015.

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Management's Discussion and Analysis

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***Water Summary Financial Position***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Plant in service, net	\$ 853,179,220	\$ 833,355,675	\$ 814,934,043
Current assets	106,958,728	80,664,555	63,284,817
Noncurrent assets	<u>12,698,840</u>	<u>22,339,353</u>	<u>35,917,271</u>
Total assets	<u>972,836,788</u>	<u>936,359,583</u>	<u>914,136,131</u>
Deferred outflows of resources			
Pension amounts	3,340,750	6,100,766	9,056,154
Debt refunding	<u>4,285,703</u>	<u>4,843,709</u>	<u>5,419,285</u>
Total deferred outflows of resources	<u>7,626,453</u>	<u>10,944,475</u>	<u>14,475,439</u>
Total assets and deferred outflows of resources	<u>\$ 980,463,241</u>	<u>\$ 947,304,058</u>	<u>\$ 928,611,570</u>
Deferred inflows of resources			
Pension amounts	\$ 8,621,839	\$ 609,222	\$ —
Contributions in aid of construction	<u>296,727,173</u>	<u>291,866,441</u>	<u>288,214,682</u>
Total deferred inflows of resources	<u>305,349,012</u>	<u>292,475,663</u>	<u>288,214,682</u>
Current liabilities	61,845,746	46,111,713	43,340,468
Long-term obligations	<u>296,557,456</u>	<u>314,871,972</u>	<u>321,916,030</u>
Total liabilities	<u>358,403,202</u>	<u>360,983,685</u>	<u>365,256,498</u>
Net position:			
Net investment in capital assets	348,129,966	332,309,366	321,062,547
Restricted	1,654,424	1,654,607	3,275,181
Unrestricted	<u>(33,073,363)</u>	<u>(40,119,263)</u>	<u>(49,197,338)</u>
Total net position	<u>316,711,027</u>	<u>293,844,710</u>	<u>275,140,390</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 980,463,241</u>	<u>\$ 947,304,058</u>	<u>\$ 928,611,570</u>

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Management's Discussion and Analysis

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***Water Department Long-Term Debt Activity***

The following table summarizes the long-term debt of the Water Department as of December 31, 2016 and 2015:

	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2017
Water Revenue Bonds				
Series 2015	\$ 181,565,000	\$ -	\$ 7,530,000	\$ 174,035,000
Plus unamortized premium	12,401,832	-	1,400,303	11,001,529
Water Revenue Bonds				
Series 2012	35,110,000	-	1,680,000	33,430,000
Plus unamortized premium	2,067,950	-	129,513	1,938,437
NDEQ Note Payable #2	4,424,425	-	265,896	4,158,529
Total Long-Term Debt	<u>\$ 235,569,207</u>	<u>\$ -</u>	<u>\$ 11,005,712</u>	<u>\$ 224,563,495</u>

On November 18, 2015 the District announced the successful completion of an \$188,895,000 series 2015 water revenue bond issuance; the all-in cost of funds associated with the offering is 2.96 percent. The bond issuance allowed for the refund and refinancing of the Series 2006A and Series 2006B bonds at a more favorable interest rate; the refinancing will save the District \$16.4 million over the life of the financing. In addition, \$41 million of the bond issuance was new debt that will be used to fund capital improvement projects at our Florence Water Treatment plant over the next three years. At December 31, 2017, \$9.0 million remained of the aforementioned \$41 million Florence project fund.

At December 31, 2017 and 2016, the District's long-term debt included \$174,035,000 and \$181,565,000 respectively of Series 2015 bonds outstanding. During 2017 and 2016, respectively, the District made principal payments of \$7,530,000 and \$7,330,000 towards its outstanding Series 2015 water revenue bonds.

At December 31, 2017 and 2016, the District's long-term debt included \$33,430,000 and \$35,110,000, respectively, of Series 2012 bonds outstanding. During 2017 and 2016, respectively, the District made principal payments of \$1,680,000 and \$1,585,000 towards its outstanding Series 2012 water revenue bonds.

In 2009, the District entered into an American Recovery and Reinvestment Act loan agreement with the NDEQ for the construction of a contact basin located near its Platte South Water Treatment Plant; the loan is at a 2% interest rate per annum. This loan provided for \$1,089,775 in loan forgiveness in the form of a grant, at project completion. At December 31, 2017 and 2016, long term obligations for this note were \$4,158,529 and \$4,424,425 respectively. During 2017 and 2016, the District made principal payments of \$265,896 and \$260,657 respectively pursuant to this note payable.

# METROPOLITAN UTILITIES DISTRICT

## Management's Discussion and Analysis

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### *Water Department Long-Term Debt Covenant Compliance*

#### **Water Revenue Bonds Series 2012 and Water Revenue Bond Series 2015**

The District was in compliance with the provisions of the Water Revenue Series 2012 and Water Revenue Series 2015 bond covenants at December 31, 2017, 2016 and 2015. Relative to these bond offerings, the District covenants that it will fix, establish, and maintain rates or charges for water, services, or facilities supplied or furnished by the District that will provide an amount sufficient to pay current expenses and to generate net revenue at least equal to the sum of: (a) 120% of the amount equal to the average principal and interest requirements on the bonds, including any parity revenue bonds, then outstanding; and (b) 100% of the amount required to pay any other unpaid long term obligations (excluding current expenses) and any other unpaid indebtedness of the District (including any amounts required to be accumulated and maintained as reserves therefore) that are payable from system revenues, as the same shall become due.

Funds available for debt service exceeded amounts required by covenants by approximately \$30.4 million, \$28.2 million and \$16.5 million for 2017, 2016 and 2015 respectively. Please see the chart below for debt service coverage ratio information:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt service coverage ratios	3.17x	3.02x	2.26x
Debt service coverage requirements	1.20x	1.20x	1.20x

### *Liquidity & Credit Ratings*

The District has focused considerable effort on improving the liquidity of the Water Department through adherence to disciplined financial and operational management practices. These efforts have resulted in a significant improvement in liquidity as demonstrated by improved "days cash on hand", increasing to 357 days at year-end 2017, as compared with 238 days at year end 2016 and 140 days at year end 2015.

The aforementioned financial and operational management practices have also contributed to improved credit ratings, which enable the Water Department to borrow funds at more favorable rates. Following are the credit ratings currently in place by Standard & Poor's Rating Services (S&P) and Moody's Investors Services (Moody's), two prominent independent credit rating agencies:

	S&P	Moody's
MUD Water Revenue Bonds	AA-/Stable	Aa2/Stable *

\*Upgraded from A1 on October 16, 2017

## METROPOLITAN UTILITIES DISTRICT

### Management's Discussion and Analysis

December 31, 2017 and 2016

#### ***Water Department Capital Asset Activity***

Significant projects in 2017 and 2016 are as follows:

- In 2017, capital and construction-related costs totaled \$41.1 million; significant expenditures for projects completed or in process included:
  - 1) Infrastructure replacement (i.e. Cast Iron water main abandonment/replacement): \$12.4 million;
  - 2) Other water mains and distribution: \$12.8 million;
  - 3) Florence water treatment plant – Minne Lusa high service pump architectural, mechanical, structural and electrical improvements: \$9.0 million;
  - 4) Florence water treatment plant – Chemical building architectural, mechanical, structural and electrical improvements: \$1.3 million;
  - 5) Construction machines: \$1.2 million;
  - 6) Florence water treatment plant – intake structure improvements: \$.6 million;
  - 7) Platte South water treatment plant – replace upflow basin valves: \$.6 million.
  
- In 2016, capital and construction-related costs totaled \$38.4 million; significant expenditures for projects completed or in process included:
  - 1) Infrastructure replacement (i.e. Cast Iron water main abandonment/replacement):\$10.8 million;
  - 2) Other water mains and distribution: \$9.2 million;
  - 3) Florence water treatment plant – Upgrade of the primary basin's mechanical and electrical equipment and refurbishment of C-basin's deteriorating elevated concrete slab. The process improvements to be addressed by this project include upgrading the mix gear on two primary basins to allow for higher plant softening flows: \$8.5 million;
  - 4) Florence water treatment plant – Construction costs related to the renovation of the filter plant including structural repairs, architectural rehabilitation, mechanical improvements (dehumidification, electrical panels, wiring and fixture replacement) and process improvements (valve replacements, chemical storage and chemical feed improvements): \$3.3 million;
  - 5) Construction machines: \$1.3 million;
  - 6) Florence water treatment plant – Minne Lusa high service pump station improvements: \$.6 million.
  - 7) Florence water treatment plant – Guard shack, gate and paving improvements: \$.6 million.

#### **Contact Information**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President of the District at 1723 Harney Street, Omaha, Nebraska 68102.

**METROPOLITAN UTILITIES DISTRICT**

Statements of Net Position

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources	2017				2016			
	Gas Department	Water Department	Eliminations	Business-type Activities Total	Gas Department	Water Department	Eliminations	Business-type Activities Total
Capital assets:								
Utility plant in service	\$ 597,112,263	1,093,314,388	—	1,690,426,651	\$ 568,791,785	1,041,651,111	—	1,610,442,896
Less accumulated depreciation	190,884,550	271,056,576	—	461,941,126	181,790,353	252,958,352	—	434,748,705
	<u>406,227,713</u>	<u>822,257,812</u>	<u>—</u>	<u>1,228,485,525</u>	<u>387,001,432</u>	<u>788,692,759</u>	<u>—</u>	<u>1,175,694,191</u>
Construction in progress	10,860,193	30,921,408	—	41,781,601	10,279,727	44,662,916	—	54,942,643
Net capital assets	<u>417,087,906</u>	<u>853,179,220</u>	<u>—</u>	<u>1,270,267,126</u>	<u>397,281,159</u>	<u>833,355,675</u>	<u>—</u>	<u>1,230,636,834</u>
Noncurrent assets:								
Cash and cash equivalents – restricted	—	12,127,565	—	12,127,565	—	21,717,357	—	21,717,357
Other noncurrent assets	631,799	571,275	—	1,203,074	1,085,204	621,996	—	1,707,200
Total noncurrent assets	<u>631,799</u>	<u>12,698,840</u>	<u>—</u>	<u>13,330,639</u>	<u>1,085,204</u>	<u>22,339,353</u>	<u>—</u>	<u>23,424,557</u>
Current assets:								
Cash and cash equivalents	95,582,666	75,681,428	—	171,264,094	101,990,895	49,232,362	—	151,223,257
Cash and cash equivalents – restricted	—	1,482,571	—	1,482,571	—	1,482,879	—	1,482,879
Accounts receivable – customers and others, less allowance for doubtful accounts	27,184,462	24,494,832	—	51,679,294	24,602,449	24,940,521	—	49,542,970
Interdepartmental receivable	—	1,354,418	(1,354,418)	—	—	273,681	(273,681)	—
Natural gas in storage	9,747,810	—	—	9,747,810	8,801,751	—	—	8,801,751
Propane in storage	4,488,151	—	—	4,488,151	4,910,069	—	—	4,910,069
Materials and supplies	3,179,871	2,516,985	—	5,696,856	3,116,913	3,353,764	—	6,470,677
Construction materials	2,073,129	1,329,803	—	3,402,932	3,137,816	1,256,679	—	4,394,495
Prepayments	707,357	98,691	—	806,048	712,154	124,669	—	836,823
Total current assets	<u>142,963,446</u>	<u>106,958,728</u>	<u>(1,354,418)</u>	<u>248,567,756</u>	<u>147,272,047</u>	<u>80,664,555</u>	<u>(273,681)</u>	<u>227,662,921</u>
Total assets	<u>560,683,151</u>	<u>972,836,788</u>	<u>(1,354,418)</u>	<u>1,532,165,521</u>	<u>545,638,410</u>	<u>936,359,583</u>	<u>(273,681)</u>	<u>1,481,724,312</u>
Deferred Outflows of Resources								
Pension amounts	4,050,289	3,340,750	—	7,391,039	7,243,680	6,100,766	—	13,344,446
Deferred charge on refunding	—	4,285,703	—	4,285,703	—	4,843,709	—	4,843,709
Total deferred outflows of resources	<u>4,050,289</u>	<u>7,626,453</u>	<u>—</u>	<u>11,676,742</u>	<u>7,243,680</u>	<u>10,944,475</u>	<u>—</u>	<u>18,188,155</u>
Total assets and deferred outflows of resources	<u>\$ 564,733,440</u>	<u>980,463,241</u>	<u>(1,354,418)</u>	<u>1,543,842,263</u>	<u>\$ 552,882,090</u>	<u>947,304,058</u>	<u>(273,681)</u>	<u>1,499,912,467</u>

See accompanying notes to basic financial statements.

Liabilities, Deferred Inflows and Net Position	2017				2016			
	Gas Department	Water Department	Eliminations	Business-type Activities Total	Gas Department	Water Department	Eliminations	Business-type Activities Total
Net position:								
Net investment in capital assets	\$ 375,101,336	348,129,966	—	723,231,302	\$ 354,652,000	332,309,365	—	686,961,365
Restricted:								
Environmental	—	171,853	—	171,853	—	171,728	—	171,728
Debt service requirements-sinking fund	—	1,482,571	—	1,482,571	—	1,482,879	—	1,482,879
Unrestricted	(15,824,066)	(33,073,363)	—	(48,897,429)	(17,494,187)	(40,119,262)	—	(57,613,449)
Total net position	359,277,270	316,711,027	—	675,988,297	337,157,813	293,844,710	—	631,002,523
Deferred inflows of resources								
Pension amounts	10,554,908	8,621,839	—	19,176,747	738,615	609,222	—	1,347,837
Contributions in aid of construction	41,267,726	296,727,173	—	337,994,899	41,682,356	291,866,441	—	333,548,797
Total deferred inflows of resources	51,822,634	305,349,012	—	357,171,646	42,420,971	292,475,663	—	334,896,634
Noncurrent liabilities:								
Long-term debt, excluding current installments	485,008	214,642,255	—	215,127,263	718,822	226,093,311	—	226,812,133
Self-insured risks	361,153	199,443	—	560,596	343,557	85,923	—	429,480
Net pension liability	21,531,753	18,043,258	—	39,575,011	34,739,538	28,937,269	—	63,676,807
Postretirement obligation	66,947,300	59,642,661	—	126,589,961	64,965,635	55,884,061	—	120,849,696
Other accrued expenses	3,926,194	4,029,839	—	7,956,033	3,658,917	3,871,408	—	7,530,325
Unearned gas purchase discounts	1,825,000	—	—	1,825,000	4,325,000	—	—	4,325,000
Total noncurrent liabilities	95,076,408	296,557,456	—	391,633,864	108,751,469	314,871,972	—	423,623,441
Current liabilities:								
Accounts payable and remediation obligation	27,885,328	5,994,661	—	33,879,989	29,004,479	3,959,055	—	32,963,534
Customer deposits	21,709,129	4,349,129	—	26,058,258	28,305,235	1,450,514	—	29,755,749
Customer advances for construction	508,158	18,299,468	—	18,807,626	416,655	8,126,595	—	8,543,250
Interdepartmental payable	1,354,418	—	(1,354,418)	—	273,681	—	(273,681)	—
Sewer fee collection due to municipalities	—	20,669,213	—	20,669,213	—	20,669,171	—	20,669,171
Statutory payment due to municipalities	1,000,786	524,942	—	1,525,728	865,525	495,923	—	1,361,448
Other accrued expenses	163,591	167,910	—	331,501	152,455	161,309	—	313,764
Current installments of long-term debt	233,836	9,921,240	—	10,155,076	227,981	9,475,896	—	9,703,877
Accrued interest	—	678,404	—	678,404	—	715,379	—	715,379
Self-insured risks	745,133	1,240,779	—	1,985,912	794,463	1,057,871	—	1,852,334
Other liabilities	2,456,749	—	—	2,456,749	2,011,363	—	—	2,011,363
Unearned gas purchase discounts	2,500,000	—	—	2,500,000	2,500,000	—	—	2,500,000
Total current liabilities	58,557,128	61,845,746	(1,354,418)	119,048,456	64,551,837	46,111,713	(273,681)	110,389,869
Total liabilities	153,633,536	358,403,202	(1,354,418)	510,682,320	173,303,306	360,983,685	(273,681)	534,013,310
Total liabilities, deferred inflows of resources, and net position	\$ 564,733,440	980,463,241	(1,354,418)	1,543,842,263	\$ 552,882,090	947,304,058	(273,681)	1,499,912,467

See accompanying notes to basic financial statements.

**METROPOLITAN UTILITIES DISTRICT**  
Statements of Revenues, Expenses, and Changes in Net Position  
Years ended December 31, 2017 and 2016

	2017				2016			
	Gas Department	Water Department	Eliminations	Business-type Activities Total	Gas Department	Water Department	Eliminations	Business-type Activities Total
Operating revenues:								
Charges for services	\$ 204,093,226	122,520,463	—	326,613,689	\$ 177,103,032	115,414,933	—	292,517,965
Less bad debt expense	413,588	192,277	—	605,865	489,434	320,307	—	809,741
Charges for services, net	<u>203,679,638</u>	<u>122,328,186</u>	<u>—</u>	<u>326,007,824</u>	<u>176,613,598</u>	<u>115,094,626</u>	<u>—</u>	<u>291,708,224</u>
Operating expenses:								
Cost of natural gas	106,365,860	—	—	106,365,860	88,543,519	—	—	88,543,519
Operating and maintenance	56,706,867	76,754,634	—	133,461,501	58,252,064	74,936,162	—	133,188,226
Depreciation and amortization	14,972,448	14,330,944	—	29,303,392	13,611,649	13,353,783	—	26,965,432
Payment in lieu of taxes	3,324,197	1,658,576	—	4,982,773	2,865,758	1,559,846	—	4,425,604
Total operating expenses	<u>181,369,372</u>	<u>92,744,154</u>	<u>—</u>	<u>274,113,526</u>	<u>163,272,990</u>	<u>89,849,791</u>	<u>—</u>	<u>253,122,781</u>
Operating income	<u>22,310,266</u>	<u>29,584,032</u>	<u>—</u>	<u>51,894,298</u>	<u>13,340,608</u>	<u>25,244,835</u>	<u>—</u>	<u>38,585,443</u>
Nonoperating revenues (expenses):								
Investment income (loss)	158	123,107	—	123,265	(6,396)	101,579	—	95,183
Other expense	(120,669)	(189,424)	—	(310,093)	(169,356)	(154,975)	—	(324,331)
Interest expense	(70,298)	(6,651,398)	—	(6,721,696)	(77,815)	(6,487,119)	—	(6,564,934)
Total nonoperating revenues (expenses), net	<u>(190,809)</u>	<u>(6,717,715)</u>	<u>—</u>	<u>(6,908,524)</u>	<u>(253,567)</u>	<u>(6,540,515)</u>	<u>—</u>	<u>(6,794,082)</u>
Change in net position	22,119,457	22,866,317	—	44,985,774	13,087,041	18,704,320	—	31,791,361
Net position, beginning of year	<u>337,157,813</u>	<u>293,844,710</u>	<u>—</u>	<u>631,002,523</u>	<u>324,070,772</u>	<u>275,140,390</u>	<u>—</u>	<u>599,211,162</u>
Net position, end of year	<u>\$ 359,277,270</u>	<u>\$ 316,711,027</u>	<u>—</u>	<u>\$ 675,988,297</u>	<u>\$ 337,157,813</u>	<u>\$ 293,844,710</u>	<u>—</u>	<u>\$ 631,002,523</u>

See accompanying notes to basic financial statements.

**METROPOLITAN UTILITIES DISTRICT**

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017			2016		
	Gas Department	Water Department	Business-type Activities Total	Gas Department	Water Department	Business-type Activities Total
Cash flows from operating activities:						
Receipts from customers	\$ 201,954,677	122,966,152	324,920,829	\$ 176,200,746	115,928,670	292,129,416
Payments to suppliers	(128,835,142)	(44,776,512)	(173,611,654)	(94,332,640)	(44,198,123)	(138,530,763)
Cash collections on behalf of other governments	—	152,288,355	152,288,355	—	140,476,439	140,476,439
Cash disbursements to other governments	—	(144,828,794)	(144,828,794)	—	(132,821,785)	(132,821,785)
Payments to employees	(36,810,768)	(30,415,945)	(67,226,713)	(36,108,464)	(29,791,081)	(65,899,545)
Payments in lieu of taxes	(3,324,197)	(1,658,576)	(4,982,773)	(2,865,758)	(1,559,846)	(4,425,604)
Net cash provided by operating activities	<u>32,984,570</u>	<u>53,574,680</u>	<u>86,559,250</u>	<u>42,893,884</u>	<u>48,034,274</u>	<u>90,928,158</u>
Cash flows from noncapital financing activities:						
Interdepartmental loans and advances	1,123,522	(1,123,522)	—	(1,135,864)	1,135,864	—
Net cash provided by (used in) noncapital financing activities	<u>1,123,522</u>	<u>(1,123,522)</u>	<u>—</u>	<u>(1,135,864)</u>	<u>1,135,864</u>	<u>—</u>
Cash flows from capital and related financing activities:						
Plant additions	(36,958,012)	(37,963,923)	(74,921,935)	(39,633,550)	(37,049,780)	(76,683,330)
Plant removal/retirement costs	(3,864,684)	(763,793)	(4,628,477)	(4,251,513)	(838,452)	(5,089,965)
Debt issuance costs	—	—	—	—	(1,000)	(1,000)
Payments on long-term debt	(227,959)	(9,475,897)	(9,703,856)	(222,185)	(9,209,312)	(9,431,497)
Customer advances/CIAC	604,474	21,203,606	21,808,080	608,501	11,686,895	12,295,396
Interest paid	(70,298)	(8,715,292)	(8,785,590)	(77,815)	(8,988,142)	(9,065,957)
Net cash used in capital and related financing activities	<u>(40,516,479)</u>	<u>(35,715,299)</u>	<u>(76,231,778)</u>	<u>(43,576,562)</u>	<u>(44,399,791)</u>	<u>(87,976,353)</u>
Cash flows from investing activities:						
Interest received (paid)	158	123,107	123,265	(6,396)	101,579	95,183
Net cash provided by (used in) investing activities	<u>158</u>	<u>123,107</u>	<u>123,265</u>	<u>(6,396)</u>	<u>101,579</u>	<u>95,183</u>
Net increase (decrease) in cash and cash equivalents	(6,408,229)	16,858,966	10,450,737	(1,824,938)	4,871,926	3,046,988
Cash and cash equivalents, beginning of year	101,990,895	72,432,598	174,423,493	103,815,833	67,560,672	171,376,505
Cash and cash equivalents, end of year	<u>\$ 95,582,666</u>	<u>89,291,564</u>	<u>184,874,230</u>	<u>\$ 101,990,895</u>	<u>72,432,598</u>	<u>174,423,493</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 22,310,266	29,584,032	51,894,298	\$ 13,340,608	25,244,835	38,585,443
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation & amortization						
Depreciation charged to other accounts	14,631,184	13,941,930	28,573,114	13,516,647	13,178,573	26,695,220
Depreciation charged to operations	4,667,531	843,311	5,510,842	4,943,281	812,425	5,755,706
Amortization charged to other accounts	341,264	389,014	730,278	95,002	175,210	270,212
Amortization charged to operations	1,857,748	117,555	1,975,303	1,283,066	104,295	1,387,361
Cash flows impacted by changes in:						
Amounts due from customers and others	(2,582,012)	445,689	(2,136,323)	70,966	513,736	584,702
Natural gas, propane, materials, supplies, and prepayments	(582,301)	862,757	280,456	1,119,027	(650,063)	468,964
Other noncurrent assets	453,402	50,720	504,122	179,433	(110,957)	68,476
Accounts payable and other	(1,240,585)	507,407	(733,178)	3,054,203	1,141,612	4,195,815
Customer deposits	(6,569,143)	2,898,615	(3,670,528)	1,281,750	156,556	1,438,306
Self-insurance and other liabilities	413,652	296,428	710,080	(879,981)	37,577	(842,404)
Net pension liability	(13,207,785)	(10,894,011)	(24,101,796)	(1,343,735)	(1,108,335)	(2,452,070)
Deferred inflows pension	14,366,019	11,849,344	26,215,363	1,576,800	1,300,571	2,877,371
Deferred outflows pension	(1,356,335)	(1,076,711)	(2,433,046)	2,693,954	2,264,039	4,957,993
Postretirement obligation	1,981,665	3,758,600	5,740,265	4,475,363	4,974,200	9,449,563
Unearned gas purchase discounts	(2,500,000)	—	(2,500,000)	(2,512,500)	—	(2,512,500)
Net cash provided by operating activities	<u>\$ 32,984,570</u>	<u>53,574,680</u>	<u>86,559,250</u>	<u>\$ 42,893,884</u>	<u>48,034,274</u>	<u>90,928,158</u>
Supplemental schedules of noncash capital and related financing items:						
Capitalized interest	\$ —	1,055,109	1,055,109	\$ —	1,480,298	1,480,298
Construction in Accounts Payable	945,147	3,287,951	4,233,098	437,001	1,565,657	2,002,658

See accompanying notes to basic financial statements.

**METROPOLITAN UTILITIES DISTRICT**  
 Statements of Fiduciary Net Position  
 Pension and Other Post Employment Benefits  
 December 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash, Investments and pooled separate accounts	\$ 416,343,803	\$ 357,712,380
<b>Liabilities</b>	-	-
<b>Net position held in trust for pension and other post employment benefits</b>	<b>\$ 416,343,803</b>	<b>\$ 357,712,380</b>

See accompanying notes to basic financial statements

**METROPOLITAN UTILITIES DISTRICT**  
**Statements of Changes in Fiduciary Net Position**  
**Pension and Other Post Employment Benefits**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Additions:</b>		
Investment income (loss), net appreciation (depreciation) in the fair value of pooled separate accounts, interest and dividends, net of investment expense	\$ 54,220,830	\$ 25,895,152
Employer contributions	18,193,821	15,299,995
Employee contributions	3,757,444	3,895,899
<b>Total additions</b>	76,172,095	45,091,046
<b>Deductions:</b>		
Benefit payments	17,445,020	16,555,144
Administrative expenses	95,652	85,470
<b>Total deductions</b>	17,540,672	16,640,614
<b>Net increase</b>	58,631,423	28,450,432
<b>Net position held in trust for pension and OPEB benefits</b>		
Beginning of year	357,712,380	329,261,948
End of year	\$ 416,343,803	\$ 357,712,380

See accompanying notes to basic financial statements

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**(1) Summary of Significant Accounting Policies**

**(a) Nature of Operations**

Metropolitan Utilities District (the District), a political subdivision of the State of Nebraska, is a public utility providing water and gas service to a diversified base of residential, commercial, and industrial customers. State statutes vest authority to establish rates in the board of directors (the Board) and provide, among other things, that separate books of account be kept for each utility department and for the equitable allocation of joint expenses. The Board determines the District's rates. The District is not liable for federal and state income taxes. The District pays ad valorem taxes on real property not used for public purposes. As required by the Enabling Act, the District pays 2% of its revenue from retail sales within the corporate limits of the City of Omaha to the City of Omaha, and 2% of its retail sales within other city and village corporate limits to those cities and villages. The District is subject to state sales and use tax on certain labor charges and nearly all material purchases.

**(b) Basis of Presentation**

The District's financial statements are presented in accordance with generally accepted accounting principles (GAAP) for business-type activities of governmental entities. Accounting records are maintained generally in accordance with the Uniform System of Accounts as prescribed by the National Association of Regulatory Utility Commissioners (NARUC) and all applicable pronouncements of the Governmental Accounting Standards Board (GASB). The District accounts for the operations of the water and gas systems in separate major funds.

Operating revenues and expenses generally result from providing gas and water services to the District's customers. The principal operating revenues are charges to customers for providing gas and water services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District's accounting policies also follow the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost based rates to defer certain costs as income, that would otherwise be recognized when incurred, to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rate changes to its customers.

**(c) Fiduciary Fund Type**

The District also includes a pension trust fund and other postemployment benefits (OPEB) trust fund as a fiduciary fund type. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs or operations. Pension and OPEB trust funds are accounted for in essentially the same manner as the enterprise funds, using the same measurement focus and basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plans are recognized when due. Benefits and refunds are recognized when due and payable in accordance with terms of the plans. The Pension Trust Fund accounts for the assets of the Retirement Plan for Employees of the Metropolitan Utilities District of Omaha. The OPEB Trust Fund accounts for the assets of the Postretirement Benefits for Employees of the Metropolitan Utilities District of Omaha. These plans are included in the reporting entity because the District controls the assets of each of these trust funds, as defined by GASB Statement No. 84.

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**(d) *Deferred Outflows and Inflows of Resources***

In addition to assets, the statement of net 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) until that time. The District has two items that meet the criterion for reporting as deferred outflows on the statement of net position, the deferred charge on refunding and the changes of actuarial assumptions used in the measurement of total pension liability. A deferred charge 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. The deferred amount for changes of actuarial assumptions used in the measurement of total pension liability is recognized in pension expense over the average expected remaining service life of the active and inactive pension plan members at the beginning of the measurement period.

In addition to liabilities, the statement of net 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 and/or contra expense) until that time. The District has three items that meet the criterion for reporting as deferred inflows on the statement of net position, contributions in aid of construction (CIAC), the difference between expected and actual experience in the measurement of total pension liability, and the difference between projected and actual earnings on pension plan investments. As described below, CIAC is included in depreciation expense and amortized over the estimated useful lives of the related utility plant. The difference between expected and actual experience in the measurement of pension liability is recognized over the average expected remaining service life of the active and inactive pension plan members at the beginning of the measurement period. The difference between projected and actual earnings on pension plan investments is recognized in pension expense over a five-year period, as of the beginning of each measurement period.

**(e) *Utility Plant***

Utility plant is stated at cost. Cost includes direct charges such as labor, material, and related overhead. Allowance for borrowed funds used during construction represents interest capitalized on construction projects not paid for by contributions to the extent such projects are financed by debt. Interest was not capitalized on Gas Department projects in 2017 or 2016. Interest of \$1,055,109 and \$1,480,298 was capitalized on Water Department projects in 2017 and 2016, respectively. Expenditures for ordinary maintenance and repairs are charged to operations.

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Depreciation of utility plant is computed primarily on the straight-line method over its estimated useful life. The weighted average composite depreciation rates, expressed as a percentage of the beginning of the year cost of depreciable plant in service, were:

	<u>2017</u>	<u>2016</u>
Water Department	2.1%	2.1%
Gas Department	3.6	3.7

Contributions in aid of construction (CIAC) are reported as a deferred inflow of resources. For ratemaking purposes, the District does not recognize such revenues when received; rather CIAC is included in depreciation expense as such costs are amortized over the estimated lives of the related utility plant. The credit is being amortized into rates over the depreciable lives of the related plant in order to offset the earnings effect of these nonexchange transactions.

*(f) Net Position*

The net position of the District is broken down into three categories: (1) net investment in capital assets, (2) restricted for environmental funds and debt service requirements, and (3) unrestricted.

- Net investment in capital assets consist of capital assets, including restricted capital assets, net of accumulated depreciation, plus unspent bond proceeds and reduced by the outstanding balance of debt that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted for environmental funds represent net position whose use is restricted through external constraints imposed by the Nebraska Department of Environmental Quality and the Nebraska Game and Parks Commission. Restricted for debt service requirements represent net position whose use is restricted per the provisions of the Series 2012 and Series 2015 water revenue bonds.
- Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted for environmental, debt reserve funds, debt service requirements, or capital.

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

*(g) Bond Premium and Discounts*

Bond premium and discounts are deferred and amortized over the life of the bond using the straight-line method, which approximates the effective interest method.

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**(h) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, bank demand accounts, overnight repurchase agreements, and short-term liquid investments purchased with an original maturity of 90 days or less. At December 31, 2017, the Water Department held \$12.1 million in noncurrent “Cash and cash equivalents – restricted” which is made up of \$0.2 million in funds required by the Nebraska Game and Parks Commission for environmental mitigation of wetlands, \$2.9 million pursuant to various bond resolutions, and \$9.0 million of proceeds remaining from the Water Revenue Bond Series 2015 issued in December 2015, which will be expended to update and improve the Florence water treatment plant. At December 31, 2016, the Water Department held \$21.7 million in noncurrent “Cash and cash equivalents – restricted” which was made up of \$0.2 million in funds required by the Nebraska Game and Parks Commission for environmental mitigation of wetlands, \$2.9 million pursuant to various bond resolutions, and \$18.6 million of proceeds remaining from the Water Revenue Bond Series 2015 issued in December 2015.

At both December 31, 2017 and 2016, the Water Department also held current “Cash and cash equivalents – restricted” of \$1.5 million pursuant to various bond resolutions.

**(i) Accounts Receivable and Unbilled Revenue**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The accounts receivable balance also includes an accrual related to unbilled revenues, determined by prorating actual subsequent billings. The allowance for doubtful accounts is the District’s best estimate of the amount of probable credit losses in the District’s existing accounts receivable. The District’s allowance methodology was developed based on an analysis of open accounts and historical write-off experience.

**(j) Inventories**

Inventories include natural gas, liquefied natural gas, propane, construction materials, and materials and supplies. All inventories are carried at weighted average cost.

**(k) Compensated Absences**

The District employees earn vacation days at specific rates during their employment. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation of no more than what they are eligible to earn in two years. Current and noncurrent amounts pertaining to accrued compensated absences are recorded within “Other accrued expenses” in the statement of net position.

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(l) **Revenues**

The District recognizes operating revenues as they are earned. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of each accounting period. Accounts receivable include unbilled revenues as follows:

	<u>2017</u>	<u>2016</u>
Gas	\$ 15,134,979	12,333,772
Water	3,435,299	3,176,463

(m) **Interdepartmental Transactions**

Most routine disbursement transactions of the District are paid by the Gas Department, due in part to the fact that the Gas Department collects virtually all billings for the District in combined Gas/Water invoices; balancing between the departments occurs via maintenance of interdepartmental receivable and payable accounts. At December 31, 2017, the Gas Department reflected a payable to the Water Department and the Water Department reflected a receivable from the Gas Department of \$1,354,418. At December 31, 2016, the Gas Department reflected a payable to the Water Department and the Water Department reflected a receivable from the Gas Department of \$273,681. The receivable and payable have been eliminated in the business-type activities total column.

(n) **Billing and Collection Agent Services**

The District serves as the billing and collection agent for fees related to sewer services provided by certain political subdivisions, including the City of Omaha. Separate accounting records are maintained by the District for these collection services. Fees billed but not yet remitted by the District to the applicable entities totaled \$20,669,213 and \$20,669,171 as of December 31, 2017 and 2016, respectively. These fees have been reflected in the District's statement of net position and amounts collected were remitted to the cities subsequent to year-end. Processing fees billed to the cities for billing and collection services provided by the District totaled approximately \$4.9 million in both 2017 and 2016. These processing fees have been reflected as a reduction to operating and maintenance expenses in the District's statement of revenue, expenses, and changes in net position. The cities' fees reflect only the expenses incurred by the District to bill and collect the cities' charges.

(o) **Pensions**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirement Plan for Employees of the Metropolitan Utilities District of Omaha (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However,

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the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between the market and participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. Purchases and sales of securities are recorded on a trade-date basis. See Note 3 for additional information regarding fair value measures.

**(p) Other Postemployment Benefits**

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare, are taken after the employees' services have ended. Nevertheless, the benefits constitute compensation for employee services. The District accounts for other postemployment benefit costs on an accrual basis, charging expenses in the period incurred, with a corresponding liability for the difference between the annual required contribution and related costs, and the contributions made.

**(q) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management of the District to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from these estimates.

**(r) Recent Accounting Pronouncements**

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, issued in June 2015, will be effective for the District beginning with its year ending December 31, 2018. This Statement, which replaced the requirements of GASB Statement No. 45, requires governmental entities to report a liability on the financial statement for OPEB. GASB Statement No. 75 provides additional requirements for note disclosures and required supplementary information. Among the new required supplementary information is a schedule comparing a government's actual OPEB contributions to its contribution requirements. The District is currently assessing the impact of this Statement, which is expected to have a significant impact on the financial statements.

GASB Statement No. 85, *Omnibus 2017*, issued in March 2017, will be effective for the District beginning with its fiscal year ending December 31, 2018. Statement No. 85 is designed to address the practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The District is currently assessing the impact of this Statement.

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GASB Statement No. 87, *Leases*, issued in June 2017, will be effective for the District beginning with its year ending December 31, 2020. The objective of Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing comparability of financial statements between governments; and also enhancing the relevance, reliability (representation faithfulness), and consistency of information about the leasing activities of governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District is currently assessing the impact of this Statement.

### **(2) Impact of Adoption of New Accounting Standard**

The District has implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for the fiscal year ending December 31, 2017. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The adoption of this Statement resulted in additional note disclosures and Required Supplementary Information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments.

The District has implemented GASB Statement No. 82, *Pension Issues*, for the fiscal year ending December 31, 2017. This Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The effect of adopting GASB Statement No. 82 was to replace the measure of covered-employee payroll with the measure of covered payroll in note disclosures and Required Supplementary Information related to the pension plan.

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**(3) Deposits and Investments**

State Statute 14-2144 R.R.S. authorizes funds of the District to be invested at the discretion of the board of directors in the warrants and bonds of the District and the Municipalities constituting the District, including the warrants and bonds of the sanitary improvement districts thereof. In addition to such securities, the funds may also be invested in any securities that are legal investments for the school funds of the State of Nebraska as delineated in the State of Nebraska Statute, Section 30-3209. The trust funds related to the District's retirement plan and other postemployment benefit plan invest pursuant to the same statutory investment restrictions.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be returned. At December 31, 2017 and 2016, all bank balances were covered by federal depository insurance or collateralized with securities held by the Federal Reserve Bank.

**Fair Value Measurements:** The District categorizes its assets and liabilities measured at fair value within the hierarchy established by generally accepted accounting principles. Assets and liabilities valued at fair value are categorized based on inputs to valuation techniques as follows:

**Level 1 input:** Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

**Level 2 input:** Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3 input:** Inputs that are unobservable for the asset or liability which are typically based upon the District's own assumptions as there is little, if any, related market activity.

**Hierarchy:** The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

**Inputs:** If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

For the District, the following fair value techniques were utilized in measuring the fair value of its investments:

**Bond and Equity Mutual Funds:** These investments are reported at fair value based on published fair value per share (unit) for each fund.

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As of December 31, 2017 and 2016, the District's fiduciary funds had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>			<u>Hierarchy Level</u>
	<u>Pension Plan</u>	<u>OPEB</u>	<u>Total</u>	
2017:				
Mutual Funds:				
Fixed Income Funds	\$ 126,537,665	3,362,904	129,900,569	1
Domestic Equity Funds	193,878,532	6,930,940	200,809,472	1
International Equity Funds	80,841,819	3,311,160	84,152,979	1
	<u>\$ 401,258,016</u>	<u>13,605,004</u>	<u>414,863,020</u>	
2016:				
Mutual Funds:				
Fixed Income Funds	\$ 110,546,612	1,288,762	111,835,374	1
Domestic Equity Funds	172,086,775	2,664,518	174,751,293	1
International Equity Funds	68,479,758	1,245,235	69,724,993	1
	<u>\$ 351,113,145</u>	<u>5,198,515</u>	<u>356,311,660</u>	

**Credit risk:** Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The pension and OPEB plans' investments in mutual funds are not rated. Purchases of fixed income investments must be rated BBB by Standard and Poor's or Baa by Moody's or higher. The investment policy statements of the pension and OPEB plans define fixed income investments as U.S. government and agency securities, corporate notes and bonds and private and agency residential and commercial mortgage-backed securities.

**Interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment means the greater the sensitivity of its fair value to changes in market interest rates. The investment policy statements of the pension and OPEB plans do not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Mutual funds (debt and equity funds) are not subject to interest rate risk given they have no maturity dates.

**Concentration of credit risk:** The investment policy statements of the pension and OPEB plans apply the prudent investor guidelines. Consistent with prudent standards for the preservation of capital and maintenance of liquidity, the goal of the plans is to earn the highest possible rate of return consistent with the plans' tolerance for risk. It is the policy of the pension and OPEB plans that the portfolios should be well diversified in an attempt to reduce the overall risk of the portfolios. The investment policy statements of the pension and OPEB plans limit the amount invested in a single investment security to 5 percent of the total portfolio, with the exception of investments guaranteed by the U.S. government. The investment policy statements also limit the amount invested in a single investment pool or company (mutual fund) to 20 percent of the total portfolio, with the exception of passively-managed investment vehicles seeking to match the returns on a broadly-diversified market index.

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**Rate of return:** For the years ended December 31, 2017 and 2016, the annual money weighted rate of return on pension plan investments, net of pension plan investment expense was 15.2% and 7.9%, respectively. For the years ended December 31, 2017 and 2016, the annual money weighted rate of return on OPEB plan investments, net of OPEB plan expense was 16.2% and 6.3%, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Asset allocation:** The investment policy statements of the pension and OPEB plans have the following asset allocation ranges permitted and the long-term expected geometric real rate of return for each major asset class:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return
	Pension Plan	OPEB	
Domestic (U.S.) Equities	40.0 %	43.0 %	6.7 %
International (Non-U.S.) Equities	20.0	24.0	8.1
U.S. Aggregate Bonds	14.0	7.0	3.7
International Bonds	3.0	3.0	3.2
Intermediate Term Credit	5.0	5.0	4.1
Short Term Credit	5.0	5.0	3.9
Intermediate Term TIPS	5.0	5.0	2.9
REITS	8.0	8.0	6.1
Total	<u>100.0 %</u>	<u>100.0 %</u>	

Mutual funds may be used for these asset classes. Investments in mutual funds are not subject to concentration of credit risk.

**Custodial credit risk:** The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The pension and OPEB plans do not have a policy for custodial credit risk. The mutual funds (equity and debt funds) of the pension and OPEB plans are not exposed to custodial credit risk.

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**(4) Utility Plant**

Utility plant at December 31, 2017 and 2016 is summarized as follows:

	<b>Gas Department</b>	<b>Water Department</b>	<b>Total</b>
2017:			
Utility plant in service:			
Depreciable	\$ 592,273,333	1,080,266,685	1,672,540,018
Nondepreciable (land)	4,838,930	13,047,703	17,886,633
Total	597,112,263	1,093,314,388	1,690,426,651
Construction in progress (nondepreciable)	10,860,193	30,921,408	41,781,601
	607,972,456	1,124,235,796	1,732,208,252
Less:			
Accumulated depreciation	(190,884,550)	(271,056,576)	(461,941,126)
	\$ 417,087,906	853,179,220	1,270,267,126
2016:			
Utility plant in service:			
Depreciable	\$ 563,952,855	1,028,603,408	1,592,556,263
Nondepreciable (land)	4,838,930	13,047,703	17,886,633
Total	568,791,785	1,041,651,111	1,610,442,896
Construction in progress (nondepreciable)	10,279,727	44,662,916	54,942,643
	579,071,512	1,086,314,027	1,665,385,539
Less:			
Accumulated depreciation	(181,790,353)	(252,958,352)	(434,748,705)
	\$ 397,281,159	833,355,675	1,230,636,834

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The provision for depreciation expense is as follows:

	2017			2016		
	Gas	Water	Total	Gas	Water	Total
	Department	Department		Department	Department	
Charged to depreciation	\$ 14,631,184	13,941,930	28,573,114	13,516,647	13,178,573	26,695,220
Charged to operating and maintenance	4,667,531	843,311	5,510,842	4,943,281	812,425	5,755,706
	<u>\$ 19,298,715</u>	<u>14,785,241</u>	<u>34,083,956</u>	<u>18,459,928</u>	<u>13,990,998</u>	<u>32,450,926</u>

The depreciation expense presented above includes a reduction of expense of \$7,097,602 and \$6,930,913, for the years ended December 31, 2017 and 2016, respectively, due to the amortization of CIAC.

Capital asset activity for the years ended December 31, 2017 and 2016 is as follows:

	Balance, beginning of year	Increases	Decreases	Balance, end of year
2017:				
Gas Department:				
Utility plant in service	\$ 568,791,785	38,094,902	(9,774,424)	597,112,263
Construction in progress	10,279,727	38,429,428	(37,848,962)	10,860,193
Accumulated depreciation	(181,790,353)	(20,182,635)	11,088,438	(190,884,550)
	<u>\$ 397,281,159</u>	<u>56,341,695</u>	<u>(36,534,948)</u>	<u>417,087,906</u>
Water Department:				
Utility plant in service	\$ 1,041,651,111	54,409,708	(2,746,431)	1,093,314,388
Construction in progress	44,662,916	40,183,843	(53,925,351)	30,921,408
Accumulated depreciation	(252,958,352)	(20,998,923)	2,900,699	(271,056,576)
	<u>\$ 833,355,675</u>	<u>73,594,628</u>	<u>(53,771,083)</u>	<u>853,179,220</u>
	<u>\$ 1,230,636,834</u>	<u>129,936,323</u>	<u>(90,306,031)</u>	<u>1,270,267,126</u>
2016:				
Gas Department:				
Utility plant in service	\$ 534,712,204	41,953,018	(7,873,437)	568,791,785
Construction in progress	14,895,406	38,332,234	(42,947,913)	10,279,727
Accumulated depreciation	(172,965,023)	(19,329,400)	10,504,070	(181,790,353)
	<u>\$ 376,642,587</u>	<u>60,955,852</u>	<u>(40,317,280)</u>	<u>397,281,159</u>
Water Department:				
Utility plant in service	\$ 1,007,463,820	38,921,680	(4,734,389)	1,041,651,111
Construction in progress	43,285,792	39,273,469	(37,896,345)	44,662,916
Accumulated depreciation	(235,815,569)	(20,052,439)	2,909,656	(252,958,352)
	<u>\$ 814,934,043</u>	<u>58,142,710</u>	<u>(39,721,078)</u>	<u>833,355,675</u>
	<u>\$ 1,191,576,630</u>	<u>119,098,562</u>	<u>(80,038,358)</u>	<u>1,230,636,834</u>

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(5) Long-Term Obligations

Activity in long-term obligations for the years ended December 31, 2017 and 2016 is as follows:

	<u>Balance, beginning of year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, end of year</u>	<u>Due within one year</u>
2017:					
Water Revenue Bonds					
Series 2015	\$ 181,565,000	—	7,530,000	174,035,000	7,915,000
Plus unamortized premium	12,401,832	—	1,400,303	11,001,529	—
Water Revenue Bonds					
Series 2012	35,110,000	—	1,680,000	33,430,000	1,735,000
Plus unamortized premium	2,067,950	—	129,513	1,938,437	—
NDEQ note payable #2	4,424,425	—	265,896	4,158,529	271,240
CNG promissory note	946,803	—	227,959	718,844	233,836
Other postemployment					
benefits	120,849,696	16,755,472	11,015,207	126,589,961	—
Net pension liability	63,676,807	49,497,750	73,599,546	39,575,011	—
Self-insured risks	2,281,814	3,379,263	3,114,569	2,546,508	1,985,912
Remediation obligation	52,929	—	52,929	—	—
Other accrued expenses	7,844,089	757,209	313,764	8,287,534	331,501
	<u>\$ 431,221,345</u>	<u>70,389,694</u>	<u>99,329,686</u>	<u>402,281,353</u>	<u>12,472,489</u>
2016:					
Water Revenue Bonds					
Series 2015	\$ 188,895,000	—	7,330,000	181,565,000	7,530,000
Plus unamortized premium	13,846,241	—	1,444,409	12,401,832	—
Water Revenue Bonds					
Series 2012	36,695,000	—	1,585,000	35,110,000	1,680,000
Plus unamortized premium	2,197,818	—	129,868	2,067,950	—
NDEQ note payable #1	33,655	—	33,655	—	—
NDEQ note payable #2	4,685,082	—	260,657	4,424,425	265,896
CNG promissory note	1,168,988	—	222,185	946,803	227,981
Other postemployment					
benefits	111,400,133	17,616,196	8,166,633	120,849,696	—
Net pension liability	66,128,877	39,018,414	41,470,484	63,676,807	—
Self-insured risks	2,150,982	1,970,173	1,839,341	2,281,814	1,852,334
Remediation obligation	3,447,554	1,798,625	5,193,250	52,929	52,929
Other accrued expenses	7,523,668	621,368	300,947	7,844,089	313,764
	<u>\$ 438,172,998</u>	<u>61,024,776</u>	<u>67,976,429</u>	<u>431,221,345</u>	<u>11,922,904</u>

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(a) *Notes Payable*

Included in long-term debt in the Water Department is a 3% note payable (NDEQ note payable #1) and a 2% note payable (NDEQ note payable #2) to the Nebraska Department of Environmental Quality (NDEQ). NDEQ note payable #1 was paid off during 2016.

NDEQ note payable #2 relates to construction of the Platte South contact basin project. The District's loan agreement was based on a budgeted project cost of \$7,049,000; if actual project costs equal budget, the agreement results in a loan amount of \$5,959,225 with the NDEQ, and principal forgiveness of \$1,089,775, in the form of a grant.

The Platte South contact basin project was completed in late 2012, with total direct project costs of \$6,886,837, resulting in total committed loan funds of \$5,797,062. During 2017 and 2016, the District paid back \$265,896 and \$260,657, respectively, as principal. The note payable requirements to maturity, June 15, 2031, for NDEQ note payable #2 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Administrative fee</u>	<u>Total</u>
2018	\$ 271,240	81,821	40,911	393,972
2019	276,692	76,369	38,185	391,246
2020	282,254	70,808	35,404	388,466
2021	287,927	65,134	32,567	385,628
2022	293,715	59,347	29,674	382,736
2023-2027	1,559,537	205,771	102,885	1,868,193
2028-2031	1,187,164	47,941	23,970	1,259,075
	<u>\$ 4,158,529</u>	<u>607,191</u>	<u>303,596</u>	<u>5,069,316</u>

(b) *Water Revenue Bonds*

**Water Revenue Bonds Series 2012**

On December 17, 2012, the District issued Water Revenue Bonds Series 2012 for a par value of \$40,745,000. The balance, annual installments, and interest rates at December 31, 2017 and 2016 consist of:

	<u>Interest rate</u>	<u>Annual installment</u>	<u>Principal outstanding</u>	
			<u>2017</u>	<u>2016</u>
Series 2012 bonds:				
Serial	2.000% - 4.000%	\$ 1,185,000 - 2,335,000	20,155,000	21,835,000
Term	3.0	2,455,000 - 2,865,000	13,275,000	13,275,000

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The Water Revenue Bonds Series 2012 are subject to optional redemption prior to maturity on and after December 15, 2022. Principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,735,000	1,182,094	2,917,094
2019	1,800,000	1,112,694	2,912,694
2020	1,860,000	1,040,694	2,900,694
2021	1,925,000	966,294	2,891,294
2022	1,970,000	908,544	2,878,544
2023 – 2027	10,865,000	3,409,219	14,274,219
2028 – 2032	13,275,000	1,276,561	14,551,561
	<u>\$ 33,430,000</u>	<u>9,896,100</u>	<u>43,326,100</u>

The indenture, under which the revenue bonds were issued, provides for the creation and maintenance of certain funds. These cash and cash equivalents are classified as restricted on the statement of net position. The District has pledged future water revenues to repay the Water Revenue Bonds Series 2012. Proceeds from the bonds were used to finance a portion of the costs of improvements to the District's Water System including multiple projects undertaken to upgrade the District's Platte South Plant and Florence Plant in part to comply with current regulatory requirements. The Water Revenue Bonds Series 2012 are payable solely from water revenues and are payable through 2032. Principal and interest payments of \$1,680,000 and \$1,249,294, respectively, were paid on these bonds in 2017. Principal and interest payments of \$1,585,000 and \$1,296,844, respectively, were paid on these bonds in 2016. Total water revenues for the years ended December 31, 2017 and 2016 were \$122,520,463 and \$115,414,933, respectively.

**Water Revenue Bonds Series 2015**

On December 8, 2015, the District issued Water System Improvement and Refunding Revenue Bonds, Series 2015 (the 2015 Bonds) for a par value of \$188,895,000. The 2015 Bonds were issued for the purpose of financing a portion of the costs of improvements to the District's Water System including multiple projects undertaken to upgrade the District's Florence Water Treatment Plant, and to refund \$153,780,000 aggregate principal amount of the District's outstanding 2006A Bonds and 2006B Bonds.

The indenture, under which the revenue bonds were issued, provides for the creation and maintenance of certain funds. These cash and cash equivalents are classified as restricted on the statement of net position. The remaining net proceeds from the 2015 Bonds will be used to finance a portion of the costs of improvements to the District's Florence Water Treatment Plant.

The District has pledged future water revenues to repay the 2015 Bonds. The 2015 Bonds are payable solely from water revenues and are payable through 2035. Principal and interest payments of \$7,530,000 and \$7,335,255, respectively, were paid on these bonds in 2017. Principal and interest payments of \$7,330,000 and \$7,551,999, respectively, were paid on these bonds in 2016. Total water revenues for the years ended December 31, 2017 and 2016 were \$122,520,463 and \$115,414,933, respectively.

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The balance, annual installments, and interest rates at December 31, 2017 and 2016 consist of:

	<u>Interest rate</u>	<u>Annual installment</u>	<u>Principal outstanding 2017</u>	<u>Principal outstanding 2016</u>
Series 2015 bonds:				
Serial	2.850% - 5.000%	\$ 7,330,000 - 14,115,000	166,215,000	173,745,000
Term	3.500	2,520,000 - 2,695,000	7,820,000	7,820,000

The Water Revenue Bonds Series 2015 are subject to optional redemption prior to maturity on and after December 1, 2025. Principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,915,000	6,958,755	14,873,755
2019	8,320,000	6,563,005	14,883,005
2020	8,750,000	6,147,005	14,897,005
2021	9,200,000	5,709,505	14,909,505
2022	9,665,000	5,249,505	14,914,505
2023 – 2027	55,970,000	18,740,260	74,710,260
2028 – 2032	66,395,000	8,041,548	74,436,548
2033 – 2035	7,820,000	553,525	8,373,525
	<u>\$ 174,035,000</u>	<u>57,963,108</u>	<u>231,998,108</u>

**Series 2012 and Series 2015 Debt Covenant Compliance**

At December 31, 2017, the District was in compliance with the provisions of the Series 2012 and 2015 water revenue bond covenants. The District covenants that it will fix, establish, and maintain rates or charges for water, services, or facilities supplied or furnished by the District that will provide an amount sufficient to pay current expenses and to generate net revenue at least equal to the sum of: (a) 120% of the amount equal to the average principal and interest requirements on the bonds, including any parity revenue bonds, then Outstanding; and (b) 100% of the amount required to pay any other unpaid long-term obligations (excluding current expenses) and any other unpaid indebtedness of the District (including any amounts required to be accumulated and maintained as reserves therefore) that are payable from system revenues, as the same shall become due.

Charges and assessments exceeded amounts required by covenants by approximately \$30.4 million and \$28.2 million for 2017 and 2016, respectively; funds available for debt service were equal to 3.2 times and 3.0 times average debt service costs in 2017 and 2016, respectively.

(c) **CNG Promissory Note**

The District's Gas Department entered into a Business Loan Agreement on December 16, 2010 for \$2,200,300. This loan is a low-interest loan obtained from the Nebraska Energy Office and its lending partner. This loan matures December 15, 2020 and the interest rate is fixed at 2.5%.

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Principal and interest payments for the CNG promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 233,836	15,491	249,327
2019	239,810	9,516	249,326
2020	245,198	3,408	248,606
	<u>\$ 718,844</u>	<u>28,415</u>	<u>747,259</u>

**(6) Line of Credit**

The District entered into an unsecured line of credit on October 31, 2006 for \$30,000,000. The current Loan Agreement matures May 1, 2018. The interest rate on the line of credit is variable and is calculated based on the “Three Month London Interbank Offered Rate (LIBOR)” plus 50 basis points; under no circumstances will the rate on this loan be less than 3%. As of December 31, 2017 and 2016, the interest rate was 3% and no amount was outstanding. The District did not draw on the line of credit during 2017 or 2016.

**(7) Defined-Benefit Pension Plan**

**General Information about the Pension Plan**

**(a) Plan Description**

The District sponsors the Retirement Plan for Employees of the Metropolitan Utilities District of Omaha (the Plan) for all regular full-time employees of the Water and Gas Departments. The Plan is a single-employer defined benefit pension plan administered by the District. The Plan was established and may be amended only by the Board. The Plan is not subject to either minimum funding standards of the Employee Retirement Income Security Act of 1974 or the maximum funding limitations. The District does not issue a separate report that includes financial statements and required supplementary information for the Plan.

The Board has fiduciary responsibility for the Plan along with Vanguard Institutional Advisory Services, who serves in the role of discretionary asset manager/co-fiduciary. The Board consists of seven directors, elected by the District’s customer-owners. Administrative responsibility for the Plan has been delegated to the Board’s Insurance and Pension Committee, which consists of three Board members who are appointed by the full Board. The Committee’s decisions and direction are implemented by the Management Pension Committee, comprised of the following District employees: the President, the Chief Financial Officer, the General Counsel and the Vice President of Accounting.

**(b) Benefits Provided**

The Plan provides retirement, disability (in the form of continued credited service), death, and termination benefits. An employee of the District is eligible for coverage at the time of employment. Vesting is achieved upon the completion of five years of service. Normal retirement age is 60 with 5 years of service. Retirement benefits are calculated using the average compensation for the highest paid 24 consecutive months out of the most recent 120 months, multiplied by the total years of service and the formula factor of 2.15% for the first 25 years of service, 1.00% for the next 10 years of service

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and 0.50% for each year of service above 35. The benefit amount is reduced under early retirement which is available at age 55 and 5 years of service.

Benefit terms provide for cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. Adjustments are made, if warranted, each January 1 and July 1 based on the increase in the Consumer Price Index of Urban Wage Earners and Clerical Workers. The annual increase in the member's benefit cannot exceed 3.00%, and adjustments cannot be negative.

(c) **Employees Covered by Benefit Terms**

As of January 1, 2017, membership of the Plan consisted of the following:

Inactive members or their beneficiaries currently receiving benefits	589
Disabled members	24
Inactive members entitled to but not yet receiving benefits	34
Inactive non-vested members	1
Active members	836
Total	<u>1,484</u>

(d) **Contributions**

Benefit and contribution provisions are established by and may be amended only by the Board. The contribution rate for certain employees is established by a collective bargaining agreement. The Board sets the contribution rates for employees who are not covered by the collective bargaining agreement. An actuarial valuation is performed each year to determine the actuarial required contribution, based on the funding goals set by the Board, which is then contributed by the District. The District's policy is to contribute amounts approved in the annual budget, which are generally greater than or equal to the actuarially determined annual required contribution. At times, the District has contributed in excess of the full annual required contribution. Each member contributed 6.00% of pensionable earnings during 2017 and 2016. District contributions to the Plan totaled \$11,193,821 and \$10,300,000 for the fiscal years ending December 31, 2017 and 2016, respectively.

On March 7, 2018, the Board approved a new collective bargaining agreement, effective April 1, 2018 through March 31, 2023. This agreement includes an increase in pension contribution rates effective January 1 of each year to the following: 7.0% in 2019, 7.5% in 2020, 8.0% in 2021, 8.5% in 2022 and 9.0% in 2023. On March 7, 2018, the Board also approved increases in the contribution rate for employees not covered by the collective bargaining agreement to 6.5% effective on September 1, 2018 and to 7.0% on January 1, 2019. Contribution rates for these employees are then expected to align with the rates stated in the collective bargaining agreement through 2023.

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**Pension Plan Fiduciary Net Position**

Financial information about the pension plan's fiduciary net position and the changes in fiduciary net position for the years ended December 31, 2017 and 2016 are as follows:

Statements of Plan Fiduciary Net Position at December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 1,480,783	1,400,720
Investments at fair value		
Mutual funds:		
Fixed income funds	126,537,666	110,546,612
Domestic equity funds	193,878,531	172,086,775
International equity funds	80,841,819	68,479,758
Total investments	<u>401,258,016</u>	<u>351,113,145</u>
Total assets	<u>402,738,799</u>	<u>352,513,865</u>
Liabilities		
Accrued expenses and benefits payable	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
Net position restricted for pensions	<u>\$ 402,738,799</u>	<u>352,513,865</u>

Statements of Changes in the Fiduciary Net Position  
for the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions:		
Employer contributions	\$ 11,193,821	10,300,000
Employee contributions	3,757,444	3,895,899
Total contributions	<u>14,951,265</u>	<u>14,195,899</u>
Net investment income (loss)	<u>52,812,850</u>	<u>25,696,348</u>
Total additions	<u>67,764,115</u>	<u>39,892,247</u>
Deductions:		
Service benefits	17,445,020	16,555,144
Administrative expenses	94,161	85,186
Total deductions	<u>17,539,181</u>	<u>16,640,330</u>
Net increase (decrease)	50,224,934	23,251,917
Net position restricted for pensions:		
Beginning of year	<u>352,513,865</u>	<u>329,261,948</u>
End of year	<u>\$ 402,738,799</u>	<u>352,513,865</u>

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**Net Pension Liability**

All of the District's pension assets are available to pay member's benefit. The net pension liability as of December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 442,313,810	416,190,672
Fiduciary net position	<u>402,738,799</u>	<u>352,513,865</u>
Net pension liability	39,575,011	63,676,807
Fiduciary net position as a % of total pension liability	91.05%	84.70%
Covered payroll	\$ 62,624,066	61,064,398
Net pension liability as a % of covered payroll	63.19%	104.28%

**(a) Actuarial Assumptions**

The District's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined based on an actuarial valuation prepared as of January 1, 2017, but using new assumptions from the experience study presented in a report dated August 2, 2017, rolled forward one year to December 31, 2017.

The total pension liability was determined using the following actuarial assumptions:

Inflation	2.60%
Salary increases, including inflation	4% to 11%
Long-term investment rate of return, net of pension plan investment expenses, including inflation	7.00%
Cost-of-living adjustment	2.60%

Mortality rates for employees, healthy annuitants, and disabled annuitants were based on the RP-2014 Total Dataset Mortality Table, adjusted to 2006, with Female rates set forward one year, projected with generational improvements under Scale MP-2016.

The following actuarial assumptions and methods used for measuring the total pension liability were changed since the prior measurement date:

- The investment return assumption was decreased from 7.25% to 7.00%.
- The price inflation assumption was lowered from 3.10% to 2.60%.
- The cost of living adjustment assumption was lowered from 3.00% to 2.60%.
- The general wage growth assumption was lowered from 4.00% to 3.50%.
- The covered payroll increase assumption was lowered from 4.00% to 3.50%.

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- The mortality assumption was modified by moving to the RP-2014 Mortality Table, adjusted to 2006, with a one-year set forward for females and projected generationally using Scale MP-2016.
- Assumed retirement rates were adjusted to better reflect actual experience.
- Assumed termination rates were adjusted to better reflect actual experience.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience study prepared for the Plan. The results of the most recent experience study were presented in a report dated August 2, 2017. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the Plan's investment consultant. These ranges were combined to develop 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. The assumed long-term rate of return is intended to be a long-term assumption (50 years) and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Projected future benefit payments for all current plan members were projected through 2116.

The target asset allocation and best estimate 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>Long-Term Expected Real Rate of Return</u>
Domestic (U.S.) equities	40.0 %	6.7 %
International (Non-U.S.) equities	20.0	8.1
U.S. aggregate bonds	14.0	3.7
International bonds	3.0	3.2
Intermediate term credit	5.0	4.1
Short term credit	5.0	3.9
Intermediate term TIPS	5.0	2.9
REITS	8.0	6.1
Total	<u>100.0 %</u>	

**(b) Discount Rate**

The discount rate used to measure the total pension liability at December 31, 2017 was 7.00%. The discount rate used to measure the total pension liability at December 31, 2016 was 7.25%. The projection of cash flows used to determine the discount rate assumed the plan contributions from members and the District will be made at the current contribution rates as set out in the labor agreements in effect on the measurement date:

- Employee contribution rate: 6.00% of pensionable earnings.

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- b. District contribution: The actuarial contribution rate less the employee contribution rate times expected pensionable payroll for the plan year.
- c. Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.

Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability.

(c) *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the District as of December 31, 2017, calculated using the discount rate of 7.00%, as well as the District's net pension liability (asset) calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
2017 \$	97,198,244	39,575,011	(8,589,586)

The following presents the net pension liability of the District as of December 31, 2016, calculated using the discount rate of 7.25%, as well as the District's net pension liability calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the discount rate used as of December 31, 2016:

	<b>1% Decrease (6.25%)</b>	<b>December 31, 2016 Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
2016 \$	116,849,810	63,676,807	18,974,785

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(d) *Changes in Net Pension Liability*

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
<b>Balances at December 31, 2015</b>	\$ 395,390,825	329,261,948	66,128,877
<b>Changes for the year:</b>			
Service cost	10,857,017	-	10,857,017
Interest on total pension liability	28,076,211	-	28,076,211
Differences between expected and actual experience	(1,578,237)		(1,578,237)
Employer contributions	-	10,300,000	(10,300,000)
Employee contributions	-	3,895,899	(3,895,899)
Net investment income	-	25,696,348	(25,696,348)
Benefit payments, including member refunds	(16,555,144)	(16,555,144)	-
Administrative expenses	-	(85,186)	85,186
<b>Net changes</b>	<u>20,799,847</u>	<u>23,251,917</u>	<u>(2,452,070)</u>
<b>Balances at December 31, 2016</b>	<u>\$ 416,190,672</u>	<u>352,513,865</u>	<u>63,676,807</u>
<b>Changes for the year:</b>			
Service cost	11,137,854	-	11,137,854
Interest on total pension liability	29,552,506	-	29,552,506
Differences between expected and actual experience	(5,835,431)	-	(5,835,431)
Assumption changes	8,713,229	-	8,713,229
Employer contributions	-	11,193,821	(11,193,821)
Employee contributions	-	3,757,444	(3,757,444)
Net investment income	-	52,812,850	(52,812,850)
Benefit payments, including member refunds	(17,445,020)	(17,445,020)	-
Administrative expenses	-	(94,161)	94,161
<b>Net changes</b>	<u>26,123,138</u>	<u>50,224,934</u>	<u>(24,101,796)</u>
<b>Balances at December 31, 2017</b>	<u>\$ 442,313,810</u>	<u>402,738,799</u>	<u>39,575,011</u>

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**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The District recognized pension expense of \$10,874,342 and \$15,683,294 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ —	6,067,370
Changes of assumptions	7,391,039	—
Differences between projected and actual earnings on pension plan investments	—	13,109,377
Total	<u>\$ 7,391,039</u>	<u>19,176,747</u>

The net amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future years as follows:

<u>Year ended December 31:</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2018	\$ (687,651)
2019	(687,650)
2020	(5,645,646)
2021	(5,263,262)
2022	240,855
Thereafter	257,646
	<u>\$ (11,785,708)</u>

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**(8) Postemployment Benefits**

**General Information about the OPEB Plan**

**(a) Plan Description**

The District sponsors the Postretirement Benefits for Employees of the Metropolitan Utilities District of Omaha (OPEB Plan). The Plan is a single employer defined benefit health care plan administered by the District. The OPEB Plan provides certain postemployment healthcare and life insurance benefits to eligible retirees and their spouses in accordance with provisions established by the Board. An employee is eligible to elect medical coverage upon retiring. Eligibility for retirement requires attaining age 55 with five years of service. For employees covered by the collective bargaining agreement, and hired on or after September 28, 2013, coverage ceases at age 65. For employees not covered by the collective bargaining agreement hired after January 1, 2014, coverage ceases at age 65. The OPEB Plan was established and may be amended only by the Board. The plan does not issue separate financial statements.

The Board has fiduciary responsibility for the OPEB Plan along with Vanguard Institutional Advisory Services, who serves in the role of discretionary asset manager/co-fiduciary. The Board consists of seven directors, elected by the District's customer-owners. Administrative responsibility for the OPEB Plan has been delegated to the Board's Insurance and Pension Committee, which consists of three Board members who are appointed by the full Board. The Committee's decisions and direction are implemented by the Management Pension Committee, comprised of the following District employees: the President, the Chief Financial Officer, the General Counsel and the Vice President of Accounting.

**(b) Plan Membership**

As of January 1, 2017, the date of the latest actuarial valuation, membership of the OPEB Plan consisted of the following:

Inactive members or their beneficiaries currently receiving benefits	762
Active members	<u>836</u>
Total	<u><u>1,598</u></u>

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

(c) *Contributions*

The contribution requirements of plan members and the District are established and can be amended by the Board. Contributions are made to the plan based on a pay-as-you-go basis, with an additional amount to prefund benefits through an OPEB trust created in 2016, as determined annually by the Board. For the years ended December 31, 2017 and 2016, the following payments were made:

	<u>2017</u>	<u>2016</u>
Water retirees	\$ 2,679,411	\$ 2,254,174
Gas retirees	<u>3,274,835</u>	<u>2,755,102</u>
Total claims/fees paid	\$ 5,954,246	\$ 5,009,276
Prefunded benefits	7,000,000	4,999,995
Retiree contributions	<u>(1,939,039)</u>	<u>(1,842,638)</u>
Total	<u>\$ 11,015,207</u>	<u>\$ 8,166,633</u>

Retiree health premiums are calculated based on a three-year rolling average, with 2017 projected costs serving as the final year of the calculation when determining premiums that went into effect April 1, 2017. Retirees contribute to the cost of retiree health care at varying rates based on their age, as follows: 1) ages 59 and older: 33% of the full premium, 2) age 58: 50% of the full premium and 3) ages 55 through 57: 100% of the full premium. The rates in effect as of April 1, 2017 are as follows: 1) ages 59 and older: \$220.62 per month, 2) age 58: \$330.93 per month and 3) ages 55 through 57: \$661.86 per month. If spousal coverage is purchased, the same age-based monthly rates apply based on the retiree's age, meaning that the cost for spousal coverage is the same as the cost for the retiree's coverage (i.e. in the case of a married couple comprised of a retiree who is 59 and a spouse who is 55; each would pay \$220.62 per month).

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**Annual OPEB Cost and Net OPEB Obligation under GASB Statement No. 45**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for 2017 and 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	<u>2017</u>	<u>2016</u>
Annual required contribution	\$ 15,949,807	16,873,529
Interest on net OPEB obligation	4,833,988	4,456,005
Adjustment to annual required contribution	<u>(4,028,323)</u>	<u>(3,713,338)</u>
Annual OPEB cost	16,755,472	17,616,196
Contributions made	<u>11,015,207</u>	<u>8,166,633</u>
Increase in OPEB obligation	5,740,265	9,449,563
Net OPEB obligation – beginning of year	<u>120,849,696</u>	<u>111,400,133</u>
Net OPEB obligation – end of year	<u>\$ 126,589,961</u>	<u>120,849,696</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016 and 2015 are as follows:

	<u>Annual OPEB cost</u>	<u>Annual OPEB Cost % contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
December 31, 2017	\$ 16,755,472	66%	\$ 126,589,961
December 31, 2016	17,616,196	46	120,849,696
December 31, 2015	17,525,590	22	111,400,133

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**GASB 45 Funded Status and Funding Progress**

The funded status of the plan as of January 1, 2017, the date of the last actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$	205,905,060
Actuarial value of plan assets		<u>5,198,515</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u>200,706,545</u>
Funded ratio		2.52%
Covered payroll	\$	67,761,364
UAL as a percentage of covered payroll		296%

**Actuarial Methods and Assumptions under GASB Statement No. 45**

Actuarial valuations on an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2017 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 7.0% projected investment rate of return and an annual healthcare cost trend of 7.50% initially, reduced by periodic decrements to an ultimate rate of 5.0% after five years. Both rates include a 3.1% inflation assumption. The unfunded actuarial accrued liability is being amortized over 30 years as a level percent of payroll.

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**GASB Statement No. 74 Disclosures**

In fiscal year 2017, the District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The adoption of this new standard required the District to calculate and disclose information about its OPEB liability in the notes to the financial statements and in the required supplementary information. The District's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined based on an actuarial valuation prepared as of January 1, 2017, rolled forward one year to December 31, 2017.

The target asset allocation and best estimate 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>Long-Term Expected Real Rate of Return</u>
Domestic (U.S.) equities	43.0 %	6.7 %
International (Non-U.S.) equities	24.0	8.1
U.S. aggregate bonds	7.0	3.7
International bonds	3.0	3.2
Intermediate term credit	5.0	4.1
Short term credit	5.0	3.9
Intermediate term TIPS	5.0	2.9
REITS	8.0	6.1
Total	<u>100.0 %</u>	

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**Changes in Net OPEB Liability**

The components of net OPEB liability under GASB 74 at December 31, 2017 were as follows (\$ in Thousands):

**Reconciliation of Total OPEB Liability (TOL)**

Total OPEB Liability at Beginning of Year	\$	186,333
Service cost		7,150
Interest		9,806
Net benefits paid		(4,015)
Change of assumptions		(4,129)
<b>Total OPEB Liability at End of Year</b>	<b>\$</b>	<b>195,145</b>

**Reconciliation of Fiduciary Net Position (FNP)**

Fiduciary Net Position at Beginning of Year	\$	5,199
Actual return on plan assets		1,407
Employer contributions		11,015
Benefit payments		(4,015)
Administrative expenses		(1)
<b>Fiduciary Net Position at End of Year</b>	<b>\$</b>	<b>13,605</b>

Money-Weighted Rate of Return		16.2%
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**Net OPEB Liability**

Total OPEB Liability	\$	195,145
Fiduciary Net Position		(13,605)
<b>Net OPEB Liability</b>	<b>\$</b>	<b>181,540</b>

<b>FNP as a Percentage of TOL</b>		6.97%
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**Key Assumptions for Net OPEB Liability**

Discount rate		5.05%
Salary scale		3.50%
Expected Return on Assets		7.00%
Healthcare Trend Rates	7.50% initially, decreasing to 5.00%	
Inflation		2.60%

Mortality is based on the RP-2014 Adjusted to 2006 Total Dataset Mortality Table with Female rates set forward one year, generational with projected improvements under Scale MP-2016.

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**Discount Rate**

The discount rate used to measure the total OPEB liability at December 31, 2017 was 5.05%. The projection of cash flows used to determine the discount rate was based on an actuarial valuation performed as of January 1, 2017. In addition to the actuarial methods and assumptions of the January 1, 2017 actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- a. Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent years, total payroll was assumed to increase annually at a rate of 3.50%
- b. The District is currently a pay-as-you-go plan that has established a trust to pay future benefits. The trust is still growing and has not yet begun to pay benefit payments. The long term intent is to begin paying benefits out of the trust.
- c. The District intends to contribute 100% of the actuarially determined contribution (ADC) in 2019 and beyond. But absent a formal funding policy, the estimated amount contributed in future years is limited to the historic average over the last five years. Because the trust was established in 2016, contributions for years prior to 2016 were excluded from this calculation and the actual contributions from 2016 and 2017 and the budgeted contributions for 2018 were used, resulting in an average contribution of 72.47% of ADC. This average was applied to all future ADCs to determine future contributions.
- d. Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.
- e. Projected future payments for all current plan members were projected into the future.

Based on these assumptions, the plan's FNP was projected to be depleted in 2051 and, as a result, the Municipal Bond Index Rate was used in the determination of a single equivalent interest rate (SEIR). The long-term expected rate of return of 7.00% on Plan investments was applied to all periods through the asset depletion date and the Municipal Bond Index of 3.44% was applied to all periods after the asset depletion date, resulting in a SEIR of 5.44%.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of the District, calculated using the discount rate of 5.05%, as well as the District's net OPEB liability calculated using a discount rate that is 1 percentage point lower (4.05%) or 1 percentage point higher (6.05%) than the current rate (\$ in thousands):

	<u>1% Decrease (4.05%)</u>	<u>Discount Rate (5.05%)</u>	<u>1% Increase (6.05%)</u>
Net OPEB Liability	\$ 216,156	181,540	153,979

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability of the District, calculated using the healthcare cost trend rate of 7.50% decreasing to 5.00% for pre-Medicare and 5.50% decreasing to 5.00 percent for Medicare eligible, as well as the District's net OPEB liability calculated using a healthcare trend rate that is 1 percentage point lower (6.50% decreasing to 4.00%) or 1 percentage point higher (8.50% decreasing to 6.00%) than the current rate (\$ thousands):

	<u>1% Decrease</u>	<u>Current Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 149,550	181,540	222,929

**OPEB Plan Fiduciary Net Position**

Financial information about the OPEB plan's fiduciary net position and the changes in fiduciary net position for the years ended December 31, 2017 and 2016 are as follows:

Statements of Plan Fiduciary Net Position at December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Investments at fair value		
Mutual funds:		
Fixed income funds	\$ 3,362,904	1,288,762
Domestic equity funds	6,930,940	2,664,518
International equity funds	3,311,160	1,245,235
Total investments	<u>13,605,004</u>	<u>5,198,515</u>
Total assets	<u>13,605,004</u>	<u>5,198,515</u>
Liabilities	-	-
Net position restricted for other postemployment benefits	<u>\$ 13,605,004</u>	<u>5,198,515</u>

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

Statements of Changes in the Fiduciary Net Position  
for the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions:		
Employer contributions	\$ 7,000,000	4,999,995
Net investment income	1,407,980	198,804
Total additions	<u>8,407,980</u>	<u>5,198,799</u>
Deductions:		
Administrative expenses	1,491	284
Total deductions	<u>1,491</u>	<u>284</u>
Net increase	8,406,489	5,198,515
Net position restricted for other postemployment benefits:		
Beginning of year	5,198,515	-
End of year	<u>\$ 13,605,004</u>	<u>5,198,515</u>

**(9) Deferred Compensation**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all District employees and permits them to defer a portion of their salary until future years. For bargaining employees, following one year of service, the District matches 50% of the first \$2,000 deferred by employees hired before September 28, 2013; for employees hired after September 28, 2013, the District matches 100% of the first \$2,000 deferred by employees. For employees not covered by the collective bargaining agreement, following one year of service, the District matches 50% of the first \$2,000 deferred by employees hired prior to January 1, 2014; for employees hired after January 1, 2014, the District matches 100% of the first \$2,000 deferred by employees. “Matching” contributions are remitted following each pay period during which amounts are deferred by eligible employees, until the aforementioned matching limitations are reached; matching contributions immediately vest. The deferred compensation, and associated matching contribution, are available to employees when one of three events occurs: separation of employment, hardship for unforeseeable emergency, or a small balance distribution. District matching contributions totaled \$677,426 and \$655,335 for 2017 and 2016, respectively. Management has determined the criteria established in GASB Statement No. 84 for control of assets has not been met for this plan, and therefore it is not reported as a fiduciary fund.

**(10) Self-Insured Risks**

The District is exposed to various risk of loss related to torts, theft of and destruction of assets, errors and omissions, and natural disasters. In addition, the District is exposed to risks of loss due to injuries to, and illnesses of, its employees. The District provides its employees with two health insurance options, both of which are primarily self-insured: a Health Maintenance Organization (HMO) and a preferred provider Organization (PPO). The District utilizes an “Administrative Services Only” contract under which the District reimburses the HMO/PPO for actual claims paid, a monthly administrative fee, and stop-loss protection for individual claims. Individual stop-loss coverage is effective when annual individual claims exceed \$400,000, and when aggregate claims exceed 125% of projected levels. A liability for claims is

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

recorded in accounts payable, and was \$1,562,494 and \$1,286,922 at December 31, 2017 and 2016, respectively.

Changes in the District's self-insured risk balances for the health plan during 2017 and 2016 are as follows:

	<b>Business-type Activities Total</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 1,286,922	1,195,023
Expenses	26,506,363	25,115,282
Payments	<u>(26,230,791)</u>	<u>(25,023,383)</u>
Ending balance	<u>\$ 1,562,494</u>	<u>1,286,922</u>

The District carries commercial insurance coverage for auto and property with deductibles ranging from \$0 to \$500,000. The District is also self-insured for workers' compensation and general liability and does not carry additional commercial coverage. There have been no significant reductions in insurance coverage in 2017. In 2017, 2016, and 2015, the insurance policies in effect have adequately covered all settlements of claims against the District. No claims have exceeded the limits of property or liability insurance in any of the past three years. Liabilities are recorded for these self-insured risks. The liabilities are based on a combination of loss experience and estimates by the District's in-house legal department.

Changes in the District's self-insured risk balances for workers' compensation and general liabilities during 2017 and 2016 are as follows:

	<b>Gas Department</b>		<b>Water Department</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 1,138,020	1,044,765	1,143,794	1,106,217
Expenses	1,118,732	726,424	2,260,531	1,243,749
Payments	<u>(1,150,466)</u>	<u>(633,169)</u>	<u>(1,964,103)</u>	<u>(1,206,172)</u>
Ending balance	<u>\$ 1,106,286</u>	<u>1,138,020</u>	<u>1,440,222</u>	<u>1,143,794</u>

**(11) Allowance for Doubtful Accounts and Accounts Receivable Write-offs**

The allowance for doubtful accounts provides for the potential write-off of uncollectible account balances. An estimate is made for the Allowance for Doubtful Accounts based on an analysis of the aging of Accounts Receivable and historical write-offs. The District's policy is to write off receivable balances that are over five years old. There were no receivable write-offs during 2017 or 2016. The allowance consists of the following at December 31:

	<b>2017</b>	<b>2016</b>
Water Department	\$ 2,785,417	2,594,762
Gas Department	5,743,032	5,318,391

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

(12) Commitments

(a) *Central Plains Energy Project (CPEP)*

Central Plains Energy Project (CPEP) is a public body created under Nebraska Interlocal Law for the purpose of securing long-term, economical, and reliable gas supplies. CPEP currently has three members: the District, Cedar Falls Utilities, and Hastings Utilities, each of which has equal representation on the board of CPEP. CPEP has acquired gas through long-term prepaid gas purchase agreements and delivers gas to its members or customers through long-term gas supply contracts for specified volumes of gas at market-based pricing less a contractual discount. Members or customers are only obligated to pay for gas if, and when, delivered by CPEP. CPEP's debt is not an obligation of the District or any other members or customers of CPEP. CPEP has issued \$2.4 billion of gas supply revenue bonds to fund these natural gas prepayment transactions, which are secured by gas contracts entered into with each project's members or customers. Under the current agreements, the District anticipates taking approximately 90% of the gas acquired in these transactions under a 20-year gas purchase agreement entered into with CPEP in 2007 and two 30-year gas purchase agreements, one entered into in 2009 and the other in 2012. Terms of this 2007 gas supply agreement were renegotiated in 2009 and again in 2012; the gas flows under this agreement will now expire on October 31, 2020. The 30-year gas purchase agreement entered into in 2009 was renegotiated in 2014 subsequent to litigation; full details are provided below. Audited financial statements of CPEP are available from the District.

At December 31, 2017 and 2016, the District owed CPEP \$5,810,892 and \$6,084,541, respectively, for gas purchases under these agreements, which is recorded within "Accounts payable and remediation obligation" in the statements of net position. During the years ended December 31, 2017 and 2016, billings from CPEP to the District for services provided under these agreements were \$36,617,402 and \$28,880,996, respectively.

The District has contracted to purchase the following volumes of gas from CPEP, through 2042, at a discount to market-based pricing on a pay-as-you-go basis:

	<u>DTH</u>
2018	11,886,986
2019	8,721,494
2020	5,361,558
2021	4,436,500
2022	4,830,500
2023 – 2042	<u>115,840,000</u>
	<u>151,077,038</u>

In 2017 and 2016, the District purchased 12,697,528 DTH and 12,791,991 DTH of gas, respectively, under these agreements, representing 41% and 46%, respectively, of the District's annual gas requirements. As discussed below, the 2009 long-term prepaid gas purchase contract has also been renegotiated subsequent to litigation.

## METROPOLITAN UTILITIES DISTRICT

### Notes to Basic Financial Statements

December 31, 2017 and 2016

In January 2014, Royal Bank of Canada (RBC) filed a lawsuit in U.S. District Court in Omaha to terminate its 30-year obligation to deliver gas pursuant to CPEP #2, which originated in August 2009. The CPEP #2 supply agreement accounts for approximately 15% of the District's annual gas requirements. RBC asserted that a change in international bank regulations relative to a requirement to maintain increased reserves against prospective losses related to the CPEP deal, serves as a "triggering event" to terminate the supply agreement. CPEP disputed RBC's position, and a countersuit was subsequently filed. On December 1, 2014, this matter was resolved; the renegotiation provides for the following: 1) \$12.5 million up-front proceeds at closing, which have been recorded as unearned gas purchase discounts by the District, and will be recognized as a reduction of the cost of natural gas based on the pattern of gas purchases through October 2019; 2) locked-in discounts of \$.16 per DTH for the period November 1, 2014 through October 31, 2019, and 3) the ability to renegotiate discounts for the November 1, 2019 through June 30, 2039, the remaining duration of the contract.

It should be noted that the aforementioned \$12.5 million up-front proceeds were restricted, in that they must be spent on capital projects within three years from the closing date of December 1, 2014. During 2015, \$5.4 million was spent on qualifying projects, while the remaining \$7.1 million of the \$12.5 million up-front proceeds was spent on qualifying capital projects during 2016.

In December 2017, CPEP closed on an advanced refunding transaction of the CPEP #3 2012 bonds. This transaction will result in increased contractual discounts from market prices, resulting in reduced gas costs of approximately \$159 million over the 2022-2042 time period, an increase of \$77 million from the original transaction that was completed in 2012.

#### **(b) Other Gas Supply Agreements**

The District has various other gas supply contracts with a variety of suppliers, which consist of contracts that expire March 31, 2018 and October 31, 2018 and are generally renewed on an annual basis. The District has other gas supply contracts that expire December 31, 2022 and March 31, 2027 that were purchased based off market conditions and are not an annual purchase.

Additionally, during the fourth quarter of 2017, the District entered into a 30 year gas supply contract with the Tennessee Energy Acquisition Corporation (TEAC) for three to four percent of our annual gas requirements. TEAC completed a 30-year natural gas pre-pay transaction using tax exempt bond financing that closed on November 7, 2017; the District was a participant in the deal. Gas flows will commence on April 1, 2018, and the District will achieve total gas cost savings of \$1.4 million vs. market prices over the initial five year term of the deal. At the conclusion of the initial five year term, TEAC, and the counterparty to the transaction, will negotiate an extension of the contractual gas discounts based on future interest rate levels at that time. The District is not required to purchase gas after the initial five year term unless the discount to market is \$.20 per Dth or greater; parties to the agreement believe that it is probable that volumes will be taken for the full 30-year duration of the agreement.

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

December 31, 2017 and 2016

The District has contracted to purchase the following volumes of gas from TEAC, through 2048, at a discount to market-based pricing on a pay-as-you-go basis:

	<b>DTH</b>
2018	635,700
2019	1,063,400
2020	1,068,600
2021	1,063,400
2022	1,063,400
2023 – 2048	33,880,900
	<u>38,775,400</u>

**(c) Gas Transportation Agreement**

On November 7, 2012, the District's entered into a twenty (20) year firm transportation agreement with Northern Natural Gas; the term of the agreement runs from November 1, 2016 to October 31, 2036. Under this agreement, NNG will provide 198,975 Dth/day of firm transportation service during the months of November through March and 139,283 Dth/day of firm transportation service during the months of April through October. Per the terms of the agreement, 61% of the transportation volumes are priced at a discounted rate below NNG's maximum tariff rate with the remaining 39% priced at NNG's maximum tariff rates. The District's annual pipeline demand costs under this agreement, based on NNG's current tariff rates, will be \$15 million.

**(d) Construction**

At December 31, 2017, the District's obligation under the uncompleted portion of contracts for plant facilities and equipment for the Water Department amounted to approximately \$4.8 million, which will be financed through operations and the proceeds from the Water Revenue Bonds Series 2015. For the Gas Department, obligations amounted to approximately \$2.4 million at December 31, 2017, which will be financed through operations.

**(13) Contingencies**

The District is subject to legal proceedings and claims that arise in the ordinary course of business. Management believes, based on the opinion of legal counsel, that the amount of ultimate liability with respect to these actions is adequately covered by the District's accrued liabilities for self-insured risks.

**(14) Pollution Remediation**

During 2011, the District was identified as a potentially responsible party (PRP) related to a site of a former manufactured gas plant (the Site). The Site is currently owned by the City of Omaha. This Site was subject to a site investigation by a third party to help the District determine potential options and costs associated with remediating the Site. In 2011, the District recorded a remediation liability of \$2,500,000. During 2014 and 2015, estimated remediation amounts were updated to reflect the delays in proceeding while awaiting the State's approval of the proposed remediation plan and the impact of inflation. The total remediation liability at December 31, 2015 was \$3,447,554.

METROPOLITAN UTILITIES DISTRICT

Notes to Basic Financial Statements

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With the assistance of the aforementioned third party, a detailed remediation plan was submitted to the State of Nebraska in November 2012. The State approved the remediation plan in November 2015. Site remediation began in early 2016 and included building demolition, removal of contaminated soils including transportation to a landfill, and installation of a “cap” of clean fill dirt. The project was completed in 2016 at a total cost of \$5,447,915, net of a reimbursement of \$150,000 from a third party. A final payment of \$52,929 was outstanding at December 31, 2016, which was included as a current liability in the accompanying statements. This amount was paid in 2017.

The remediation plan requires monitoring of ground water activity for a minimum of two years following completion of the project, including the installation of monitoring wells and ground water sampling into 2019. On March 1, 2017, the District’s Board of Directors approved entering into an Interlocal Agreement with the City of Omaha in which the City would reimburse the District for the costs related to the ground water monitoring. Therefore, no additional remediation liability has been accrued as of December 31, 2017.

**METROPOLITAN UTILITIES DISTRICT**

Required Supplementary Information  
Schedules of Funding Progress - Other Postemployment Benefits - GASB Statement No. 45

(Dollar amounts in thousands)

(Unaudited)

**Schedule of Funding Progress – OPEB**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial liability (AL) (b)</b>	<b>Unfunded AL (UAL) (b – a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered-employee payroll (c)</b>	<b>UAL as a percentage of covered-employee payroll ((b – a)/c)</b>
1/1/2017	5,199	205,905	200,706	2.52%	67,761	296%
1/1/2015	—	200,828	200,828	—	57,351	350
1/1/2013	—	183,202	183,202	—	51,200	358

The information presented in the notes to the financial statements and required supplementary information was determined as part of the actuarial valuation at the date indicated. Valuation information is as follows:

	<b>OPEB</b>
Valuation Date	January 1, 2017
Actuarial cost method	Unit credit actuarial cost method
Amortization period	30 years
Remaining amortization period	30 years
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increase	4.0%
Annual postretirement benefit increase	N/A
Inflation rate	3.1%
Annual healthcare cost trend	7.5% initially, reduced by periodic decrements to a rate of 5% after five years

**METROPOLITAN UTILITIES DISTRICT**  
Required Supplementary Information  
Schedule of Changes in Net OPEB Liability and Related Ratios  
Fiscal Year ended December 31  
(\$ in Thousands)

	<b>2017</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 7,150
Interest	9,806
Assumption changes	(4,129)
Benefit payments	(4,015)
Net change in total pension liability	8,812
Total OPEB liability, beginning	186,333
Total OPEB liability, ending (a)	\$ 195,145
 <b>Plan Fiduciary Net Position</b>	
Employer contributions	\$ 11,015
Net investment income	1,407
Benefit payments	(4,015)
Administrative expenses	(1)
Net change in plan fiduciary net position	8,406
Plan fiduciary net position, beginning	5,199
Plan fiduciary net position, ending (b)	\$ 13,605
 Net OPEB liability, ending (a) - (b)	\$ 181,540
 Plan fiduciary net position as a percentage of the total OPEB liability	6.97%
 Covered-employee payroll	67,761
 Net OPEB liability as a percentage of covered-employee payroll	267.91%

**Notes to Schedule:**

Changes since prior valuation:

1. Changes were made to the assumed initial per capita health care costs, rates of health care inflation used to project the per capita costs, and health care plan election rates based upon recent experience and current expectations.
2. Price inflation lowered from 3.10% to 2.60% to reflect recent experience, historical patterns and future expectations.
3. General wage growth assumptions lowered from 4.00% to 3.50% to reflect recent experience, expected inflation, national historical patterns, and future expectations.
4. Covered payroll increase assumption lowered from 4.00% to 3.50% based on general wage growth assumptions as well as the District's actual experience.
5. Mortality was updated to the RP-2014 Mortality Table, adjusted to 2006, with a one-year set forward for females and projected generationally using Scale MP-2016.
6. Retirement rates were adjusted to better reflect actual experience.
7. Termination rates were adjusted to better reflect actual experience.

Note: Schedule is intended to show 10-year trend. GASB 74 was adopted in 2017, as such, only one year is presented. Additional years will be reported as they become available.

**METROPOLITAN UTILITIES DISTRICT**

Required Supplementary Information  
 Schedule of Employer Contributions - Other Post Employment Benefits  
 January 1, 2008 Through December 31, 2017  
 (\$ in Thousands)

<b>Fiscal Year Ending December 31</b>	<b>Actuarial Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered- Employee Payroll</b>	<b>Actual Contribution as a % of Covered- Employee Payroll</b>
2008	\$ 13,789	\$ 2,416	\$ 11,373	\$ 46,428	5.20%
2009	16,116	2,804	13,312	50,782	5.52%
2010	16,116	3,145	12,971	51,484	6.11%
2011	15,101	4,046	11,055	51,869	7.80%
2012	15,101	3,155	11,946	51,031	6.18%
2013	15,297	3,686	11,611	55,847	6.60%
2014	15,297	3,225	12,072	59,332	5.44%
2015	16,874	3,935	12,939	63,385	6.21%
2016	16,874	8,167	8,707	66,054	12.36%
2017	15,950	11,015	4,935	67,761	16.26%

Beginning Fiscal Year ending December 31, 2017, the Actuarial Determined Contribution (ADC) is calculated in accordance with the District's funding policy, if one exists.

Prior to Fiscal Year ending December 31, 2017, the ADC is equal to the Annual Required Contribution (ARC) calculated under GASB Standards No. 45.

**Notes to Schedule**

Valuation date: January 1, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method                      Unit credit  
 Amortization method                      Level percentage of pay  
 Remaining amortization period        30 years

Asset valuation method                      Market value

Inflation                                        2.60%

Healthcare cost trend rates                The immediate trend rates are assumed to decrease to an ultimate trend rate over a period of 5 years.

Salary increases                              3.50%

Long-term investment rate of return    7.00%

Mortality                                        RP-2014 Mortality Table, adjusted to 2006, with a one-year set forward for females and projected generationally using Scale MP-2016.

**METROPOLITAN UTILITIES DISTRICT**

Required Supplementary Information  
Schedule of Annual Money-Weighted Rate of Return on OPEB Plan Investments  
Fiscal Years ended December 31

<b><u>Fiscal Year Ending December 31</u></b>	<b><u>Annual Money-Weighted Rate of Return</u></b>
2017	16.2%
2016	6.3

Note: Schedule is intended to show 10-year trend. The OPEB trust was created in 2016, as such, only two years are presented. Additional years will be reported as they become available.

**METROPOLITAN UTILITIES DISTRICT**  
Required Supplementary Information  
Schedule of Changes in Net Pension Liability and Related Ratios  
Fiscal Years ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total Pension Liability</b>			
Service cost	\$ 11,137,854	10,857,017	10,160,376
Interest on total pension liability	29,552,506	28,076,211	26,596,785
Differences between expected and actual experience	(5,835,431)	(1,578,237)	-
Assumption changes	8,713,229	-	-
Benefit payments, including member refunds	(17,445,020)	(16,555,144)	(16,154,435)
Net change in total pension liability	<u>26,123,138</u>	<u>20,799,847</u>	<u>20,602,726</u>
Total pension liability, beginning	416,190,672	395,390,825	374,788,099
Total pension liability, ending (a)	<u>\$ 442,313,810</u>	<u>416,190,672</u>	<u>395,390,825</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 11,193,821	10,300,000	10,301,268
Employee contributions	3,757,444	3,895,899	2,820,596
Net investment income	52,812,850	25,696,348	(748,921)
Benefit payments, including member refunds	(17,445,020)	(16,555,144)	(16,154,435)
Administrative expenses	(94,161)	(85,186)	(92,250)
Net change in plan fiduciary net position	<u>50,224,934</u>	<u>23,251,917</u>	<u>(3,873,742)</u>
Plan fiduciary net position, beginning	352,513,865	329,261,948	333,135,690
Plan fiduciary net position, ending (b)	<u>\$ 402,738,799</u>	<u>352,513,865</u>	<u>329,261,948</u>
Net pension liability, ending (a) - (b)	<u>\$ 39,575,011</u>	<u>63,676,807</u>	<u>66,128,877</u>
Fiduciary net position as a percentage of the total pension liability	91.05%	84.70%	83.28%
Covered payroll*	\$ 62,624,066	61,064,398	63,384,548
Net pension liability as a percentage of covered payroll	63.19%	104.28%	104.33%

**Notes to Schedule:**

Changes to benefit terms and funding terms:

- 2017: The member contribution rate increased from 4.88% to 6.00% of total pay, as scheduled
- 2015: The member contribution rate increased from 4.32% to 4.88% of total pay, as scheduled

Changes in actuarial assumptions and methods:

1/1/2017 valuation (assumptions used for measuring 12/31/17 total pension liability):

1. The investment return assumption was decreased from 7.25% to 7.00%.
2. The price inflation assumption was lowered from 3.10% to 2.60%.
3. The cost of living adjustment assumption was lowered from 3.00% to 2.60%
4. The general wage growth assumption was lowered from 4.00% to 3.50%.
5. The covered payroll increase assumption was lowered from 4.00% to 3.50%.
6. The mortality assumption was modified by moving to the RP-2014 Mortality Table, adjusted to 2006, with a one-year set forward for females and projected generationally using Scale MP-2016.
7. Assumed retirement rates were adjusted to better reflect actual experience.
8. Assumed termination rates were adjusted to better reflect actual experience.

\* Prior to Fiscal Year ending December 31, 2016, covered payroll represents total payroll of employees provided with pensions through the pension plan. Beginning in Fiscal Year ending December 31, 2016, covered payroll represents compensation to active employees on which the District bases pension plan contributions.

Note: Schedule is intended to show 10-year trend. GASB 68 was adopted in 2015, as such, only three years are presented. Additional years will be reported as they become available.

**METROPOLITAN UTILITIES DISTRICT**

Required Supplementary Information  
 Schedule of Employer Contributions - Defined Benefit Pension Plan  
 January 1, 2008 Through December 31, 2017  
 (\$ in Thousands)

<b>Fiscal Year Ending December 31</b>	<b>Actuarial Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered* Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
2008	\$ 5,965	\$ 3,200	\$ 2,765	\$ 46,428	6.89%
2009	7,689	6,200	1,489	50,782	12.21%
2010	8,588	8,638	(50)	51,484	16.78%
2011	9,235	9,300	(65)	51,869	17.93%
2012	9,231	10,312	(1,081)	51,031	20.21%
2013	8,996	10,300	(1,304)	55,847	18.44%
2014	8,988	10,300	(1,312)	59,332	17.36%
2015	9,956	10,301	(345)	63,385	16.25%
2016	10,215	10,300	(85)	61,064	16.87%
2017	10,273	11,194	(921)	62,624	17.87%

\* Prior to Fiscal Year ending December 31, 2016, covered payroll represents total payroll of employees provided with pensions through the pension plan. Beginning in Fiscal Year ending December 31, 2016, covered payroll represents compensation to active employees on which the District bases pension plan contributions.

**Notes to Schedule**

Valuation date: January 1, 2017  
 Actuarially determined contribution is determined in the valuation performed as of January 1 of the year in which contribution is made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	Range from 18 to 27 years (single equivalent amortization period is 27 years)
Asset valuation method	Expected + 25% of (market - expected values)
Inflation	3.10%
Salary increases	4.00% to 11.00%, depending on years of service
Long-term investment rate of return	7.25%
Retirement	Service-based table of rates.
Mortality	Pre-retirement mortality rates were based on the RP-2000 Employee Table with generational mortality projections using Scale AA. Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Table with generational projections using Scale AA. Disabled mortality rates were based on the RP-2000 Disabled Retiree Table with generational projections using Scale AA.
Cost of living adjustments	3.0% per year

**METROPOLITAN UTILITIES DISTRICT**

Required Supplementary Information  
Schedule of Annual Money-Weighted Rate of Return on Pension Plan Investments  
Fiscal Years ended December 31

<b><u>Fiscal Year Ending December 31</u></b>	<b><u>Annual Money-Weighted Rate of Return</u></b>
2017	15.2%
2016	7.9
2015	-0.2

Note: Schedule is intended to show 10-year trend. GASB 68 was adopted in 2015, as such, only three years are presented. Additional years will be reported as they become available.

**METROPOLITAN UTILITIES DISTRICT**

Water Department

Schedule of Insurance Coverage

December 31, 2017

(Unaudited)

<u>Coverage</u>	<u>Description</u>	<u>Name of insurer</u>	<u>Deductible or coinsurance amounts</u>	<u>Expiration date</u>
Buildings (including contents)	Fire and extended coverage	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$100,000 deductible	6-15-2018
Data Processing Equipment	Equipment, media and extra expense	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$100,000 deductible	6-15-2018
Contractors Equipment floater	Construction equipment and communication equipment	Continental Casualty Co.	\$40,000 deductible	6-15-2018
Travel Insurance	All employees and directors while on a bonafide business trip	Reliance Std. Life Ins. Co.	\$200,000 per loss	2-7-2018

**METROPOLITAN UTILITIES DISTRICT**

Water Department

Statutory Information Required by Chapter 14,  
Section 2145 of the Revised Statutes of Nebraska of 1943

Year ended December 31, 2017

(Unaudited)

Operating revenues, net	\$	122,328,186
Thousands of gallons of water supplied to mains		33,306,630
Thousands of gallons of water sold		30,058,950
Maintenance	\$	23,798,027
Gross additions to utility plant in service, exclusive of land	\$	54,409,708
Land purchased	\$	—
Depreciation charged to operations and other accounts	\$	14,785,241
Cost per thousand gallons of water sold (schedule A)	\$	3.31
Collected for sale and rent of meters, net	\$	491,275
Assessments against property for extension of mains	\$	—
Operating expenses (schedule B)	\$	92,744,154
Average number of employees for the year		382
Compensation of employees for the year	\$	30,415,945
Direct taxes levied against property at request of District for fire protection service (in lieu of hydrant rental)	\$	—
All other facts necessary to give an accurate and comprehensive view of the cost of maintaining and operating the plant		—

## METROPOLITAN UTILITIES DISTRICT

## Water Department

## Cost per Thousand Gallons of Water Sold

Year ended December 31, 2017

(Unaudited)

Operating expenses:	
Operations	\$ 52,956,607
Maintenance	23,798,027
Depreciation	14,330,944
Provision for statutory payments to municipalities	<u>1,658,576</u>
Total operating expenses	92,744,154
Other deductions:	
Interest	<u>6,651,398</u>
Total operating expenses and other deductions	<u>\$ 99,395,552</u>
Thousands of gallons of water sold	30,058,950
Cost per thousand gallons of water sold	\$ 3.31

## METROPOLITAN UTILITIES DISTRICT

Water Department

Operating Expenses

Year ended December 31, 2017

(Unaudited)

## Operating expenses:

## Operations:

Primary pumping	\$ 8,949,364
Purification	11,397,423
Booster pumping	2,662,592
Distribution	8,956,484
Customer accounting	9,251,746
Marketing	676,764
Administrative	11,062,234

Total operating	<u>52,956,607</u>
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## Maintenance:

Primary pumping	2,761,602
Purification	3,700,174
Booster pumping	1,591,433
Distribution	15,744,818

Total maintenance	<u>23,798,027</u>
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## Depreciation

14,330,944

## Provision for statutory payments to municipalities

1,658,576

Total operating expenses	<u>\$ 92,744,154</u>
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**METROPOLITAN UTILITIES DISTRICT**

Gas Department

Schedule of Insurance Coverage

December 31, 2017

(Unaudited)

<u>Coverage</u>	<u>Description</u>	<u>Name of insurer</u>	<u>Deductible or coinsurance amounts</u>	<u>Expiration date</u>
Buildings (including contents)	Fire and extended coverage	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$100,000 deductible	6-15-2018
Data Processing Equipment	Equipment, media and extra expense	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$100,000 deductible	6-15-2018
Contractors Equipment floater nonowner liability	Construction equipment and communication equipment	Continental Casualty Co.	\$40,000 deductible	6-15-2018
Travel Insurance	All employees and directors while on a bonafide business trip	Reliance Std. Life Ins. Co.	\$200,000 per loss	2-7-2018
Auto Fleet	Physical damage - specified parts	Amco Insurance, Inc. (Nationwide)	\$500 deductible	6-15-2018
LNG plant	LNG plant and contents	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$250,000 deductible	6-15-2018
Propane caverns	Two caverns - special cause of loss, including earthquake and flood	Associated Electric & Gas Insurance Services (AEGIS) & Starr Technical Risk Agency	\$250,000 deductible	6-15-2018

**METROPOLITAN UTILITIES DISTRICT**

Gas Department

Statutory Information Required by Chapter 14,  
Section 2145 of the Revised Statutes of Nebraska of 1943

Year ended December 31, 2017

(Unaudited)

Operating revenues, net	\$	203,679,638
Dekatherms of gas delivered to mains		29,497,411
Dekatherms of gas sold		29,497,411
Maintenance	\$	16,408,331
Gross additions to utility plant in service	\$	38,094,902
Depreciation charged to operations and other accounts	\$	19,298,715
Cost per thousand cubic feet of gas sold (schedule A)	\$	6.04
Collected for sale and rent of meters	\$	—
Assessments against property for extension of mains	\$	—
Operating expenses (schedule B)	\$	181,369,372
Average number of employees for the year		462
Compensation of employees for the year	\$	36,810,768
Direct taxes levied against property at request of District	\$	—
All other facts necessary to give an accurate and comprehensive view of the cost of maintaining and operating the plant		—

**METROPOLITAN UTILITIES DISTRICT**

## Gas Department

## Cost per Thousand Cubic Feet of Gas Sold

Year ended December 31, 2017

(Unaudited)

Operating expenses:	
Natural gas	\$ 106,365,860
Operations	40,298,536
Maintenance	16,408,331
Depreciation	14,972,448
Provision for statutory payments to municipalities	<u>3,324,197</u>
Total operating expenses	<u>\$ 181,369,372</u>
Thousands of cubic feet of gas sold	30,041,575
Cost per thousand cubic feet of gas sold	\$ 6.04

## METROPOLITAN UTILITIES DISTRICT

Gas Department

Operating Expenses

Year ended December 31, 2017

(Unaudited)

Operating expenses:	
Natural gas	\$ 106,365,860
Operations:	
Production	2,637,904
Distribution	11,463,016
Customer accounting and collecting	12,393,336
Marketing	1,116,375
Administrative	12,687,905
Total operations	<u>40,298,536</u>
Maintenance:	
Production	3,454,340
Distribution	12,953,991
Total maintenance	<u>16,408,331</u>
Depreciation	14,972,448
Provision for statutory payments to municipalities	<u>3,324,197</u>
Total operating expenses	<u><u>\$ 181,369,372</u></u>

**METROPOLITAN UTILITIES DISTRICT**

Statistical Highlights

Years ended December 31, 2017, 2016, and 2015

(Unaudited)

<b>Water Department</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Number of customers (December)	214,142	211,623	208,256
Sales (thousand gallons)	30,058,950	28,723,062	25,134,223
Operating revenues, net	\$ 122,328,186	115,094,626	102,963,900
Operating expenses	92,744,154	89,849,791	88,877,125
Operating income	\$ <u>29,584,032</u>	<u>25,244,835</u>	<u>14,086,775</u>
Plant additions and replacements, net	\$ 41,097,383	38,374,929	37,549,194
Plant in service	1,093,314,388	1,041,651,111	1,007,463,820
Miles of mains	2,928	2,904	2,895
Average daily pumpage (thousand gallons)	91,269	87,493	83,482
 <b>Gas Department</b>			
Number of customers (December)	229,365	227,106	224,950
Sales (DTH):			
Firm	25,483,606	23,534,665	25,229,966
Interruptible	4,013,805	4,801,423	4,555,247
Total	<u>29,497,411</u>	<u>28,336,088</u>	<u>29,785,213</u>
Operating revenues, net	\$ 203,679,638	176,613,598	195,979,840
Cost of gas sold	106,365,860	88,543,519	102,977,002
Other operating expenses	75,003,512	74,729,471	73,128,107
Operating income	\$ <u>22,310,266</u>	<u>13,340,608</u>	<u>19,874,731</u>
Plant additions and replacements, net	\$ 39,309,642	41,107,268	34,690,608
Plant in service	597,112,263	568,791,785	534,712,204
Miles of mains	2,832	2,807	2,798
Average daily sendout (DTH)	72,022	77,924	81,580
Number of active employees – water and gas combined	831	852	868

