In the opinion of Gilmore & Bell, P.C., Bond Counsel to the District under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), (1) the interest on the 2018 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the federal alternative minimum tax, (2) the interest on the 2018 Bonds is exempt from income taxation by the State of Nebraska and (3) the 2018 Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. See "TAX MATTERS" in this Official Statement.



\$37,390,000 THE METROPOLITAN UTILITIES DISTRICT OF OMAHA Water System Revenue Bonds, Series 2018

Rating: Moody's Aa2

Dated: Date of Delivery

Due: December 1, as shown on the inside cover page

The 2018 Bonds will be issued in fully registered form in the denomination of \$5,000 or any multiple thereof. Interest on the 2018 Bonds will be payable December 1, 2018 and each June 1 and December 1 thereafter. The 2018 Bonds are subject to optional redemption prior to maturity on and after December 1, 2025, as described herein. The 2018 Bonds are issued, together with other funds available to the District, to finance improvements, additions and extensions to the District's water system and to pay the costs and expenses incurred in the issuance of the 2018 Bonds, each as described more fully herein. First National Bank of Omaha, Omaha, Nebraska is Paying Agent and Registrar for the 2018 Bonds.

The 2018 Bonds, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the 2018 Bonds will be made in book-entry only form. Accordingly, principal of and interest on the 2018 Bonds will be paid by the Paying Agent directly to DTC as the Bondholder thereof. Disbursement of such payments to DTC's Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants, as more fully described herein. Any purchaser as a Beneficial Owner of a 2018 Bond must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such 2018 Bonds. See "BOOK-ENTRY SYSTEM."

Principal of and interest on the 2018 Bonds will be payable on a parity with the District's Water Revenue Bonds, Series 2012, the District's Water System Improvement and Refunding Revenue Bonds, Series 2015 and any other Parity Revenue Bonds, including any which hereafter may be issued under the Resolution, and will be payable from and secured by a pledge of and lien upon the revenues, income, receipts and profits of the District's Water System, subject to the prior payment therefrom of the operations and maintenance expenses of the District's Water System. See "SECURITY FOR THE 2018 BONDS." The 2018 Bonds shall not be obligations of the State of Nebraska or of any of its political subdivisions, other than the District, nor shall said State or any of its political subdivisions, other than the District, be liable for the payment of the principal of and interest on the 2018 Bonds.

An investment in the 2018 Bonds involves a certain degree of risk. Prospective investors are advised to read this entire Official Statement, including without limitation, the Appendices and the caption "BONDHOLDERS' RISKS" herein for a description of certain risk factors which should be considered in connection with an investment in the 2018 Bonds.

MATURITY SCHEDULE – See Inside Front Cover

The 2018 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of legality of Gilmore & Bell, P.C., Bond Counsel. Certain legal matters will be passed upon for the District by Mark Mendenhall, Esq., its Senior Vice-President and General Counsel. It is expected that the 2018 Bonds in definitive form will be ready for delivery through the DTC book-entry system on or about September 27, 2018.

The date of this Official Statement is August 23, 2018

MATURITY SCHEDULE

\$37,390,000 THE METROPOLITAN UTILITIES DISTRICT OF OMAHA Water System Revenue Bonds, Series 2018

				CUSIP					CUSIP
Due	Principal			Number	Due	Principal			Number
December 1,	Amount	Rate	Price	$(592642)^1$	December 1,	Amount	Rate	Price	$(592642)^1$
2019	\$1,255,000	5.000%	103.996%	EN8	2029	\$1,900,000	3.000%	100.318%	EY4
2020	1,315,000	3.000	102.701	EP3	2030	1,955,000	3.125	100.413	EZ1
2021	1,355,000	5.000	109.675	EQ1	2031	2,015,000	3.250	100.507	FA5
2022	1,425,000	5.000	112.177	ER9	2032	2,085,000	3.375	100.600	FB3
2023	1,495,000	5.000	114.313	ES7	2033	2,155,000	3.375	99.702	FC1
2024	1,570,000	5.000	116.025	ET5	2034	2,225,000	3.500	100.565	FD9
2025	1,645,000	2.500	100.983	EU2	2035	2,305,000	3.250	98.057	FE7
2026	1,690,000	5.000	117.118	EV0	2036	2,380,000	3.375	99.123	FF4
2027	1,775,000	4.000	109.797	EW8	2037	2,460,000	3.375	98.674	FG2
2028	1,845,000	3.000	100.965	EX6	2038	2,540,000	3.375	98.340	FH0

¹ CUSIP Numbers have been assigned to this issue by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the 2018 Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth above.

THE METROPOLITAN UTILITIES DISTRICT OF OMAHA

1723 Harney Street, Omaha, Nebraska 68102-1960 (402) 504-7238

www.mudomaha.com

DIRECTORS

David J. Friend Chairperson of the Board Vice Chairperson of the Board

James P. BegleyBoard MemberThomas F. DowdBoard MemberJack FrostBoard MemberGwen HowardBoard MemberMike McGowanBoard Member

Mark E. Doyle President and Secretary of the Board (ex officio)

MANAGEMENT

Mark E. Doyle President

Debra A. Schneider Senior Vice-President, Chief Financial Officer Ronald K. Reisner Senior Vice-President, Chief Operations Officer Mark Mendenhall Senior Vice-President and General Counsel

Steve Ausdemore Senior Vice-President, Safety, Security and Field Operations

Raied N. Stanley Senior Vice-President, Chief Information Officer

PAYING AGENT AND REGISTRAR

FIRST NATIONAL BANK OF OMAHA Omaha, Nebraska

BOND COUNSEL

GILMORE & BELL, P.C. Omaha, Nebraska

FINANCIAL ADVISOR

PIPER JAFFRAY & CO. Leawood, Kansas

No dealer, broker, salesman or any other person has been authorized by the District or its agents to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offering nor the solicitation of an offer to sell to any person in any state or other political jurisdiction in which such an offer or solicitation may not lawfully be made, or in any state which said agents are not qualified. This Official Statement is not to be construed as a contract with the purchasers of the 2018 Bonds.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the District or other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain market prices of the 2018 Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

FORWARD-LOOKING STATEMENTS

This Official Statement contains "forward-looking statements" within the meaning of federal securities laws. These forward-looking statements include statements about the District's future plans and strategies, and other statements that are not historical in nature. These forward-looking statements are based on the current expectations of management of the District. When used in this Official Statement, the words "plan," "expect," "estimate," "budget," "intend," "anticipate," "should," "will," and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve future risks and uncertainties that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in forward-looking statements. These future risks and uncertainties include those discussed in the "BONDHOLDERS' RISKS" section of this Official Statement. The District undertakes no obligation to update any forward-looking statements contained in this Official Statement to reflect future events or developments.

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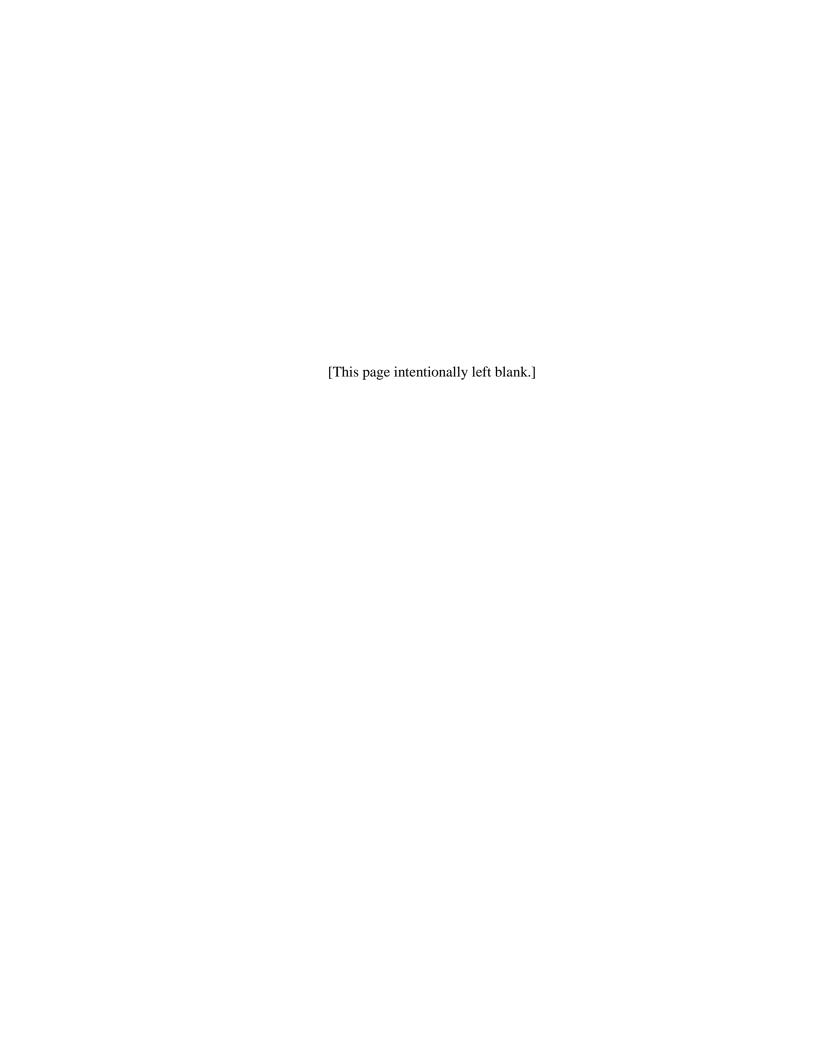
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SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. Capitalized terms used in this Summary Statement shall have the same meanings as given thereto in this Official Statement.

Purpose of the 2018 Bonds

The proceeds of the sale of the 2018 Bonds will be used, together with other available funds, to (a) finance 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 other improvements to the District's Water System and (b) pay the costs and expenses incurred in the issuance of the 2018 Bonds. See "PURPOSE OF THE 2018 BONDS."

Security for the 2018 Bonds

Principal of and interest on the 2018 Bonds will be payable on a parity with the 2012 Bonds, the 2015 Bonds, and any other Parity Revenue Bonds which hereafter may be issued under the Resolution, and will be payable from and secured by a pledge of and lien upon the revenues, income, receipts and profits of the Water System, subject to the prior payment therefrom of the operations and maintenance expenses of the Water System. See "SECURITY FOR THE 2018 BONDS."

No Debt Service Reserve Account will be established with respect to the 2018 Bonds.

The District

The District was created in 1913 under the authority of the Enabling Act as a public service corporation and political subdivision of the State of Nebraska. The District is empowered to own, manage and control the waterworks system serving Omaha and the surrounding area, and also the gas system of the District. Under the Enabling Act, the revenues of the gas system are not available to secure or pay the District's waterworks system revenue bonds, including the 2018 Bonds, and vice versa. Accordingly, the operational and financial statistics of the District set forth in this Official Statement, except as noted, including in "APPENDIX B", refer only to the waterworks system of the District. All corporate powers of the District are vested in a Board of Directors consisting of seven voting members. The District is located in eastern Nebraska, encompassing the City of Omaha and environs. The District's water service area is approximately 288 square miles and includes 214,142 customers, including the City of Omaha, with an estimated 2017 population of 466,893. See "APPENDIX A—THE WATER SYSTEM—General."

Water System

The District owns and operates water supply, treatment, and distribution facilities with the goal of providing its water service area with high quality and reliable water supply for potable water service and fire protection. See "APPENDIX A—THE WATER SYSTEM—The Service Area" for a map of the District's Water Service Area.

Water Rates

The District's Board of Directors has the sole power and authority and is required to determine and fix all water rates. See APPENDIX A for additional information about the District's water rates.

The District covenants in the Resolution that it will fix, establish and maintain rates or charges for water, services or facilities supplied or furnished by the District as will in each Fiscal Year provide an amount sufficient to pay Current Expenses and to generate Net Revenues at least equal to the sum of (a) 120% of the Average Principal and Interest Requirements on the 2012 Bonds, the 2015 Bonds, the 2018 Bonds, and 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 therefor) that are payable from System Revenues, as the same shall become due.

Debt Service Coverage

The District's estimated pro forma debt service coverage ratio, using average annual debt service on the 2018 Bonds, together with the 2012 Bonds and the 2015 Bonds is 3.06 times for the year ended December 31, 2017. See "APPENDIX A—THE WATER SYSTEM—Historical Operating Results" included elsewhere in this Official Statement.

OFFICIAL STATEMENT

\$37,390,000 THE METROPOLITAN UTILITIES DISTRICT OF OMAHA Water System Revenue Bonds, Series 2018

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover page and appendices hereto, is to set forth information concerning The Metropolitan Utilities District of Omaha (the "District") and its \$37,390,000 Water System Revenue Bonds, Series 2018 (the "2018 Bonds").

The 2018 Bonds are to be issued pursuant to Chapter 14, Article 21, Reissue Revised Statutes of Nebraska, 2012, as amended (the "Enabling Act"), including, in particular, Section 14-2142 of the Enabling Act, and a resolution of the District adopted February 8, 2006, as amended and supplemented from time to time, including a resolution of the District adopted May 2, 2018 (collectively, the "Resolution") authorizing the 2018 Bonds. The 2018 Bonds, the District's \$33,430,000 aggregate principal amount outstanding of Water Revenue Bonds, Series 2012, which have a final maturity of 2032 (the "2012 Bonds"), the District's \$174,035,000 aggregate principal amount outstanding of Water System Improvement and Refunding Revenue Bonds, Series 2015, which have a final maturity of 2035 (the "2015 Bonds"), and any additional Parity Revenue Bonds that may hereafter be issued pursuant to the Resolution are herein sometimes referred to as the "Bonds." Certain provisions of the Resolution, including the definitions of certain terms, are summarized in "APPENDIX C-SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION." These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the full terms of the Resolution. Certain capitalized terms not otherwise defined herein will have the respective meanings assigned to them in the Resolution.

The 2018 Bonds shall not be obligations of the State of Nebraska (the "State") or of any of its political subdivisions, other than the District, nor shall the State or any of its political subdivisions, other than the District, be liable for the payment of the principal of and interest on the 2018 Bonds.

PURPOSE OF THE 2018 BONDS

The proceeds of the sale of the 2018 Bonds will be used, together with other funds available to the District, to (a) finance a portion of the costs of improvements to and continued rehabilitation of the District's Florence Water Treatment Plant (the "Florence Plant") and other improvements to the District's Water System (collectively, the "Project"), and (b) pay the costs and expenses incurred in the issuance of the 2018 Bonds. For additional information about the Project, see "APPENDIX A—THE WATER SYSTEM—The Project."

USE OF THE 2018 BOND PROCEEDS

The application of the 2018 Bond proceeds is as follows:

Sources of Funds:

Principal amount of the 2018 Bonds	\$37,390,000.00
Net Original Issue Premium	<u>1,255,573.05</u>
Total Sources	<u>\$38,645,573.05</u>
Uses of Funds:	
Deposit to the Project Fund	\$38,333,637.00
Costs of Issuance	182,834.99
Underwriting Discount	129,101.06
Total Uses	\$38,645,573.05

DESCRIPTION OF THE 2018 BONDS

General

The 2018 Bonds will be dated the date of their issuance and will bear interest at the rates and mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The 2018 Bonds will be issued in fully registered form in the denomination of \$5,000 or any multiple thereof. Interest on the 2018 Bonds will be payable December 1, 2018 and each June 1 and December 1 thereafter (each, an "Interest Payment Date").

The 2018 Bonds, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the 2018 Bonds will be made in book-entry only form. Accordingly, principal of and interest on the 2018 Bonds will be paid by the Paying Agent directly to DTC as the Bondholder thereof. Disbursement of such payments to DTC's Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants, as more fully described herein. Any purchaser as a Beneficial Owner of a 2018 Bond must maintain an account with a broker or dealer who is, or acts through, a Participant to receive payment of the principal of and interest on such 2018 Bonds. See "BOOK-ENTRY SYSTEM."

The principal of any 2018 Bond shall be payable to the registered owner thereof, as shown on the registration books kept by the Registrar, upon maturity or prior redemption thereof and upon presentation and surrender to the Registrar. If any 2018 Bond shall not be paid upon such presentation and surrender at or after maturity, it shall continue to draw interest at the rate borne by said 2018 Bond until the principal thereof is paid in full. Payment of interest on any 2018 Bond shall be made to the registered owner thereof by check or draft mailed by the Paying Agent, on or before each Interest Payment Date (or, if such interest payment date is not a business day, on or before the next succeeding business day), to the registered owner thereof at his or her address as it last appears on the registration books kept by the Registrar on the close of business on the fifteenth day immediately preceding an Interest Payment Date (the "Record Date").

Optional Redemption

The 2018 Bonds maturing on or before December 1, 2025 will not be subject to redemption prior to their stated maturity. At the option of the District, the 2018 Bonds maturing on or after December 1, 2026 shall be subject to redemption prior to maturity on any date on or after December 1, 2025, at par, as

a whole or in part in such order of maturities as the District shall determine (and in the event that less than all of the 2018 Bonds of any maturity are called for redemption, the particular 2018 Bonds of such maturity to be redeemed shall be selected by lot by the District), upon notice mailed to the registered owner of each such 2018 Bond (which initially will be Cede & Co. for all of the 2018 Bonds) not less than 30 days prior to the date fixed for redemption together with the interest accrued thereon to the date fixed for redemption.

Notice of Call for Redemption

Notice of any redemption of 2018 Bonds shall be given by the Paying Agent by sending a copy of such notice by first-class, postage prepaid mail, not less than 30 days prior to the redemption date, to the Owner of each 2018 Bond being redeemed. Such notice shall specify the number or numbers of the 2018 Bonds so to be redeemed (if redemption shall be in part) and the redemption date. If any 2018 Bond shall have been duly called for redemption and if, on or before the redemption date, there shall have been deposited with the Paying Agent in accordance with the Resolution funds sufficient to pay the redemption price of such 2018 Bond on the redemption date, then such 2018 Bond shall become due and payable at such redemption date, and from and after such date interest will cease to accrue thereon. Failure to deliver any redemption notice or any defect in any redemption notice shall not affect the validity of the proceeding for the redemption of 2018 Bonds with respect to which such failure or defect did not occur. Any 2018 Bond redeemed prior to its maturity by prior redemption or otherwise shall not be reissued and shall be cancelled. So long as any 2018 Bond to be redeemed remains in book-entry form, the Paying Agent shall send such notice to DTC, or its nominee. See "BOOK-ENTRY SYSTEM."

Any failure of DTC to notify any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice will not affect the validity of the redemption of any 2018 Bonds. If less than all of the 2018 Bonds of a single maturity are to be redeemed, the selection of the 2018 Bonds to be redeemed, or portions thereof in amounts of \$5,000 or any integral multiple thereof, will, so long as the 2018 Bonds remain in book-entry form, be made by DTC, or any successor depository, and the DTC Participants through a lottery process. Otherwise, such selection will be made by lot by the Paying Agent.

SECURITY FOR THE 2018 BONDS

Pledge and Rate Covenant

The 2018 Bonds will be payable on a parity with the 2012 Bonds and the 2015 Bonds from, and secured by a pledge of, and lien upon, the Net Revenues of the Water System (see "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Certain Definitions" and "—Revenue Fund") and other moneys pledged in the Resolution to the payment thereof which Net Revenues are the Revenues of the Water System after deducting Current Expenses relating to the operating and maintenance expenses of the Water System.

The Resolution provides that:

"The Net Revenues paid, or to be paid, or held, or to be held, in the Revenue Fund and all moneys at any time held in the Bond Fund and the Project Fund, are hereby pledged to secure the payment of the principal of and interest on the Bonds. The moneys, as received and hereby pledged, shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge and the obligation to perform the contractual provisions hereby made shall have priority over any or all other obligations and liabilities of the District (other than Current Expenses, the

2012 Bonds and the 2015 Bonds). The lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise, against the District, irrespective of whether said parties have notice thereof."

The District covenants in the Resolution that it will (except as limited by law) fix, establish and maintain rates or charges for water, services or facilities supplied or furnished by the District, and shall revise the same from time to time, whenever necessary, as will in each Fiscal Year provide an amount sufficient to pay Current Expenses and to generate Net Revenues at least equal to the sum of the following amounts:

- (i) 120% of the amount equal to the Average Principal and Interest Requirements on the Bonds, including any Parity Revenue Bonds, then Outstanding; and
- (ii) 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 therefor) that are payable from System Revenues, as the same shall become due.

The District may not furnish free water, service or facilities, except that the District may provide fire protection water without charge to fire departments within the District's service area. The District covenants in the Resolution to take all steps necessary to enforce the prompt payment of all rates and charges. The Board will shut off or discontinue, or cause to be shut off or discontinued, service for delinquencies in the payment of such charges, and the Board will prescribe and enforce rules and regulations for the connection with and the disconnection from properties or the Facilities of the District.

No Reserve Account

No Debt Service Reserve Account will be established or funded with respect to the 2018 Bonds.

BONDHOLDERS' RISKS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the 2018 Bonds. This section is provided for convenience and is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the 2018 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks.

Prospective investors in the 2018 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the 2018 Bonds or adversely affect the ability of the District to make timely payments of principal of or interest on the 2018 Bonds. Additional risks and uncertainties not currently known to the District or that the District currently believes are immaterial may also impair its operations or financial condition.

General

The ability of the District to comply with its covenants under the Resolution and to generate Net Revenues sufficient to pay principal of and interest on the 2018 Bonds may be adversely affected by actions and events outside of the control of the District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay fees and charges. Among

other matters, above normal rainfall, drought, general and local economic conditions, conservation efforts by customers and changes in law and government regulations could adversely affect the amount of Net Revenues realized by the District or significantly raise the cost of operating the Water System.

In addition, the realization of future Net Revenues is subject to, among other things, the capabilities of management of the District, the ability of the District to provide service to its customers, the ability of the District to establish, maintain and collect charges from its customers and the ability of the District to establish, maintain and collect rates and charges sufficient to pay for operation and maintenance costs of the Water System, the 2018 Bonds and other obligations payable from Net Revenues. See "APPENDIX A—THE WATER SYSTEM—Historical Operating Results" and "APPENDIX A—THE WATER SYSTEM—Debt Service on The District's Water System Bonds" herein.

Factors Affecting the Water System

One or more of the following factors or events, or the occurrence of other unanticipated factors or events, could adversely affect the Water System operations and financial performance to an extent that cannot be determined at this time:

<u>Changes in Management or Policies</u>. Losses of or changes in key management personnel of the Water System or District policies could have a materially adverse effect on the financial performance of the Water System.

<u>Future Economic Conditions</u>. Increased unemployment or other adverse economic conditions or changes in the demographics of the District; an inability to control expenses in periods of inflation and difficulties in increasing charges could adversely affect the financial performance of the Water System to an extent that cannot be determined at this time.

<u>Seasonality</u>. Demand for water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for water may decrease and adversely affect the District's revenues available to pay debt service on the 2018 Bonds.

<u>Insurance Claims</u>. Increases in the cost of third-party general liability insurance coverage and the amounts paid in settlement of liability claims not covered by third-party insurance could materially adversely affect the financial position of the Water System. The District is self-insured for certain potential liabilities.

Organized Labor Efforts. Certain employees of the District are represented by a collective bargaining unit. See "APPENDIX A—THE DISTRICT-GENERAL—Employees and Human Resources." The collective bargaining agreement, however, does not grant employees the right to strike. Labor disputes with that collective bargaining unit could result in adverse labor actions or increased labor costs.

<u>Environmental Regulation</u>. Water utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of water utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there can be no assurance that facilities in

operation will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in reduced operating levels and fines. Legislative, regulatory, administrative or enforcement actions involving environmental controls could also adversely affect the operation of the facilities of the Water System. For example, if property of the District is determined to be contaminated by hazardous materials, the District could be liable for significant clean-up costs even if it were not responsible for the contamination. See "ENVIRONMENTAL MATTERS" included elsewhere in this Official Statement and Note 14 to the District's Audited Financial Statements included in APPENDIX B to this Official Statement.

<u>Natural Disasters or Terrorist Attacks</u>. The occurrence of a terrorist attack in the District or natural disasters, such as fires, tornados, earthquakes, floods or droughts, could damage the District's facilities, affect water supply, interrupt services or otherwise impair operations and the ability of the Water System to produce revenues.

Availability of Water. In the event the District is unable to obtain sufficient water to treat and deliver to meet its need or other emergency conditions occur, there is no assurance that the District will be able to maintain a source of water to supply its customers.

Aging of the Pipe Infrastructure. The District has over 1200 miles of cast iron pipe in the ground, some of which is more than 50 years old. While there has been no regulatory mandate on how quickly this must be removed and replaced, there may be regulatory mandates in the future. In 2008, the District started a plan to replace this cast iron pipe over a 50 year period. The District implemented a "Water Infrastructure Replacement" charge to its customer base that is planned to be able to pay for the cast iron pipe replacement. Should there be regulatory mandates that require acceleration of this plan, should the cost of replacement become significantly higher than the estimate, or should the District believe that they need to accelerate the plan, there could be impact to the District.

<u>Miscellaneous Factors</u>. The water supply industry in general has experienced, or may in the future experience, problems including (a) the effects of inflation on the costs of operation of facilities, (b) uncertainties in predicting future demand requirements, such as with a particularly rainy summer, (c) increased financing requirements coupled with the increased cost and uncertain availability of capital, (d) compliance with rapidly changing environmental, safety and licensing regulations and requirements, and (e) impact of customer conservation and using lower amounts of water.

Unfunded Pension and Other Post-Employment Benefits Liabilities

The District's unfunded pension and other post-employment benefits liabilities could materially adversely affect the financial position of the Water System. See "APPENDIX A—THE DISTRICT—Employees and Human Resources—Pension Plan" and "APPENDIX A—THE DISTRICT—Employees and Human Resources—Other Post-Employment Benefits."

Summary Financial Information

Certain summarized historical financial information of the Water System are summarized in this Official Statement, including APPENDIX B hereto. There can be no assurance that the financial results achieved by the District in the future will be similar to historical results contained therein. Such future results will vary from historical results, and actual variations may be material. Therefore, the historical operating results of the Water System contained in this Official Statement cannot be viewed as a representation that the District will be able to generate sufficient revenues in the future to make timely

payment of principal of, redemption premium, if any, and interest on its debt obligations, including the 2018 Bonds.

Failure to Meet Rate Covenant

The District is obligated by the Resolution to establish rates necessary for the District to meet certain ratios with respect to its water system revenues and debt service requirements. See "SECURITY FOR THE 2018 BONDS—Pledge and Rate Covenant" included elsewhere in this Official Statement. Various factors, including certain of the factors discussed elsewhere in "BONDHOLDERS' RISKS" such as weather, seasonality and use, could in the future cause the District to produce water system revenues below expectations and the District may not be able to raise rates in sufficient time to meet its debt service coverage requirements under the Resolution.

Limitation of Rights Upon Insolvency

The United States Bankruptcy Code enables debtors, including the District, which are insolvent to obtain relief through petition and plan which may result in the modification or delay of payments to creditors, including bondholders. In the event of any insolvency upon the part of the District, the holders of the 2018 Bonds could be treated as general creditors of the District along with other unsecured claimants. The extent to which holders of 2018 Bonds are to be treated as a separate class or otherwise given priority over other claimants, including as to the Net Revenues, is a matter that would be subject to future determinations of Nebraska state and federal courts interpreting and applying both state law and the United States Bankruptcy Code. Procedures under the Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights. The State of Nebraska has authorized its political subdivisions to seek relief under the United States Bankruptcy Code by statute.

Future Legislation

Proposals affecting tax-exempt interest may be considered from time to time which could limit the availability of or eliminate federally tax-exempt interest on tax-exempt bonds. Neither house of Congress has passed any such proposal, and it is not possible to predict whether any such proposal will be enacted into law. If enacted into law, such a proposal could adversely affect the ability of the District to finance and/or refinance projects on favorable tax-exempt terms. Prospective purchasers of the 2018 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2018 Bonds or, if a secondary market exists, that the 2018 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

ENVIRONMENTAL MATTERS

The District is subject to extensive and continually evolving environmental laws and regulations. Growing public concern over environmental issues and impacts on drinking water have caused additional pressures for regulatory agencies to promulgate more stringent regulations. The regulations are administered and enforced by the EPA, NDEQ and DHHS.

Primary measures impacting the District's water system are the EPA's Safe Drinking Water Act and the Nebraska Regulations Governing Public Water Supply Systems. These laws established a program requiring compliance with national drinking water standards for contamination that may have an adverse effect on the health of individuals drinking the water. As required by Section 71-5303(1) of the Nebraska Safe Drinking Water Act, the District has obtained and there is in effect a permit to operate the Water System granted by the Director of the State of Nebraska Department of Health and Human Services Regulation and Licensure. Such permit is valid for an indefinite period of time unless revoked for cause. The regulations require periodic scheduled tests of all water sources as well as tests of tap water.

Amendments to the Safe Drinking Water Act in 1996 required EPA to develop rules to balance the risks between microbial pathogens and DBPs. The Stage 1 Disinfectants and Disinfection Byproducts Rule and Interim Enhanced Surface Water Treatment Rule, both promulgated in December 1998, were the first phase in a rulemaking strategy required by Congress as part of the 1996 Amendments to the Safe Drinking Water Act.

The Stage 2 DBP rule, enacted in 2009, builds upon earlier rules that addressed disinfection byproducts to improve drinking water quality and provide additional public health protection from disinfection byproducts. This rule strengthens public health protection for customers of systems that deliver disinfected water by requiring such systems to meet maximum contaminant levels as an average at each compliance monitoring location (instead of as a system-wide average as in previous rules) for two groups of DBPs, TTHM and HAA5.

As part of the required testing phase of the Stage 2 DBP rule, the District determined that the water produced by the Florence Plant would occasionally exceed the levels mandated by the new rules. An engineering firm, HDR, was hired to perform a CER of the plant, to perform a condition assessment of the plant assets, to identify methods of meeting current and upcoming regulations and to create a 20 year CIP. Based on the results of the CER, the District has implemented several significant improvements over the past few years at the Florence Plant.

Regulations adopted by the EPA and DHHS under these laws also established standards and requirements for the design, construction, upgrade and operation of the District's water system. In addition, the Nebraska Ground Water Management and Protection Act ("NGWM&PA") authorized the establishment of ground water control areas where quantities of water are inadequate to meet current or anticipated needs or where the quality of ground water is threatened be dewatering. Ground water aquifers supplying water to the District's water system are believed to be adequate to meet current demands. Amendments to the NGWM&PA require Nebraska's Department of Natural Resources to determine any area of the state where ground or surface water has become "fully appropriated" or "over appropriated". If such a determination is made, the local natural resource district must conduct studies and then develop a ground water management plan to regulate usage and to determine priorities among users.

The District's water system is also impacted by the federal CWA. The CWA could impact the District's ability to discharge treatment plant residuals into the Missouri River in the future. Changes to the CWA or regulatory requirements thereunder could be extremely costly to the District and compliance therewith could have a material adverse effect on the District's financial position and results of operations.

The District's water pumping facilities are also impacted by requirements of the Federal Clean Air Act.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis for the years ended December 31, 2017 and 2016 is included in "APPENDIX B" to this Official Statement.

BOOK-ENTRY SYSTEM

Portions of the information relating to the Book-Entry System under this heading have been furnished by The Depository Trust Company and have not been independently verified by the District or the Underwriters. Neither the Underwriters nor the District makes any representation whatsoever as to the accuracy, adequacy or completeness of such information.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2018 Bonds. The 2018 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond Certificate will be issued for each maturity of the 2018 Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC and Its Direct and Indirect Participants

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of the 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant

through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

Transfers and Exchanges of Beneficial Ownership Interests

To facilitate subsequent transfers, all 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee does not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Consents

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2018 Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of 2018 Bonds may wish to ascertain that the nominee holding the 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of Principal, Interest and Redemption Price

Principal, redemption price and interest payments on the 2018 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Fund Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the Bond Fund Trustee or the District, subject to any statutory or

regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if applicable) and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the District or the Bond Fund Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

The Beneficial Owners of the 2018 Bonds will rely on DTC's Direct or Indirect Participants for timely payments and other notices and for otherwise making available to the Beneficial Owner the rights of a Bondholder. No assurances can be provided that in the event of bankruptcy or insolvency of DTC or a Direct or Indirect Participant through which a Beneficial Owner holds beneficial interests in the 2018 Bonds, payment will be made by DTC or the Direct or Indirect Participant on a timely basis.

Discontinuance of DTC Services

DTC may discontinue providing its services as depository with respect to the 2018 Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 2018 Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, 2018 Bond certificates will be printed and delivered.

The District and the Paying Agent will not have any responsibility or obligation to Direct or Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (ii) the payment by DTC or any Direct or Indirect Participant of any amount with respect to the principal or redemption price of, or interest on, the 2018 Bonds; (iii) any notice which is permitted or required to be given to Bondholders under the Resolution; (iv) the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2018 Bonds; or (v) any consent given or other action taken by DTC as Bondholder.

The information included under this heading "BOOK-ENTRY SYSTEM", other than in this paragraph and the preceding bold face paragraph, has been provided by DTC. No representation is made by the District, the Paying Agent or the Underwriters as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date thereof.

LEGAL PROCEEDINGS

There is not now pending or threatened litigation of any nature seeking to restrain or enjoin, or in any manner questioning, the issuance and delivery of the 2018 Bonds, the proceedings and authority under which the 2018 Bonds are issued or affecting the validity of the 2018 Bonds thereunder, the power and authority of the District to fix and establish and collect adequate rates, tolls, rents or other charges for water and all other commodities, services and facilities sold, furnished or supplied by the District, the proceedings and authority under which the District's present rates, tolls and other charges are made and the right and authority of the District to conduct its water business or operate any of its properties now constructed or contemplated to be constructed; and neither the corporate existence nor the boundaries of the District nor the title of its present officers to their respective offices is being contested.

The District is engaged in routine litigation incidental to the conduct of its business. In the opinion of its General Counsel, the aggregate amounts recoverable from the District are not material.

RATING

Moody's Investors Service, Inc. has given the rating of "Aa2" to the 2018 Bonds. Such rating reflects only the views of such organization, and explanations of the significance of such rating may be obtained from Moody's Investors Service, 250 Greenwich Street, New York, NY 10007. There can be no assurance that such rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have a material adverse effect on the market price of the 2018 Bonds.

INDEPENDENT AUDITORS

The financial statements of the District as of December 31, 2017 and 2016, and for the years then ended, included as "APPENDIX B" to this Official Statement have been audited by RSM US LLP.

CONTINUING DISCLOSURE

The District will agree in an undertaking (the "Undertaking") for the benefit of the holders of the 2018 Bonds to provide certain financial information and operating data to the Municipal Securities Rulemaking Board ("MSRB") annually and to provide notice to the MSRB of certain events, pursuant to the requirements of Rule 15c2-12 ("Rule") under the Securities Exchange Act of 1934, as amended. See "APPENDIX E—FORM OF CONTINUING DISCLOSURE UNDERTAKING."

A failure by the District to comply with the Undertaking will not constitute an event of default with respect to the 2018 Bonds, although any holder would have any available remedy at law or in equity, including seeking specific performance by court order, to cause the District to comply with its obligations under the Undertaking. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2018 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2018 Bonds and their market price.

The District believes it has complied in all material respects with its prior undertakings under the Rule in the past five years. During that time, the District did not file certain event notices on EMMA (as defined in "APPENDIX E" hereto) relating to rating changes of bond insurers for certain of its outstanding bonds, but the District believes those failures were not material as such information was disseminated or available to investors through other sources.

UNDERWRITING

The 2018 Bonds are being purchased by Janney Montgomery Scott LLC (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the 2018 Bonds from the District at a price of \$38,516,471.99, which is the \$37,390,000.00 aggregate principal amount of the 2018 Bonds plus a net aggregate original issue premium of \$1,255,573.05 and less an underwriting discount of \$129,101.06 for its services in underwriting the 2018 Bonds. The 2018 Bonds may be offered and sold to certain dealers (including underwriters and other dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed from time to time by the Underwriter.

TAX MATTERS

The following is a summary of the material federal and State of Nebraska income tax consequences of holding and disposing of the 2018 Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the 2018 Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Nebraska, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the 2018 Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the 2018 Bonds.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel to the District, under the law existing as of the issue date of the 2018 Bonds:

Federal and State of Nebraska Tax Exemption. The interest on the 2018 Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal income tax purposes and is exempt from income taxation by the State of Nebraska.

Alternative Minimum Tax. The interest on the 2018 Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax.

Bank Qualification. The 2018 Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Bond Counsel's opinions are provided as of the date of the original issue of the 2018 Bonds, subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2018 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the 2018 Bonds in gross income for federal and State of Nebraska income tax purposes retroactive to the date of issuance of the 2018 Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the 2018 Bonds, but has reviewed the discussion under the heading "TAX MATTERS."

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a 2018 Bond over its issue price. The issue price of a 2018 Bond is generally the first price at which a substantial amount of the 2018 Bonds of that maturity have been sold to the public. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a 2018 Bond during any accrual period generally equals (1) the issue price of that 2018 Bond, plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that 2018 Bond (determined on the basis of compounding at the close of each accrual period and properly

adjusted for the length of the accrual period), minus (3) any interest payable on that 2018 Bond during that accrual period. The amount of original issue discount accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in that 2018 Bond. Prospective investors should consult their own tax advisors concerning the calculation and accrual of original issue discount.

Original Issue Premium. For federal income tax purposes, premium is the excess of the issue price of a 2018 Bond over its stated redemption price at maturity. The issue price of a 2018 Bond is generally the first price at which a substantial amount of the 2018 Bonds of that maturity have been sold to the public. Under Section 171 of the Code, premium on tax-exempt bonds amortizes over the term of the 2018 Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the 2018 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner, which will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the 2018 Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of 2018 Bonds. Upon the sale, exchange or retirement (including redemption) of a 2018 Bond, an owner of the 2018 Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the 2018 Bond (other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the 2018 Bond. To the extent a 2018 Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the 2018 Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the 2018 Bonds, and to the proceeds paid on the sale of the 2018 Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the 2018 Bonds should be aware that ownership of the 2018 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the 2018 Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of 2018 Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the 2018 Bonds, including the possible application of state, local, foreign and other tax laws.

LEGAL MATTERS

All of the legal proceedings in connection with the authorization and issuance of the 2018 Bonds are subject to the approval of Gilmore & Bell, P.C., Bond Counsel. Certain legal matters in connection

with the 2018 Bonds will be passed upon for the District by Mark Mendenhall, Esq., Senior Vice-President and General Counsel of the District. Certain of the fees of Bond Counsel are contingent upon the issuance and sale of the 2018 Bonds.

OFFICIAL STATEMENT

The information contained in this Official Statement has been obtained from records of the District and from other sources believed to be reliable, but the accuracy and completeness of the information are not guaranteed. All references to and explanations and summaries of statutes, resolutions, contracts and other documents contained herein are qualified in their entirety by reference to said statutes and documents for a full and complete description of their respective provisions. Any statements contained herein involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The delivery and distribution of this Official Statement have been duly authorized by the Board of Directors of the District, and the District has "deemed final" this Official Statement (within the meaning of the Rule).

FINANCIAL ADVISOR

Piper Jaffray & Co. serves as financial advisor to the District. The financial advisor will not be a manager or a member of any purchasing group for the purchase and sale of the 2018 Bonds.

MISCELLANEOUS

The references herein to the laws of the State of Nebraska, the Resolution and other resolutions and contracts are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the laws of the State of Nebraska to the Resolution and to such other resolutions and contracts for full and complete statements of such provisions.

Any statements made in this Official Statement involving matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

BOARD OF DIRECTORS THE METROPOLITAN UTILITIES DISTRICT OF OMAHA

METROPOLITAN UTILITIES DISTRICT OF OMAHA

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THE DISTRICT - GENERAL

Nature of the District

The District was created on July 17, 1913 under the authority of Chapter 14, Article 21, Reissue Revised Statutes of Nebraska, 2012, as amended (the "Enabling Act") as a public service corporation and political subdivision of the State. The District is the only metropolitan utilities district in the State of Nebraska, and its service area includes the Omaha metropolitan area. The District's mission is to provide safe, reliable and cost-effective natural gas and water services to its community.

Powers of the District

The Enabling Act requires, among other things, that each of the District's two utilities, namely, the gas system and the separate water system, be operated separately, that all funds, accounts and financial obligations of each utility be separate and independent of all funds, accounts and financial obligations of the other utility, that all of the District's funds be under the control of the Board, that all of the District's receipts be remitted to the Senior Vice-President, Chief Financial Officer of the District, and that the Board annually cause the books and accounts of the District to be examined and audited and the audit report to be filed with the State Auditor of Public Accounts.

The Enabling Act further provides that the District has sole management and control of its assets and the construction, operation, maintenance and extension or improvements of the necessary plant with power to extend its facilities as far beyond the corporate limits of the District as its Board may deem necessary.

The District has the power to issue bonds when authorized by a vote of the electors, or revenue bonds, such as the 2018 Bonds, without such a vote, for the purpose of providing funds for utility extensions, improvements, additions and capital investment and the refunding of bonds, in such amounts as the Board determines to be needed for such purposes.

The District is prohibited by the Enabling Act from mortgaging its physical properties, except to secure loans from certain specified federal agencies. There is no mortgage on any of the physical properties of the District.

The District may not use its taxing power, and no governmental authority has the power to levy or collect taxes to pay, in whole or in part, any indebtedness or obligation (including the 2018 Bonds) of or incurred by the District or upon which the District may be liable.

Governance

All corporate powers of the District are vested in a Board of Directors consisting of seven members. The District's President is the ex officio non-voting Secretary of the Board. Each Director is elected for a six-year term. The terms of the Directors are arranged so that not more than three are elected at any one time.

The present membership and officers of the Board of Directors are as follows:

	Number	Term	
	of Years	Expires in	Occupation or
	on Board	January	Profession
David J. Friend*	17	2019	Retired Director, Public Safety, Metropolitan Community College
Tim Cavanaugh**	18	2021	Chief Deputy, Douglas Co. Treasurer's Office, Retired Captain, Omaha Police Department
James P. Begley	5	2019	Compensation Manager, City of Omaha
Thomas F. Dowd	39	2021	Senior Partner, Dowd, Howard & Corrigan
Jack Frost	31	2023	Retired, Real Estate
Gwen Howard	3	2021	Retired Social Worker, Former Nebraska State Senator
Mike McGowan	4	2023	Retired natural gas executive
Mark E. Doyle, Secretary	0^{\dagger}	Ex officio	President of the District

^{*} Chairperson

Management Team

The management of the District is under the direction of its President, and its five Senior Vice-Presidents. The President serves at the pleasure of the Board.

Year Employed

The District's senior management staff is as follows:

	rear Employea
Mark E. Doyle, President	2011
Debra A. Schneider, Senior Vice President, Chief Financial Officer	2011
Ronald K. Reisner, Senior Vice-President, Chief Operations Officer	1981
Mark Mendenhall, Senior Vice-President, General Counsel	2013
Steve Ausdemore, Senior Vice-President, Safety, Security and Field Operations	2017
Raied N. Stanley, Senior Vice-President, Chief Information Officer	2009

Funds of the District

All of the District's funds are under the control of the Board of Directors, subject to the requirements of the Resolution and the Enabling Act. Each Director is a public officer. The District is required by the Enabling Act to have its accounts audited annually by independent certified public accountants, in accordance with generally accepted government auditing standards, and to file a copy of such audit with the Auditor of Public Accounts of the State and local political jurisdictions within the District's service area.

The audited financial statements of the District as of December 31, 2017 and 2016 are set forth in "APPENDIX B".

^{**} Vice Chairperson

[†] Mr. Doyle was appointed President on April 6, 2018. He has been employed by the District for 7 years.

Taxes Applicable to the District

In the opinion of Mark Mendenhall, Esq., General Counsel to the District ("General Counsel"), the District is not liable for federal or State income taxes. The District is not liable for ad valorem taxes other than for a few parcels of property owned by the District where non-public uses occur, for example ground owned by the District but rented for farming. However, as required by the Enabling Act, the District pays two percent of its revenues from the retail sales of water within the corporate limits of the City of Omaha, and two percent of its revenues from the retail sales of water within other city and village corporate limits to those cities and villages served by the District.

The District is subject to State Sales and Use Tax on certain labor charges and nearly all material purchases. The State Sales and Use Tax rate is 5.5%. Various municipalities within the District's service area have also imposed a local sales and use tax.

General Plant

Among the general plant properties of the District, in addition to the properties comprising the District's water system and separate gas system, are general office and local office buildings, transportation and special mechanized equipment, furniture, office, computer, laboratory, shop equipment and tools, a communication system and other items necessary for conduct of the District's business, including the operation and maintenance of the gas system.

Insurance

The District maintains an insurance program designed to furnish protection against losses which would have an adverse effect on its financial position or operational capabilities. The District regularly reviews its risks of loss and modifies the insurance program when construction and operation exposures or developments in the insurance industry warrant.

Currently, the District maintains a \$912 million combined insurance policy with AEGIS/Starr Tech which addresses physical damage to real and personal property, equipment breakdown (boilers and machinery coverage) and data processing equipment; the combined program has a loss limit of \$300 million. The policy is a Blanket Limit replacement cost policy that includes coverage for certified and non-certified acts of terrorism. District-owned vehicles are covered by a separate policy with Nationwide which covers physical damage and specified perils losses resulting from theft, fire, and vandalism of various natural disasters.

The District's construction equipment is covered by a \$32 million policy with Continental Casualty.

The above discussion relates to both the District's water department and the separate gas department.

See "THE DISTRICT - GENERAL—Employees and Human Resources—Insurance" for a discussion of the District's worker's compensation insurance and employee health insurance.

Employees and Human Resources

The District had 831 total employees as of December 31, 2017. The District's clerical, craft and administrative employees (totaling approximately 597) are represented by one local union, International Brotherhood of Electrical Workers, Local 1521 (the "Union"). Under Nebraska law, unions and their

members are not permitted to strike or otherwise hinder, delay, limit or suspend the continuity or efficiency of any public utility service. If new contracts are not approved by the District and the Union, the matter may be referred to the Nebraska Commission of Industrial Relations for decision. The District has an ongoing working relationship with the Union, and neither the Union nor its members have been involved in an illegal strike against the District.

The recently negotiated collective bargaining agreement between the District and its unionized employees covers a five-year term from April 1, 2018 through March 31, 2023.

Pension Plan.

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.

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	1,484

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	402,738,799	<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%

See Footnote 7 to the District's Audited Financial Statements attached hereto as "APPENDIX B" for additional information about the District's pension assets, liability and funding.

Postemployment Benefits.

Plan Description. The District sponsors the Postretirement Benefits for Employees of the Metropolitan Utilities District of Omaha (the "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.

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	836
Total	1,598

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:

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

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).

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:

	2017	2016
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	(4,028,323)	(3,713,338)
Annual OPEB cost	16,755,472	17,616,196
Contributions made	11,015,207	8,166,633
Increase in OPEB obligation	5,740,265	9,449,563
Net OPEB obligation – beginning of year	120,849,696	111,400,133
Net OPEB obligation – end of year	\$126,589,961	\$120,849,696

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:

	Annual			
	Annual OPEB Cost	OPEB Cost % contributed	Net OPEB obligation	
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	

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	5,198,515
Unfunded actuarial accrued	
liability (UAAL)	\$200,706,545
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.

See Footnote 8 to the District's Audited Financial Statements attached hereto as "APPENDIX B" for additional information about the District's other postemployment benefits plan.

Deferred Compensation Plan.

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.

Insurance.

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

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. See Footnote 10 to the District's Audited Financial Statements attached hereto as "APPENDIX B."

THE WATER SYSTEM

General

The District provides water service (as of December 31, 2017) to 214,142 customers in the City of Omaha, Nebraska, and adjacent territory, including Bellevue, Waterloo, Bennington, LaVista and Ralston, Nebraska, and Carter Lake, Iowa, as well as the Papio-Missouri Natural Resources District ("Papio") (which supplies water to Fort Calhoun, Nebraska) and portions of unincorporated Douglas County and Sarpy County, Nebraska; the District's service area is approximately 288 square miles. Omaha, with a 2017 estimated Census population of 466,893, is the largest city in the State. Certain general information about the City of Omaha Metropolitan Area is included under "APPENDIX A—THE OMAHA METROPOLITAN AREA." The City of Omaha has no obligation or liability with respect to the Bonds.

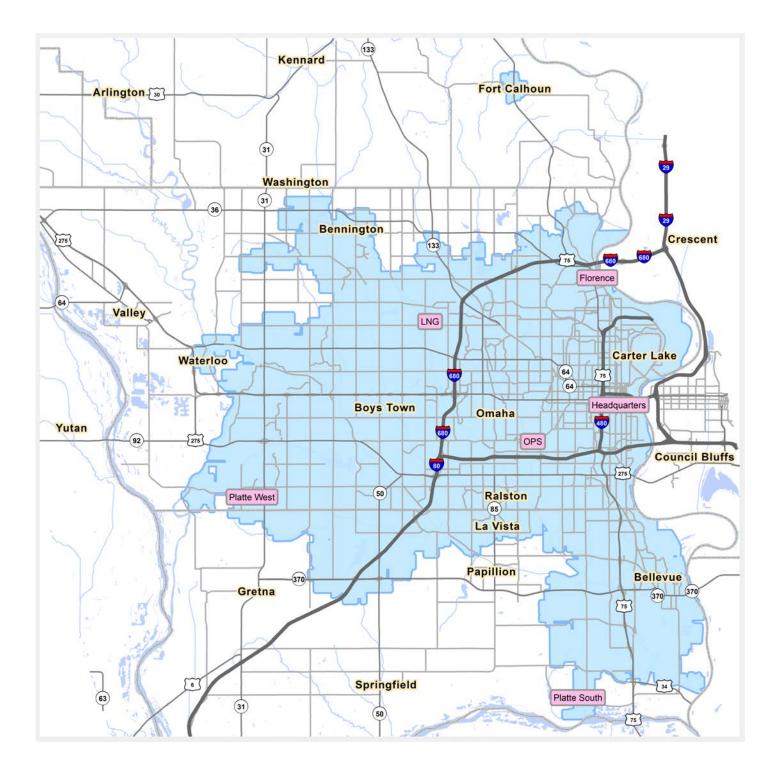
The Service Area

The Water System of the District presently covers an area of approximately 288 square miles and extends from a point approximately 1½ miles north of the Omaha city limits to a point approximately 22 miles south of the northern point. The eastern boundary is the Missouri River and the system extends west approximately 18 miles. See below for a map of the District's Water System service area.

The District's Water System served approximately 214,142 customers as of December 2017, for residential, commercial and industrial and fire protection uses. During the year ending December 31, 2017, approximately 63% of the District's metered water revenue was derived from sales to residential customers, 36% from sales to commercial and industrial customers and 1% from sales to wholesale customers. The total population of the area served by the District is estimated to be 550,992 as of December 31, 2017.

Certain statistical and other information regarding the City of Omaha Metropolitan Area is set forth in "APPENDIX A—THE OMAHA METROPOLITAN AREA" to this Official Statement. The City of Omaha is not obligated on and has no liability for the District's Bonds.

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State of Nebraska Permit

As required by Section 71-5303(1) of the Nebraska Safe Drinking Water Act, the District has obtained and there is in effect a permit to operate the Water System granted by the Director of the State of Nebraska Department of Health and Human Services Regulation and Licensure. Such permit is valid for an indefinite period of time unless revoked for cause.

Water Facilities

The District owns and operates water treatment facilities sized and designed to provide its water service area with a high quality and reliable water supply for potable water service. The Florence Plant treats surface water extracted from the Missouri river and is located in northeast Omaha immediately adjacent to the Missouri River. The Florence Plant, originally constructed in 1889, has been expanded and upgraded several times to its current capacity of 158 MGD.

The Platte South Plant treats ground water and is located directly south of Omaha along the Platte River in southern Sarpy County. The Platte South Plant went on-line in 1968 and has a capacity of 60 MGD.

The Platte West Water Treatment Plant (the "Platte West Plant") treats ground water and is located west of Omaha along the Platte River in western Douglas County. The wellfield is located along and on either side of the Platte River with wells in both Douglas and Saunders Counties. The Platte West Plant went on-line in 2008 and has a capacity of 100 MGD.

In addition to the three treatment plants, the District owns five peakshaving wells in southwestern Omaha, which draw water from the Dakota Sandstone Aquifer. Limited to periods of high demand, these wells provide several MGD of additional peakshaving capacity.

Transmission and Distribution System

The transmission and distribution system includes approximately 2,928 miles of main ranging in size from four inches to 60 inches. This system is divided into several pressure zones and includes fifteen pump stations, one booster station, and seven reservoirs and/or elevated storage tanks to provide adequate pressure and flow.

Water Supply

Omaha is situated between the valleys of two great river systems, the Missouri and the Platte, placing the District in an enviable position relative to a basic water supply. Historically, Omaha's sole source of water had been surface water from the Missouri River. From the late 1800s, the single producing plant was located in the former town of Florence, Nebraska, north of the discharge point for all Omaha wastes. The Florence Plant was constructed in 1889 and has been expanded over time to a maximum capacity of 158 MGD.

Studies by the District and independent consultants in the early 1960s indicated that further expansion of the water production facilities at Florence was not warranted due to the shift of population westward. Omaha's major growth trend was to the south and southwest. Studies also indicated that a water supply of 60 MGD could be developed in the Platte River valley immediately south of Omaha. In 1964, an alluvial well field development was begun to provide additional ground-water supply from the Platte River valley, and construction started on a water production facility, water transmission mains, and

a repump station. This construction program was completed and the Platte South Plant was put into service in 1968.

The District began planning for a third source of supply in the early 1970's. Continued westward growth of Omaha onto higher ground created some difficulties delivering water to these new areas. As a result, the District determined to build a new water plant near the Platte River, west of the existing Omaha city limits. A 1993 preliminary engineering study concluded that a 100 MGD plant would meet the needs of the District's customers through approximately 2030. The Platte West Plant and its wellfield became operational in 2008 and were financed in part by the proceeds of the 2006A Bonds and 2006B Bonds, the outstanding balance of which is being refunded by the 2015 Bonds. The District estimates that the current plants will meet its needs until at least 2050.

City of Blair, Nebraska Emergency Water Supply

Since 1978, the District has provided wholesale water to the Papio Missouri Natural Resources District ("PMNRD") for a rural water system ("RWS 1") located northwest and north of Omaha in Washington County, Nebraska. PMNRD commenced operations in 2006 of a second rural water system ("RWS 2") adjacent to RWS 1. The City of Blair, Nebraska ("Blair"), provides the water supply for RWS 2. PMNRD and Blair requested an agreement with the District to provide emergency water to RWS 2 should Blair's supply be shut down by emergency conditions. The District, through the piping of RWS 1 and RWS 2, can provide an emergency supply with a proper connection of the systems. In 2004, the District and PMNRD entered into an agreement to provide an emergency water supply to RWS 2 and Blair by providing 1.5 million gallons per day ("MGD") on a wholesale supply basis during a "water emergency." A water emergency is defined as a major failure of Blair's water treatment plant resulting in a lack of water that jeopardizes public health and safety. The District is not obligated to reserve any capacity for this purpose and is obligated to provide water only when it is available for sale after fulfilling the District's normal uses.

The Project

In 2009, an engineering firm, HDR, was hired to perform a Comprehensive Engineering Review (CER) of the plant, to perform a condition assessment of the plant assets, to identify methods of meeting current and upcoming regulations and to create a 20 year Capital Improvement Plan ("CIP"). Based on the results of the CER, the District has implemented several significant improvements over the past few years at the Florence Plant, but some work remains.

The remaining Florence CIP work, a portion of which will be financed with the proceeds of the 2018 Bonds, is intended to address multiple items identified in the CER and included in the CIP. The main components include the following:

- 1. <u>Low Service Pump Station</u>. The raw water intake pump station was originally constructed in two phases. The first phase completed the south half of the structure in 1932 and the north half was finished in 1954. Much of the building remains original and requires ASMEI and motor improvements.
- 2. <u>Basin #1 and #2</u>. Basin #1 and #2 were installed in the late 1800's; these basins require structural and process improvements.
- 3. <u>Process Optimization and Chemical Feed Building</u>. Following an optimization study for chemical usage, the chemical feed building requires ASMEI and integration of the study's determined process improvements. The chemical feed building was originally

- constructed in the mid-1950's. This project is currently underway and includes an update of the laboratory space which had previously been addressed as a separate phase.
- 4. <u>Site Piping and Civil</u>. The plant's cast iron service water lines were installed in the 1880's through 1950's and have experienced several breaks due to their deteriorating condition. This buried piping system requires replacement.

Customers

As of December 31, 2017, the District's 214,142 Water System customers included 196,127 residential, 18,011 commercial and industrial and 4 wholesale water system operators. During 2017, approximately 63% of the District's metered Water System revenue was derived from sales to residential customers, 36% from sales to commercial and industrial customers and 1% from sales to wholesale customers. The District's 15 largest customers together represented 11.8% of the District's 2017 billed consumption and 6.2% of the District's 2017 Water System revenue.

Fifteen Largest Customers by Revenue

The following table shows the fifteen largest customers by revenue for the twelve months ended December 31, 2017.

<u>Customer</u>	Water Sales <u>Revenue</u>	Rank by <u>Revenue</u>	Water Sales Volume (<u>MG)</u>	Rank by <u>Volume</u>
City of Omaha	\$1,539,983	1	547	1
Kellogg Co.	812,169	2	528	2
Nebraska Beef	680,017	3	454	3
University of Nebraska at Omaha	603,032	4	218	6
Omaha Public Schools	594,458	5	170	8
Greater Omaha Packing Co.	583,426	6	369	4
Broadmoor Development Co.	560,740	7	187	7
JBS USA, LLC	477,397	8	306	5
Omaha Housing Authority	304,189	9	142	10
NRG Energy Center	269,380	10	132	11
Alegent Creighton Health HME & IP	263,013	11	95	16
Millard Public Schools	255,599	12	66	22
America First Communities	243,428	13	128	12
Henry Doorly Zoo & Aquarium	228,553	14	88	18
Tyson Processing	222,719	15	124	14

Water Usage

The District has continued long-range planning studies to identify capacity requirements and resulting probable capital expenditure requirements. The following table illustrates the change in water usage, in millions of gallons ("MG"), and growth in the number of customers for the period between 2007 and 2017:

Year	Water Usage (MG)	Number of Customers
2007	34,867	194,809
2008	31,913	196,878
2009	30,396	199,102
2010	32,099	200,491
2011	31,507	201,580
2012	37,844	203,230
2013	33,194	205,250
2014	31,735	207,026
2015	30,476	208,256
2016	31,912	211,623
2017	33,307	214,142

Water Rates

The District's Board of Directors, by Nebraska statute, has the sole power and authority to determine and fix all water rates.

The District's Rate Structure is comprised of four components:

- 1. Commodity Variable based on usage
- 2. Statutory Payments to Municipalities 2% variable
- 3. Infrastructure Charge Fixed
- 4. Service Charge Fixed: Based on meter size

Since January 1, 2012 there have been 6 water increases, as follows:

	Rate Component		
Effective Date	Commodity	Service Charge	
1/2/2012	0.0%	0.0%	
1/2/2013	5.0%	5.0%	
1/2/2014	5.5%	5.5%	
1/2/2015	5.0%	5.0%	
1/2/2016	3.5%	3.5%	
1/2/2017	2.5%	2.5%	
1/2/2018	2.5%	0.0%	

There have been no increases to the "Infrastructure Charge" component of rates; the "Statutory Payments" rate component is determined statutorily by the Enabling Act. It is estimated that the average homeowner in the District will spend approximately \$353 in 2018 for water (based on 106 CCF annual usage), of which \$204 represents fixed charges (58% of amounts to be billed). The District finds, based on studies and review, that its rates continue to compare favorably with rates in other municipalities with similar operating conditions.

Residential customers of the District paid an average of \$3.10 and \$2.99 per 100 cubic feet (ccf) during the 12 months ended December 31, 2017 and 2016, respectively. This compares with the monthly residential average of \$4.02 per ccf as reported by the Raftelis Financial Consultants, Inc. "Wastewater Rate Survey" (Group A Systems – 5/8" meter – Monthly Residential Water Charge for 1000 ccf/mo.) for the year 2016. The District's average annual use per residential customer was 114 ccf and 118 ccf for the 12 months ended December 31, 2017 and 2016, respectively. The District believes its present rate structure has been developed in a manner and structure comparable to industry standards, resulting in charges that compare favorably to industry averages and is comparable to those of major neighboring water utilities.

The District serves the following customer rate classes: Residential, Commercial, Industrial (which includes water used for sprinkling, lake recharge and cooling), Large Commercial, General Industrial, Large Industrial, and Wholesale.

Capital Programs

The District is in a continual process of analyzing Water System requirements and making long-range recommendations and estimates of capital expenditures necessary to serve the growing loads with a reliable and economical water supply. The following table lists the District's actual capital expenditures, exclusive of interest during construction, for fiscal years 2017, 2016 and 2015. The District is financing its Capital Programs with revenues from operations, investment income, financing proceeds and cash on hand.

	2015	2016 (\$ millions)	2017
CAPITAL PROGRAM:		,	
Platte South Plant/Florence Plant Improvements			
(includes the "Project")	\$14.2	\$13.8	\$11.4
Mains	19.2	19.1	24.4
Hydrants & Valves	0.4	0.6	0.4
Buildings & Improvements	0.2	0.3	1.0
Purification & pumping equipment	0.4	0.0	0.4
Construction machines	0.8	1.3	1.2
Furniture, tools, and miscellaneous	0.8	0.3	0.4
Undistributed Charges	0.2	<u>1.5</u>	0.8
Total capital expenditures	<u>\$36.2</u>	<u>\$36.9</u>	<u>\$40.0</u>

Operating Revenues and Water Sales

The following table lists a breakdown of the Water System's operating revenues and water sales for the two years ended December 31, 2016 and 2017.

	<u>2016</u>		<u>2017</u>
OPERATING REVENUES			
Metered sales of water	\$ 96,989,172	\$	103,479,774
Infrastructure charge	\$ 14,470,872	\$	14,546,568
Other operating revenues:			
Late payment charges	\$ 585,733	\$	614,727
Private fire protection	\$ 899,094	\$	901,674
Rents, including			
interdepartmental	\$ 222,648	\$	210,594
Backflow testing and tapping	\$ 254,088	\$	562,853
Service turn on charges	\$ 1,357,427	\$	1,233,149
Miscellaneous	\$ 635,899	\$	971,124
Total other operating		=	
revenues	\$ 3,954,889	\$	4,494,121
Total operating			
revenues	\$ 115,414,933	\$	122,520,463
Less: Bad debt expense	\$ (320,307)	\$	(192,277)
Total operating revenues, net	\$ 115,094,626	\$	122,328,186

Operations and Maintenance Expenses

The following table lists a breakdown of the Water System's operations and maintenance expenses for the two years ended December 31, 2016 and 2017.

		December 31,	
	2016	ŕ	2017
OPERATING EXPENSES *			
Operating Expense:			
Primary pumping	\$ 8,468,749	\$	8,949,364
Purification	\$ 11,102,064	\$	11,397,423
Booster pumping	\$ 2,591,572	\$	2,662,592
Distribution	\$ 9,050,446	\$	8,956,484
Customer accounting & collecting	\$ 9,598,442	\$	9,251,746
Marketing and public information	\$ 687,786	\$	676,764
Administrative and general	\$ 11,676,807	\$	11,062,234
Total operating expense	\$ 53,175,866	\$	52,956,607
Maintenance expense:			
Primary pumping	\$ 2,882,027	\$	2,761,602
Purification	\$ 3,660,690	\$	3,700,174
Booster pumping	\$ 1,441,740	\$	1,591,433
Distribution	\$ 13,775,839	\$	15,744,818
Total maintenance expense	\$ 21,760,296	\$	23,798,027
Total Operating & Maintenance	\$ 74,936,162	\$	76,754,634
Less: Depreciation expense	\$ (916,720)	\$	(960,866)
Total Operating & Maintenance, net	\$ 74,019,442	\$	75,793,768

^{*} Source: Unaudited books and records of the District

Historical Operating Results

The following table provides summary statistical information about the District's Water System for the years 2015 to 2017, inclusive.

WATER SYSTEM HISTORICAL OPERATING RESULTS

Fiscal Year Ending December 31,

		FISCAL	eai	Ending Decem	ber .	,
		2015		2016		2017
Water System (Usage, Million Gallons) ⁽¹⁾		30,476		31,912		33,307
Water Sales in Millions of Gallons ⁽¹⁾		25,134.2		28,723.1		30,059.0
Water Sales in Williams of Salions		23,131.2		20,723.1		30,039.0
Number of Water Customers ⁽¹⁾		208,256		211,623		214,142
Sales Revenues ⁽²⁾	\$	102,963,900	\$	115,094,626	\$	122,328,186
Expenses ⁽²⁾						
Operating and maintenance ⁽³⁾	\$	74,055,966	\$	74,019,442	\$	75,793,768
Depreciation and Amortization ⁽³⁾	\$	13,415,269	\$	14,270,503	\$	15,291,810
Payment in lieu of taxes ⁽²⁾	\$	1,405,890	\$	1,559,846	\$	1,658,576
	\$ \$		φ \$		\$	
Total operating expenses ⁽²⁾	Ф	88,877,125	Ф	89,849,791	Ф	92,744,154
Operating Income (Loss) ⁽²⁾	\$	14,086,775	\$	25,244,835	\$	29,584,032
(2)	Φ.	(7 000 700)	Φ.	(5 5 40 5 4 5)	Φ.	(
Nonoperating Income (Loss), Net ⁽²⁾	\$	(7,908,533)	\$	(6,540,515)	\$	(6,717,715)
Net Income ⁽²⁾	\$	6,178,242	\$	18,704,320	\$	22,866,317
		-,,			·	,,-
Earnings Available for Debt Service ⁽¹⁾						
Add Back Depreciation and Amortization	\$	13,415,269	\$	14,270,503	\$	15,291,810
Add Back Int. Expense in Nonoperating Inc. (Loss)	\$	6,831,371	\$	6,487,119	\$	6,651,398
Add Back Other Noncash Amounts in O&M ⁽⁴⁾	\$	8,723,244	\$	7,430,475	\$	3,637,222
Total Available For Debt Service	\$	35,148,126	\$	46,892,417	\$	48,446,747
Average Principal and Interest Requirements	\$	15,566,184	\$	15,545,848	\$	15,427,303
Debt Service Coverage Ratio		2.26x	_	3.02x	_	3.14x
Net Assets or Equity ⁽²⁾		2.20A		5.02A		5.1 IA
Beginning of Year	\$	268,962,148(5)	\$	275,140,390	\$	293,844,710
End of Year	\$	275,140,390	\$	293,844,710	\$	316,711,027
Lilu Oi T Cai	Ψ	213,140,330	Ψ	493,0 44 ,710	Ψ	310,/11,02/

⁽¹⁾ Source: Unaudited books and records of the District

⁽²⁾ Source: Audited Financial Statements of the District for years ended December 31, 2015 through December 31, 2017

⁽³⁾ Depreciation and amortization expense varies from the face of the "Statements of Revenues, Expenses and Changes in Net Position" included in the Audited Financial Statements because the District charges to "Operating and maintenance" depreciation related to Special Machines, Office/Furniture Equipment and Tools & Work Equipment.

⁽⁴⁾ Includes unfunded other post-employment benefits and unfunded pension obligation (as determined by actuary).

⁽⁵⁾ Restated as of the Fiscal Year Ended 2015.

See "APPENDIX B" for the District's audited financial statements of each of its major funds as of December 31, 2017 and 2016. The information therein relating to the District's gas system is for information only. Under the Enabling Act, the District is required to account separately for its water and gas systems. Accordingly, gas system revenues may not be pledged to the payment of the 2018 Bonds, nor may the Water System's Revenues be pledged or otherwise used for gas system purposes, subject to the District's power to engage in limited, short-term interfund borrowing. The District currently has \$31,605,000 outstanding principal amount of Gas System Revenue Bonds, Series 2018, issued on June 28, 2018.

Future Financing Plans

The CER of the Florence Plant allowed the District to create a 20 year plan to upgrade and address condition assessment concerns for the 126-year-old Florence Plant. The plan identified many needed upgrades to the Florence Plant, which have been addressed via a multi-phase capital improvement plan which totals approximately \$179 million. A portion of this plan was funded by the 2012 Bonds, with approximately \$41 million funded by the 2015 Bonds. The proceeds of the 2018 Bonds are expected to fund Florence related expenditures through the end of 2021. The District believes it will likely issue additional Parity Revenue Bonds to complete the improvements identified in the CER. In accordance with the Resolution, the District is permitted to issue additional Parity Revenue Bonds for its Water System upon the satisfaction of certain conditions as set forth in this Official Statement in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION—Additional Bonds." The remaining estimated cost of the project for 2022 through its estimated completion date in 2027 is \$70 million.

The District also has a Water Infrastructure Replacement long range plan to replace all cast iron pipe in their distribution system. Should there be a need to accelerate this plan, the District may issue additional Parity Revenue Bonds.

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Debt Service on the District's Water System Bonds

The following table shows the District's estimated debt service requirements for the 2012 Bonds, the 2015 Bonds and the 2018 Bonds.

	Principal and		
	Interest,	Principal and	Total Parity
	2012 and 2015	Interest,	Revenue
Year	Bonds	2018 Bonds	Indebtedness(1)
2018	\$17,790,849	\$244,439	\$18,035,287
2019	17,795,699	2,629,969	20,425,667
2020	17,797,699	2,627,219	20,424,917
2021	17,800,799	2,627,769	20,428,567
2022	17,793,049	2,630,019	20,423,067
2023	17,790,699	2,628,769	20,419,467
2024	17,802,149	2,629,019	20,431,167
2025	17,799,349	2,625,519	20,424,867
2026	17,796,549	2,629,394	20,425,942
2027	17,795,734	2,629,894	20,425,627
2028	17,801,459	2,628,894	20,430,352
2029	17,795,380	2,628,544	20,423,923
2030	17,796,478	2,626,544	20,423,021
2031	17,792,825	2,625,450	20,418,275
2032	17,801,969	2,629,962	20,431,931
2033	2,793,700	2,629,594	5,423,293
2034	2,790,500	2,626,862	5,417,362
2035	<u>2,789,325</u>	2,628,987	5,418,312
2036		2,629,075	2,629,075
2037		2,628,750	2,628,750
2038		<u>2,625,725</u>	2,625,725
Total	<u>\$275,324,211</u>	\$52,810,397	\$328,134,608

⁽¹⁾ Includes only indebtedness issued on a senior parity basis as to certain water system revenues of the District. The District's Water Department has a 2009 Note to the NDEQ outstanding in the amount of approximately \$4.2 million as of December 31, 2017, which is subordinate to the indebtedness listed in the table above.

THE OMAHA METROPOLITAN AREA

The following information about the metropolitan area of Omaha, Nebraska is included because the District's service area generally comprises Omaha and its metropolitan environs. The 2018 Bonds are not a debt of, nor are they payable by, the City of Omaha.

Property Valuations - City of Omaha

2013	\$27,803,448,875
2014	28,018,390,210
2015	30,646,108,895
2016	31,724,365,620
2017	32,703,220,890

Source: Douglas County Assessor (Omaha only – does not include Bellevue, Ralston, La Vista, Bennington, Fort Calhoun, Waterloo, Carter Lake or Offutt)

Total Tax Levy - City of Omaha¹

2013-14	\$0.4892
2014-15	0.4892
2015-16	0.4792
2016-17	0.4792
2017-18	0.4792

Source: Nebraska Department of Revenue, Property Assessment Division

Building Permits - City of Omaha

2013	\$925,888,218
2014	696,323,576
2015	710,108,025
2016	874,046,803
2017	806,569,323

Source: Greater Omaha Economic Development Partnership; Greater Omaha Combined Statistical Area (includes Cass, Douglas, Sarpy, Saunders and Washington Counties of Nebraska and Harrison, Pottawattamie and Mills Counties of Iowa)

Net Taxable Sales – Greater Omaha Counties

	(millions)
2013	\$10,481
2014	10,834
2015	10,992
2016	11,269
2017	11,577

Source: Nebraska Department of Revenue, Reports, Statistics, Sales Tax Data, Annual Non-motor Vehicle Sales Tax Collections (Includes the counties of Cass, Douglas, Sarpy, Saunders, and Washington)

¹Per \$100.00 of assessed value

Employment and Unemployment Rates

Within	City	of	Omaha
* * * * * * * * * * * * * * * * * * * *		VI.	VIIIuiiu

	Employment	Unemployment Rate (%)
2013	219,560	4.1%
2014	221,848	3.6
2015	220,479	3.2
2016	221,213	3.3
2017	224,118	3.0

Source: Nebraska Dept. of Labor, Labor Market Information, Local Area Unemployment Statistics (LAUS)

Omaha MSA Nonagricultural Wage and Salary Employment

The following table shows the employment distribution by industry group for the greater Omaha area for 2016 and 2017:

	Averag 201		Average for 2017		
Industry	Number of Employees (in thousands)	% of Total	Number of Employees (in thousands)	% of Total	
Natural Resources and Construction	26.4	5.31%	27.2	5.44%	
Manufacturing	32.6	6.55%	33.3	6.66%	
Trade, Transportation and Utilities	97.3	19.56%	97.1	19.43%	
Information	11.8	2.37%	11.6	2.32%	
Financial Activities	43.5	8.74%	43.5	8.70%	
Professional and Business Services	74.1	14.89%	72.7	14.55%	
Educational and Healthcare Services	79.0	15.88%	80.2	16.05%	
Leisure and Hospitality	48.7	9.79%	50.2	10.04%	
Other Services	17.7	3.56%	17.9	3.58%	
Government	66.3	13.33%	<u>66.1</u>	13.23%	
Total	<u>497.4</u>	100.00%	<u>499.8</u>	<u>100.00%</u>	

Sources: Bureau of Labor Statistics: State and Area Employment, Hours, & Earnings: 2017 Annual Average Tables, Employees on nonfarm payrolls in States and selected areas by major industry.

Omaha MSA Population and Employment

	Population ¹	Employment ²
1990	618,262	331,953
2000	716,998	423,016
2010^{3}	865,350	456,500
2014	904,421	467,130
2015	915,557	466,839
2016	924,129	469,021

 $^{^1}$ Source: United States Bureau of Census, including estimates and results of the 2000 Census and the 2010 Census.

Omaha Area Largest Employers by Number of Employees (2017)

1.	Offutt Air Force Base	7,500+
2.	CHI Health	7,500+
3.	Omaha Public Schools	5,000-7,499
4.	Methodist Health System	5,000-7,499
5.	Nebraska Medicine	5,000-7,499
6.	University of Nebraska Medical Center	2,500-4,999
7.	First Data Corp.	2,500-4,999
8.	Union Pacific	2,500-4,999
9.	Hy-Vee Inc.	2,500-4,999
10.	First National Bank of Nebraska	2,500-4,999

Source: Greater Omaha Chamber of Commerce

² Estimated annual averages based on labor force available, from Reports of the Nebraska Department of Labor, Labor Market Information as reported by the Greater Omaha Chamber of Commerce and employment estimates of the Bureau of Labor Statistics.

³ In 2003, the Omaha MSA was modified to include one additional Nebraska county and two additional Iowa counties.

Omaha MSA Personal Income (per capita)

		Per Capita	U.S. Per Capita
Year	Personal Income	Personal Income	Personal Income
1990	\$13,293,632	\$19,325	\$19,477
2000	24,230,391	31,503	29,843
2010	36,941,488	42,555	41,563
2014	46,495,856	51,402	46,459
2015	48,218,073	52,740	48,403
2016	49,545,167	53,613	49,213

Source: Bureau of Economic Analysis, SA1-3, CA1-3

Net Taxable Sales - Douglas County

	Net Taxable Sales
Year	(<u>includes Retail Sales</u>)
1985	\$2,928,100,858
1995	4,915,149,332
2005	7,507,569,468
2010	7,884,002,093
2015	8,925,844,832
2016	9,152,772,862
2017	9,351,531,267
2005 2010 2015 2016	7,507,569,468 7,884,002,093 8,925,844,832 9,152,772,862

Source: Nebraska Department of Revenue, Finance & Research Division. Net Taxable Sales for Nebraska Counties (annual reports).

APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT AS OF DECEMBER 31, 2017 AND 2016 AND INDEPENDENT AUDITORS' REPORT

The District's financial statements include both the Water System and the District's gas system. In accordance with the Enabling Act, the revenues of the District's gas system are not pledged to, and do not secure the payment of, the 2018 Bonds.

METROPOLITAN UTILITIES DISTRICT Financial Statements and Supplemental Schedules December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)



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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.

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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

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

	2017		2016		2015	
Sales, volume sold – DTH:	25 492 606	%	22 524 665	%	25 220 077	%
Firm gas sales Interruptible gas sales	25,483,606 4,013,805	86 14	23,534,665 4,801,423	83 17	25,229,966 4,555,247	85 15
Total gas sales	29,497,411	100	28,336,088	100	29,785,213	100
Heating degree days	5,208		5,032		5,555	
Customers (at December 31): Firm customers Interruptible customers	229,342		227,081 25		224,925 25	
	229,365		227,106		224,950	

Management's Discussion and Analysis

December 31, 2017 and 2016

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

	2017	2017 20		201		15	
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	(413,588)		(489,434)		(897,783)		
Total operating revenues, net	203,679,638	100%	176,613,598	100%	195,979,840	100%	
Operating expenses:							
Cost of natural gas	106,365,860	59%	88,543,519	49%	102,977,022	63%	
Other operating expenses	75,003,512	41	74,729,471	41	73,128,107	45	
Total operating expenses	181,369,372	100%	163,272,990	90%	176,105,129	108%	
Nonoperating revenues (expenses), net	(190,809)		(253,567)		(1,331,137)		
Change in net position	22,119,457		13,087,041		18,543,574		
Net position, beginning of year (as							
restated for 2015)	337,157,813		324,070,772		305,527,178		
Net position, end of year	\$ 359,277,270		\$ 337,157,813		\$ 324,070,752		

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 2017. 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

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

Management's Discussion and Analysis

December 31, 2017 and 2016

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

Diant in convice not	\$ -	2017 417,087,906	\$	2016 397,281,159	\$ -	2015 376,642,587
Plant in service, net Noncurrent assets	Ф	631,799	Ф	1,085,204	Ф	8,376,751
Current assets		142,963,446		1,083,204		142,173,607
Total assets	_	560,683,151	-	545,638,410	-	527,192,945
Total assets	-	300,003,131	-	343,030,410	-	327,172,743
Deferred outflows of resources						
Pension amounts	_	4,050,289	_	7,243,680	_	10,775,819
Total assets and deferred	_	_	_	_	_	_
outflows of resources	\$ _	564,733,440	\$	552,882,090	\$	537,968,764
Deferred inflows of resources				_		
Pension amounts	\$	10,554,908	\$	738,615	\$	-
Contributions in aid of construction		41,267,726		41,682,356		42,122,389
Total deferred inflows of	_	51,822,634		42,420,971	_	42,122,389
Current liabilities		58,557,128		64,551,837		63,874,127
Noncurrent liabilities		95,076,408		108,751,469		107,901,476
Total liabilities	-	153,633,536	-	173,303,306	-	171,775,603
	-	133,033,330	-	1/3,303,300	-	171,773,003
Net position						
Net investment in capital assets		375,101,336		354,652,000		333,351,210
Unrestricted	_	(15,824,066)	_	(17,494,187)	_	(9,280,438)
Total net position	_	359,277,270	_	337,157,813	_	324,070,772
Total liabilities, deferred	_	_	_	_	_	_
inflows of resources,						
and net position	\$ _	564,733,440	\$	552,882,090	\$ _	537,968,764

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.

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

	2017	2016	2015
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.

	2017	2016	2015
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.

Management's Discussion and Analysis

December 31, 2017 and 2016

Water Department Summary of Results of Operations

	2017	2017			2015		
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, n	net 122,328,186	100%	115,094,626	100%	102,963,900	100%	
Operating expenses	92,744,154		89,849,791		88,877,125		
Nonoperating expenses net	6,717,715		6,540,515		7,908,533		
Change in net position	22,866,317		18,704,320		6,178,242		
Net position, beginning of year							
(as restated for 2015)	293,844,710		275,140,390		268,962,148		
Net position, end of year	\$ 316,711,027	9	\$ 293,844,710	:	\$ 275,140,390		

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.

Management's Discussion and Analysis

December 31, 2017 and 2016

Water Summary Financial Position

		2017		2016		2015
Plant in service, net	\$	853,179,220	\$	833,355,675	\$	814,934,043
Current assets Noncurrent assets		106,958,728 12,698,840		80,664,555 22,339,353		63,284,817 35,917,271
Total assets		972,836,788		936,359,583		914,136,131
Deferred outflows of resources						
Pension amounts		3,340,750		6,100,766		9,056,154
Debt refunding		4,285,703		4,843,709		5,419,285
Total deferred outflows of resources		7,626,453		10,944,475		14,475,439
Total assets and deferred outflows						
of resources	\$	980,463,241	\$	947,304,058	\$	928,611,570
Deferred inflows of resources						
Pension amounts	\$	8,621,839	\$	609,222	\$	
Contributions in aid of construction		296,727,173		291,866,441		288,214,682
Total deferred inflows of resources		305,349,012		292,475,663		288,214,682
Current liabilities Long-term obligations		61,845,746 296,557,456		46,111,713 314,871,972		43,340,468 321,916,030
Total liabilities		358,403,202		360,983,685		365,256,498
Net position:		330,103,202		300,703,003		303,230,130
Net investment in capital assets		348,129,966		332,309,366		321,062,547
Restricted Unrestricted		1,654,424 (33,073,363)		1,654,607 (40,119,263)		3,275,181 (49,197,338)
Total net position		316,711,027		293,844,710		275,140,390
•		310,/11,02/		2/3,077,/10		273,170,390
Total liabilities, deferred inflows	Ф	000 462 241	Ф	047 204 050	Ф	000 (11 570
of resources, and net position	\$	980,463,241	\$	947,304,058	\$	928,611,570

Management's Discussion and Analysis

December 31, 2017 and 2016

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						Balance at
	Dece	ember 31, 2016	Increases		Decreases		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	\$	235,569,207	\$	_	\$	11,005,712	\$	224,563,495

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.

Management's Discussion and Analysis

December 31, 2017 and 2016

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:

_	2017	2016	2015
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

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.

Statements of Net Position December 31, 2017 and 2016

2017

	2017			2016				
Assets and Deferred Outflows of Resources	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
	406,227,713	822,257,812		1,228,485,525	387,001,432	788,692,759		1,175,694,191
Construction in progress	10,860,193	30,921,408		41,781,601	10,279,727	44,662,916		54,942,643
Net capital assets	417,087,906	853,179,220		1,270,267,126	397,281,159	833,355,675		1,230,636,834
Noncurrent assets:								
Cash and cash equivalents – restricted Other noncurrent assets	631,799	12,127,565 571,275		12,127,565 1,203,074	1,085,204	21,717,357 621,996		21,717,357 1,707,200
Total noncurrent assets	631,799	12,698,840		13,330,639	1,085,204	22,339,353		23,424,557
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	27 194 462	24,494,832	_	51 (70 204	24 (02 440	24 040 521	_	40 542 070
Interdepartmental receivable	27,184,462	1,354,418	(1,354,418)	51,679,294	24,602,449	24,940,521 273,681	(273,681)	49,542,970
Natural gas in storage	9,747,810	1,334,416	(1,334,416)	9,747,810	8,801,751	273,061	(273,061)	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	142,963,446	106,958,728	(1,354,418)	248,567,756	147,272,047	80,664,555	(273,681)	227,662,921
Total assets	560,683,151	972,836,788	(1,354,418)	1,532,165,521	545,638,410	936,359,583	(273,681)	1,481,724,312
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	4,050,289	7,626,453		11,676,742	7,243,680	10,944,475		18,188,155
Total assets and deferred outflows of resources	\$ 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

	2017			2016					
Liabilities, Deferred Inflows and Net Position	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 Restricted:	\$ 375,101,336	348,129,966	_	723,231,302	\$ 354,652,000	332,309,365	_	686,961,365	
Environmental Debt service requirements-sinking fund Unrestricted	 (15,824,066)	171,853 1,482,571 (33,073,363)	_ _ _	171,853 1,482,571 (48,897,429)	 (17,494,187)	171,728 1,482,879 (40,119,262)	_ _ _	171,728 1,482,879 (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 Contributions in aid of construction	10,554,908 41,267,726	8,621,839 296,727,173		19,176,747 337,994,899	738,615 41,682,356	609,222 291,866,441		1,347,837 333,548,797	
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 Self-insured risks Net pension liability Postretirement obligation Other accrued expenses Unearned gas purchase discounts	485,008 361,153 21,531,753 66,947,300 3,926,194 1,825,000	214,642,255 199,443 18,043,258 59,642,661 4,029,839	 	215,127,263 560,596 39,575,011 126,589,961 7,956,033 1,825,000	718,822 343,557 34,739,538 64,965,635 3,658,917 4,325,000	226,093,311 85,923 28,937,269 55,884,061 3,871,408	 	226,812,133 429,480 63,676,807 120,849,696 7,530,325 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 Customer deposits Customer advances for construction Interdepartmental payable Sewer fee collection due to municipalities	27,885,328 21,709,129 508,158 1,354,418	5,994,661 4,349,129 18,299,468 — 20,669,213	(1,354,418)	33,879,989 26,058,258 18,807,626 — 20,669,213	29,004,479 28,305,235 416,655 273,681	3,959,055 1,450,514 8,126,595 — 20,669,171	(273,681)	32,963,534 29,755,749 8,543,250 — 20,669,171	
Statutory payment due to municipalities Other accrued expenses Current installments of long-term debt Accrued interest Self-insured risks	1,000,786 163,591 233,836 — 745,133	524,942 167,910 9,921,240 678,404 1,240,779	_ _ _ _	1,525,728 331,501 10,155,076 678,404 1,985,912	865,525 152,455 227,981 — 794,463	495,923 161,309 9,475,896 715,379 1,057,871	_ _ _	1,361,448 313,764 9,703,877 715,379 1,852,334	
Other liabilities Unearned gas purchase discounts	2,456,749 2,500,000		_	2,456,749 2,500,000	2,011,363 2,500,000	· · · —	_	2,011,363 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			(-,,)		,		(=:=;==*)	20.,000,000	
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	

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

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

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

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

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

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

	2017	2016
Additions:		
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
Total additions	76,172,095	45,091,046
Deductions:		
Benefit payments	17,445,020	16,555,144
Administrative expenses	95,652	85,470
Total deductions	17,540,672	16,640,614
Net increase	58,631,423	28,450,432
Net position held in trust for pension and OPEB benefits		
Beginning of year	357,712,380	329,261,948
End of year	\$ 416,343,803	\$ 357,712,380

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.

Notes to Basic Financial Statements
December 31, 2017 and 2016

(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.

Notes to Basic Financial Statements December 31, 2017 and 2016

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:

	2017	2016
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.

Notes to Basic Financial Statements
December 31, 2017 and 2016

(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.

Notes to Basic Financial Statements December 31, 2017 and 2016

(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:

	_	2017	2016
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,

Notes to Basic Financial Statements December 31, 2017 and 2016

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.

Notes to Basic Financial Statements
December 31, 2017 and 2016

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.

Notes to Basic Financial Statements December 31, 2017 and 2016

(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.

Notes to Basic Financial Statements December 31, 2017 and 2016

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

			Fair Value		Hierarchy
<u>Investment Type</u>		Pension Plan	OPEB	Total	Level
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
	\$	401,258,016	13,605,004	414,863,020	
	•				
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
	\$	351,113,145	5,198,515	356,311,660	

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.

Notes to Basic Financial Statements
December 31, 2017 and 2016

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:

	Target Allo	cation	Long-Term Expected Real
Asset Class	Pension Plan	OPEB	Rate of Return
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	100.0 %	100.0 %	

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.

Notes to Basic Financial Statements December 31, 2017 and 2016

(4) Utility Plant

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

	Gas Department	Water Department	Total
2017:			
Utility plant in service: Depreciable Nondepreciable (land)	\$ 592,273,333 4,838,930	1,080,266,685 13,047,703	1,672,540,018 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) 417,087,906	(271,056,576) 853,179,220	(461,941,126) 1,270,267,126
2016:			
Utility plant in service: Depreciable Nondepreciable (land)	\$ 563,952,855 4,838,930	1,028,603,408 13,047,703	1,592,556,263 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

Notes to Basic Financial Statements December 31, 2017 and 2016

The provision for depreciation expense is as follows:

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

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:

2017: Gas Department: Utility plant in service Construction in progress Accumulated depreciation \$568,791,785 38,094,902 (9,774,424) 597,112,263 10,860,193 (181,790,353) (20,182,635) 11,088,438 (190,884,550) (181,790,353) (20,182,635) 11,088,438 (190,884,550) (190,884,550) Water Department: Utility plant in service Construction in progress Accumulated depreciation \$1,041,651,111 54,409,708 (2,746,431) 1,093,314,388 (190,884,550) (252,958,352) (20,998,923) 2,900,699 (271,056,576) (252,958,352) (20,998,923) 2,900,699 (271,056,576) (252,958,352) (20,998,923) 2,900,699 (271,056,576) (271,0
2017: Gas Department: Utility plant in service Construction in progress Accumulated depreciation Water Department: Utility plant in service Construction in progress Accumulated depreciation Water Department: Utility plant in service Construction in progress Accumulated depreciation Water Department: Utility plant in service Construction in progress Accumulated depreciation \$\begin{array}{cccccccccccccccccccccccccccccccccccc
Utility plant in service Construction in progress Accumulated depreciation \$ 568,791,785 10,279,727 (181,790,353) 38,094,902 (20,182,635) (9,774,424) (37,848,962) 597,112,263 10,860,193 (190,884,550) Water Department: Utility plant in service Construction in progress Accumulated depreciation \$ 1,041,651,111 44,662,916 (252,958,352) 54,409,708 (20,998,923) (2,746,431) (20,998,923) 1,093,314,388 (53,925,351) 30,921,408 (271,056,576) Sas Department: Utility plant in service Construction in progress Accumulated depreciation \$ 534,712,204 (172,965,023) 41,953,018 (19,329,400) (7,873,437) (19,329,400) 568,791,785 (19,329,400) 568,791,785 (19,329,400) 10,504,070 (181,790,353)
Construction in progress Accumulated depreciation 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) \$\\ \begin{array}{cccccccccccccccccccccccccccccccccccc
Water Department: Utility plant in service Construction in progress Accumulated depreciation Utility plant in service Construction in progress Accumulated depreciation Sample
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 \$ 833,355,675 73,594,628 (53,771,083) 853,179,220 \$ 1,230,636,834 129,936,323 (90,306,031) 1,270,267,126 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)
Utility plant in service Construction in progress Accumulated depreciation 1,041,651,111
Construction in progress Accumulated depreciation
Accumulated depreciation (252,958,352) (20,998,923) 2,900,699 (271,056,576) \$ 833,355,675 73,594,628 (53,771,083) 853,179,220 \$ 1,230,636,834 129,936,323 (90,306,031) 1,270,267,126 2016: Gas Department: Utility plant in service Construction in progress Accumulated depreciation (172,965,023) (19,329,400) 10,504,070 (181,790,353)
\$ 833,355,675
\$\frac{1,230,636,834}{2016:}\$ \frac{129,936,323}{2016:}\$ \frac{(90,306,031)}{2016:}\$ \frac{1,270,267,126}{2016:}\$ \text{ Gas Department:} \text{Utility plant in service Construction in progress Accumulated depreciation} \frac{534,712,204}{14,895,406} \frac{41,953,018}{38,332,234} \frac{(7,873,437)}{(42,947,913)} \frac{568,791,785}{10,279,727} \frac{10,279,727}{10,279,353} \text{Construction in progress Accumulated depreciation} \frac{172,965,023}{10,2965,023} \text{Construction in progress (172,965,023)} Construction
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)
Gas Department: Utility plant in service \$ 534,712,204 41,953,018 (7,873,437) 568,791,785 Construction in progress Accumulated depreciation 14,895,406 38,332,234 (42,947,913) 10,279,727 (172,965,023) (19,329,400) 10,504,070 (181,790,353)
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)
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)
Accumulated depreciation (172,965,023) (19,329,400) 10,504,070 (181,790,353)
\$376,642,58760,955,852(40,317,280) 397,281,159
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)
\$ 814,934,043 58,142,710 (39,721,078) 833,355,675
\$_1,191,576,630

Notes to Basic Financial Statements December 31, 2017 and 2016

(5) Long-Term Obligations

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

	Balance, beginning of year	Increases	Decreases	Balance, end of year	Due within one year
2017:	<u> </u>	Increases	Decreases	or year	one year
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	, , <u> </u>
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
	\$ 431,221,345	70,389,694	99,329,686	402,281,353	12,472,489
2016: Water Revenue Bonds					
Series 2015	\$ 188,895,000	_	7,330,000	181,565,000	7,530,000
Plus unamortized premium Water Revenue Bonds	13,846,241	_	1,444,409	12,401,832	<u>—</u>
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
	\$ 438,172,998	61,024,776	67,976,429	431,221,345	11,922,904

Notes to Basic Financial Statements December 31, 2017 and 2016

(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:

	_	Principal	Interest	Administrative fee	Total
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
	\$_	4,158,529	607,191	303,596	5,069,316

(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:

		Annual	Principal	outstanding
	Interest rate	 installment	2017	2016
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

Notes to Basic Financial Statements December 31, 2017 and 2016

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:

	_	Principal	Interest	Total
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
	\$ _	33,430,000	9,896,100	43,326,100

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.

Notes to Basic Financial Statements December 31, 2017 and 2016

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

			Annual	Principal o	utstanding
	Interest rate		installment	2017	2016
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:

	Principal	Interest	Total
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
\$	174,035,000	57,963,108	231,998,108

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%.

Notes to Basic Financial Statements December 31, 2017 and 2016

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

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

(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

Notes to Basic Financial Statements December 31, 2017 and 2016

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	1,484

(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.

Notes to Basic Financial Statements December 31, 2017 and 2016

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

		2017	2016
Assets Cash and cash equivalents	\$	1,480,783	1,400,720
Investments at fair value	Φ	1,400,703	1,400,720
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		401,258,016	351,113,145
Total assets	_	402,738,799	352,513,865
Liabilities			
Accrued expenses and benefits payable			
Total liabilities			_
Net position restricted for pensions	\$	402,738,799	352,513,865
Statements of Changes in the Fi for the Years Ended December			
		7 and 2016	2016
for the Years Ended December Additions:	31, 201	7 and 2016 2017	2016
for the Years Ended December Additions: Employer contributions		7 and 2016 2017 11,193,821	10,300,000
for the Years Ended December Additions: Employer contributions Employee contributions	31, 201	7 and 2016 2017 11,193,821 3,757,444	10,300,000 3,895,899
for the Years Ended December Additions: Employer contributions	31, 201	7 and 2016 2017 11,193,821	10,300,000
for the Years Ended December Additions: Employer contributions Employee contributions	31, 201	7 and 2016 2017 11,193,821 3,757,444	10,300,000 3,895,899
Additions: Employer contributions Employee contributions Total contributions	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265	10,300,000 3,895,899 14,195,899
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss)	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850	10,300,000 3,895,899 14,195,899 25,696,348
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850	10,300,000 3,895,899 14,195,899 25,696,348
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions Deductions: Service benefits Administrative expenses	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850 67,764,115 17,445,020 94,161	10,300,000 3,895,899 14,195,899 25,696,348 39,892,247 16,555,144 85,186
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions Deductions: Service benefits	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850 67,764,115 17,445,020	10,300,000 3,895,899 14,195,899 25,696,348 39,892,247
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions Deductions: Service benefits Administrative expenses	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850 67,764,115 17,445,020 94,161	10,300,000 3,895,899 14,195,899 25,696,348 39,892,247 16,555,144 85,186
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions Deductions: Service benefits Administrative expenses Total deductions Net increase (decrease) Net position restricted for pensions:	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850 67,764,115 17,445,020 94,161 17,539,181 50,224,934	10,300,000 3,895,899 14,195,899 25,696,348 39,892,247 16,555,144 85,186 16,640,330 23,251,917
Additions: Employer contributions Employee contributions Total contributions Net investment income (loss) Total additions Deductions: Service benefits Administrative expenses Total deductions Net increase (decrease)	31, 201	7 and 2016 2017 11,193,821 3,757,444 14,951,265 52,812,850 67,764,115 17,445,020 94,161 17,539,181	10,300,000 3,895,899 14,195,899 25,696,348 39,892,247 16,555,144 85,186 16,640,330

Notes to Basic Financial Statements December 31, 2017 and 2016

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:

		2017	2016
Total pension liability	\$	442,313,810	416,190,672
Fiduciary net position	_	402,738,799	352,513,865
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%.

Notes to Basic Financial Statements December 31, 2017 and 2016

- 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:

	70. 4	Long-Term	
	Target	Expected Real	
Asset Class	Allocation	Rate of Return	
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	100.0 %		

(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:

a. Employee contribution rate: 6.00% of pensionable earnings.

Notes to Basic Financial Statements December 31, 2017 and 2016

- 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)	
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:

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

Notes to Basic Financial Statements December 31, 2017 and 2016

(d) Changes in Net Pension Liability

	Increases (Decreases)			
	-	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015 Changes for the year:	\$	395,390,825	329,261,948	66,128,877
Service cost Interest on total pension liability Differences between expected and actual experience		10,857,017 28,076,211 (1,578,237)	-	10,857,017 28,076,211 (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
Net changes	_	20,799,847	23,251,917	(2,452,070)
Balances at December 31, 2016	\$	416,190,672	352,513,865	63,676,807
Changes for the year:				
Service cost Interest on total pension liability Differences between expected and		11,137,854 29,552,506	- -	11,137,854 29,552,506
actual experience Assumption changes Employer contributions		(5,835,431) 8,713,229	- - 11,193,821	(5,835,431) 8,713,229 (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
Net changes	_	26,123,138	50,224,934	(24,101,796)
Balances at December 31, 2017	\$	442,313,810	402,738,799	39,575,011

Notes to Basic Financial Statements December 31, 2017 and 2016

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:

	_	Deferred Outflows of Resources	Deferred Inflows of Resources
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 Total	\$	7,391,039	13,109,377 19,176,747

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:

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

Notes to Basic Financial Statements December 31, 2017 and 2016

(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:

lnactive members or their beneficiaries currently receiving benefits	762
Active members	836
Total	1,598

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:

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

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).

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:

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

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:

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

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) Actuarial value of plan assets	\$_	205,905,060 5,198,515
Unfunded actuarial accrued	¢	200 706 545
liability (UAAL)	\$	200,706,545
	=	
Funded ratio	=	2.52%
Funded ratio Covered payroll	\$	2.52% 67,761,364
1 01100 0 10010	\$	

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.

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:

	Target	Long-Term Expected Real
Asset Class	Allocation	Rate of Return
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	100.0 %	

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)
Total OPEB Liability at End of Year	\$ 195,145
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)
Fiduciary Net Position at End of Year	\$ 13,605
Money-Weighted Rate of Return	16.2%
Net OPEB Liability	
Total OPEB Liability	\$ 195,145
Fiduciary Net Position	(13,605)
Net OPEB Liability	\$ 181,540
FNP as a Percentage of TOL	6.97%
Key Assumptions for Net OPEB Liability	
Discount rate	5.05%
Salary scale	3.50%
Expected Return on Assets	7.00%
Healthcare Trend Rates Inflation	7.50% initially, decreasing to 5.00% 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.

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):

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

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):

_		1% Decrease	1% Increase	
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

		2017	2016
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		13,605,004	5,198,515
Total assets	_	13,605,004	5,198,515
Liabilities			
Net position restricted for other			
postemployment benefits	\$	13,605,004	5,198,515

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

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

(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 after 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

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:

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

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:

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

(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:

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

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:

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

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.

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.

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:

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

(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.

Notes to Basic Financial Statements
December 31, 2017 and 2016

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.

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

(Dollar amounts in thousands)

(Unaudited)

Schedule of Funding Progress - OPEB

Actuarial valuation date	Actuarial value of assets (a)	Actuarial liability (AL) (b)	Unfunded AL (UAL) (b – a)	Funded ratio (a/b)	Covered- employee payroll (c)	UAL as a percentage of covered-employee payroll ((b - a)/c)
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:

	OPEB
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

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

	2017
Total OPEB Liability	
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
Plan Fiduciary Net Position	
Employer contributions S	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)	8 181,540
Plan fiduciary net position as a percentage of the total OBEP liability	6.97%
Covered-employee payrol	67,761
Net OPEB liability as a percentage of covered-employee payrol	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.

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

Fiscal Year Ending December 31	Actuarial Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Actual Contribution as a % of Covered- Employee Payroll
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.

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

Fiscal Year	Annual
Ending	Money-Weighted
December 31	Rate of Return
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.

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

		2017	2016	2015
Total Pension Liability			<u> </u>	
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		26,123,138	20,799,847	20,602,726
Total pension liability, beginning		416,190,672	395,390,825	374,788,099
Total pension liability, ending (a)	\$	442,313,810	416,190,672	395,390,825
	_			
Plan Fiduciary Net Position				
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	_	50,224,934	23,251,917	(3,873,742)
Plan fiduciary net position, beginning		352,513,865	329,261,948	333,135,690
Plan fiduciary net position, ending (b)	\$	402,738,799	352,513,865	329,261,948
	_			
Net pension liability, ending (a) - (b)	\$	39,575,011	63,676,807	66,128,877
	_			
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
			404.000	
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.

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.

^{*} 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.

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

Fiscal Year Ending December 31	Actuarial Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered* Payroll	Actual Contribution as a % of Covered Payroll
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

vears)

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

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

Fiscal Year	Annual
Ending	Money-Weighted
December 31	Rate of Return
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.

Water Department

Schedule of Insurance Coverage

December 31, 2017

Coverage	Description	Name of insurer	Deductible or coinsurance amounts	Expiration date
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

Water Department

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

Year ended December 31, 2017

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	_

Schedule A

METROPOLITAN UTILITIES DISTRICT

Water Department

Cost per Thousand Gallons of Water Sold

Year ended December 31, 2017

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

Schedule B

METROPOLITAN UTILITIES DISTRICT

Water Department

Operating Expenses

Year ended December 31, 2017

Operating expenses: Operations:		
	\$	8,949,364
Purification	Ψ	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		52,956,607
Maintenance:		
Primary pumping		2,761,602
Purification		3,700,174
Booster pumping		1,591,433
Distribution		15,744,818
Total maintenance		23,798,027
Depreciation		14,330,944
Provision for statutory payments to municipalities	_	1,658,576
Total operating expenses	\$	92,744,154

Gas Department

Schedule of Insurance Coverage

December 31, 2017

Coverage	Description	Name of insurer	Deductible or coinsurance amounts	Expiration date
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

Gas Department

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

Year ended December 31, 2017

Operating revenues, net Dekatherms of gas delivered to mains Dekatherms of gas sold	\$ 203,679,638 29,497,411 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	_

Schedule A

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	 3,324,197
Total operating expenses	\$ 181,369,372
Thousands of cubic feet of gas sold	30,041,575
Cost per thousand cubic feet of gas sold	\$ 6.04

Schedule B

METROPOLITAN UTILITIES DISTRICT

Gas Department

Operating Expenses

Year ended December 31, 2017

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

Statistical Highlights

Years ended December 31, 2017, 2016, and 2015 (Unaudited)

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



APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution and is not to be considered as a full statement of the provisions thereof. The summary is qualified by reference to and is subject to the complete the Resolution, copies of which may be examined at the offices of the District.

Certain Definitions

"Average Principal and Interest Requirements" means, as of any particular date of computation, an amount equal to that amount which would become due annually on the Bonds, including any Parity Revenue Bonds, if the total principal of and interest on such Bonds were payable in substantially equal annual payments over the term of such Bonds.

"Bond Fund Minimum Reserve" means (a) with respect to the Series 2018 Bonds, \$0; (b) with respect to the Series 2015 Bonds, such amount as provided in the Series 2015 Resolution; (c) with respect to the Series 2012 Bonds, such amount as provided in the Series 2012 Resolution; and (d) with respect to any Parity Revenue Bonds, such amount or credit facility to be determined by the Board in its discretion.

"Bonds" means the 2018 Bonds, the 2015 Bonds, the 2012 Bonds and any Parity Revenue Bonds issued pursuant to the provisions of the Resolution.

"Current Expenses" means all reasonable and necessary current expenses of the District, paid or incurred while operating, maintaining and repairing the System; and the term may include, at the District's option (except as may be limited by law), without limiting the generality of the foregoing, engineering, auditing, legal and other overhead expense of the District, insurance and surety bond premiums, reasonable charges of the Paying Agent, the Registrar and any other depository bank appertaining to the System, payments to pension, retirement, health and hospitalization funds; any taxes, assessments or other charges which may be lawfully imposed on the District, or its income or operations of facilities under its control, ordinary and current rentals of equipment and other property, refunds of any revenues lawfully due to others, including, but not limited to, refunds, expenses in connection with the issuance of the Bonds or other obligations evidencing any loan to the District, any expenses and compensation of any trustee or other fiduciary hereunder, or otherwise, contractual services, professional services required by this Resolution, salaries, labor and the cost of materials and supplies used for current operation and all other administrative, general and commercial expenses related to the System, but excluding: (a) any allowance for depreciation or any reserves or capital replacements; (b) any reserves for operation, maintenance or repair of the System; (c) any allowance for the redemption of any Bond or other obligation evidencing a loan to the District or the payment of any interest thereon; (d) liabilities incurred by the District as the result of its negligence in the operation of the System or other grounds of legal liability not based on contract; and (e) the costs of any capital replacements, improvements, extensions or betterments.

"Facilities" means any of the Works or other properties, or any interest therein, appertaining to the System including, without limitation, the Project.

"Federal Securities" means Permitted Investments described below:

- (i) Cash;
- (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series—"SLGs");

- (iii) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;
- (iv) Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable;
- (v) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipals to satisfy this condition; and
- (vi) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:
 - (A) U.S. Export-Import Bank (Eximbank): Direct obligations or fully guaranteed certificates of beneficial ownership;
 - (B) Farmers Home Administration (FmHA): Certificates of beneficial ownership;
 - (C) Federal Financing Bank;
 - (D) General Services Administration: Participation certificates;
 - (E) U.S. Maritime Administration: Guaranteed Title XI financing; and
 - (F) U.S. Department of Housing and Urban Development (HUD):
 - (1) Project Notes;
 - (2) Local Authority Bonds;
 - a. New Communities Debentures—U.S. government guaranteed debentures; and
 - b. U.S. Public Housing Notes and Bonds—U.S. government guaranteed public housing notes and bonds.

"Net Revenues" means the System Revenues after deducting Current Expenses.

"Outstanding," when used with reference to the Bonds, including any Parity Revenue Bonds of the District and as of any particular date, means all such Bonds of the District payable solely from System Revenues and theretofore and thereupon being executed and delivered, except: (a) any Bond cancelled by the District or by the Paying Agent, the Registrar, any other agent of the District or a District Officer, at or before said date; (b) any Bond for the payment or the redemption of which cash or Federal Securities equal to the principal amount thereof, any prior redemption premium due in connection therewith, and interest thereon to the date of maturity or redemption date shall have theretofore been deposited with the Paying Agent, or any other trustee, as provided in the Resolution; and (c) any Bond in lieu of or in substitution for which another Bond shall have been executed and delivered pursuant to the Resolution or otherwise.

"Parity Revenue Bonds" means Bonds or other obligations issued pursuant to the provisions of the Resolution, which are payable solely from the System Revenues and which have a lien on System Revenues on a parity with the Series 2018 Bonds and any other Bonds Outstanding under this Resolution.

"Permitted Investments" means any investments permitted under the laws of the State for funds of the District.

"Project" means the extending, improving and equipping of improvements to Florence Water Treatment Plant and the acquisition, construction, improving and equipping of such other related real property and easements, piping, wells and other capital improvements to the Water System as determined by the Board, including all necessary or appropriate appurtenances, property rights and equipment, which Project solely comprises extensions, improvements, additions and capital investments for the System.

"Resolution" means the Resolution of the District adopted February 8, 2006, as supplemented and amended from time to time, including the Resolution of the District adopted May 2, 2018 related to the 2018 Bonds.

"Subordinate Bonds" or "Subordinate Obligations" means bonds or other obligations payable from System Revenues, subsequent and junior to the lien of the Bonds.

"System" or "Water System" means the facility designated as the District's water supply, waterworks and other related improvements and facilities to supply water within the District's service area for irrigation, domestic or commercial use, and lines, laterals, equipment and appurtenances for the District and its customers, consisting of all properties, real, personal, mixed or otherwise, now owned or hereafter acquired by the District through acquisition, construction and completion, or otherwise, and used in connection with the water system of the District, and in any way appertaining thereto, whether situated within or without the limits of the District. The System expressly does not include the District's facilities used in connection with or apportioned to its gas system.

"System Revenues" means all income and revenues derived by the District from the ownership and operation of the System, or any part thereof, whether resulting from improvements, extensions, enlargements, repairs or betterments thereto, or otherwise, including, without limitation, all investment income and the designated terms include all revenues received by the District or by any municipal corporation succeeding to the rights of the District from the System, and from the sale and use of water, water service, water facilities or a combination thereof, by means of the System owned and operated by the District, as the same may at any time exist, to serve customers outside the present District limits, as well as customers within the present District limits, but excluding the proceeds of any general (ad valorem) taxes levied by the District, and excluding the proceeds of any restricted donations, restricted grants, loans or other moneys derived by the District from other than the operation of the System, or any part thereof. The System Revenues expressly do not include the District's revenues from its gas system.

"Works" means, unless otherwise specified by the Resolution, wells, pumping stations, dams, storage reservoirs, compensatory and replacement reservoirs, canals, conduits, pipelines, tunnels, power plants and any and all works, facilities, improvements and property necessary or convenient for the supplying of water for domestic, irrigation, power, building code, manufacturing and any and all other beneficial uses.

Flow of Funds

So long as any of the 2018 Bonds shall be Outstanding, either as to principal or interest, or both, the following payments shall be made from the Revenue Fund.

First, there shall be deposited into the Current Expense Fund the amount necessary from time to time to pay Current Expenses and the District shall pay Current Expenses from the Current Expense Fund, as they become due and payable. Any surplus remaining at the end of the Fiscal Year and not needed for Current Expenses shall be transferred to the Revenue Fund and shall be used for the purposes as provided by the Resolution.

Second, but subsequent to the payments required by the preceding paragraph, from any moneys remaining in the Revenue Fund, i.e., from Net Revenues, there shall be deposited in trust, for the benefit of the owners of the Bonds, into the Bond Fund as follows:

- (a) Monthly, on or before the first day of each month, commencing on the first day of the month immediately succeeding the delivery of any Bond, an amount in equal monthly installments necessary, together with any moneys therein and available therefor, to pay the next maturing installment of interest on the Bonds, and monthly thereafter, commencing on the first day of the month next following said interest payment date, one sixth of the amount necessary to pay the next maturing installment of interest on the Outstanding Bonds, except to the extent of moneys otherwise deposited in the Bond Fund and available for that purpose;
- (b) Monthly, on or before the first day of each month, commencing on the first day of the month immediately succeeding the delivery of any Bond, an amount in equal monthly installments necessary, together with any moneys therein and available therefor, to pay the next maturing installment of principal of the Outstanding Bonds, and monthly thereafter, commencing on the first day of the month immediately following said principal date, one twelfth of the amount necessary to pay the next maturing installment of principal of the Bonds, whether at maturity or by mandatory sinking fund redemption, except to the extent of moneys deposited into the Bond Fund and available for that purpose;
- (c) If in any month the District shall have failed to deposit into the Bond Fund the full amount required to be deposited therein, then an amount shall be paid into the Bond Fund in such month from the first System Revenues thereafter received not required to be applied in accordance with the provisions of the two preceding subsections; and
- (d) With respect to the 2012 Bonds and any Parity Revenue Bonds for which a Debt Service Reserve Account is required to be funded, monthly, on or before the first day of the month, if the amount (including the amount of any surety bond or other credit facility deposited in the Debt Service Reserve Account) on deposit in the Debt Service Reserve Account is less than the Bond Fund Minimum Reserve, to the Debt Service Reserve Account, an amount which will, when added to the amount in the Debt Service Reserve Account, equal the Bond Fund Minimum Reserve, or, with respect to any Parity Revenue Bonds, if the issuer of a surety bond or other credit facility has advanced money pursuant to such surety bond or other credit facility, an amount which will reimburse such issuer for the money so advanced.

Third, but subsequent to the payments required by the two preceding paragraphs, any moneys remaining in the Revenue Fund after making the payments hereinabove provided shall be used by the District for the payment of interest on and principal of additional bonds or other additional long-term obligations (excluding Current Expenses) or other additional indebtedness hereafter authorized to be issued or incurred by the District and payable from System Revenues, which are subordinate to the lien and pledge of the Bonds in the Resolution.

Fourth, but subsequent to the payments required by the three preceding paragraphs, any moneys remaining in the Revenue Fund after making the payments hereinabove provided may be applied by the District for any other lawful purpose of the District.

Bond Fund Minimum Reserve

No subaccount within the Debt Service Reserve Account is established with respect to the 2018 Bonds or the 2015 Bonds. The Bond Fund Minimum Reserve required to be maintained by the Resolution for the 2012 Bonds and any Parity Revenue Bonds shall be held as a continuing reserve to meet possible deficiencies in deposits into the Bond Fund for the payment of the principal of and interest on the applicable series of Bonds. The moneys in each subaccount within the Debt Service Reserve Account of the Bond Fund constituting the debt service reserve shall be maintained as a continuing reserve to be used only to prevent deficiencies in the payment of the principal of and interest on the applicable series of Bonds to which subaccount corresponds resulting from a failure to deposit therefor into the Bond Fund sufficient moneys to pay said principal and interest as the same become due.

Covenants

The District has covenanted in the Resolution, among other things:

- (1) The District, acting by and through the Board, will faithfully and punctually perform all duties with respect to the System and to the System Revenues, required by the constitution and the laws of the State and by the various resolutions of the District, including, but not limited to, the making and collecting of reasonable and sufficient rates and charges for services rendered or furnished by the System and the proper segregation of the System Revenues and their application to respective funds or accounts, as herein also provided.
- (2) The District, acting by and through the Board, shall, at all times, operate the System properly and in a sound and economical manner; and the District shall maintain, preserve and keep the same properly, or cause the same so to be maintained, preserved and kept, with the appurtenances and every part and parcel thereof in good repair, working order and condition, and shall, from time to time, make, or cause to be made, all necessary and proper repairs, replacements and renewals.
- (3) The District, acting by and through the Board, shall establish and enforce reasonable rules and regulations governing the operation, use and services of the System (as well as any other Facilities under the jurisdiction of the Board). All compensation, salaries, fees and wages paid by it in connection with maintenance, repair and operation of the System (as well as any other such Facilities) shall be reasonable and no more than would be paid by other corporations, municipalities or public bodies for similar services. The District shall observe and perform all of the terms and conditions contained in the Act and shall comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the System or to the District.
- (4) The District shall pay all taxes and assessments or other municipal or governmental charges, if any, lawfully levied or assessed upon or with respect to the System, or upon any part thereof, upon any revenue therefrom, or upon any other portion of the System Revenues, when the same shall become due; the District shall duly observe and comply with all valid requirements of any municipal or governmental authority relative to any part of the System. The District shall pay, or shall cause to be discharged, or will make adequate provision to satisfy and to discharge within 60 days after the same shall become payable, all lawful claims and

demands for labor, materials or supplies which, if unpaid, might, by law, become a lien on the System, any part thereof, or upon the System Revenues; provided, however, that nothing in this subsection contained shall require the District to pay, or cause to be discharged, or make provision for any such lien or charge, so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Federal Tax Law Covenants

In consideration of the purchase and acceptance of the 2018 Bonds by the registered owners thereof from time to time, and in consideration of retaining the exemption from federal income taxes of the interest income on the 2018 Bonds, the District covenants and agrees, and the appropriate officials of the District are directed, to take all action required, or to refrain from taking any action prohibited, by the Internal Revenue Code of 1986, as amended (the "Code"), including, without limitation (a) to meet the arbitrage rebate provisions of Section 148(f) of the Code, (b) to make the required information filing pursuant to Section 149(e) of the Code, and (c) to do all other things necessary to preserve the tax exempt status of the interest income on the 2018 Bonds.

At no time or times shall any of the proceeds of the 2018 Bonds or other moneys of the District be used directly or indirectly in any manner which would cause any 2018 Bond to be an "arbitrage bond" within the meaning of Section 148(a) of the Code.

Contract With Bondholders

After any of the 2018 Bonds have been issued, this Resolution shall constitute a contract between the District and the registered owner or registered owners of the 2018 Bonds and shall be and remain irrepealable and unalterable until the 2018 Bonds and the interest thereon shall have been fully paid, satisfied and discharged.

Insurance

- (a) The District shall procure and maintain, so long as any of the Bonds are Outstanding, fire and extended coverage insurance on the insurable portions of the Facilities comprising the System, in amounts at least sufficient to provide for not less than full recovery whenever the loss from perils insured against does not exceed 100% of the full insurable value of the highest valued component (i.e., the Project) of the System.
- (b) The District, in its sole discretion, may self insure against all or a portion of its exposure to public liability claims or if it does not self insure against all or a portion of such claims, shall procure (except to the extent previously procured) and shall maintain, so long as any of the Bonds are Outstanding, public liability insurance in reasonable amounts, but in no event less than \$100,000 for one person and \$300,000 for more than one person involved in one accident, against claims for bodily injury and death, or either, and in no event less than \$10,000 for one accident, against claims for damage to property of others, suffered, or alleged to have been suffered, by others, arising from the District's operation of the System, including any use and occupancy of its grounds, structures and Facilities.
- (c) The District, in its sole discretion, may self insure against all or a portion of its exposure to vehicular liability claims or, if it does not self insure against all or a portion of such claims, shall procure (except to the extent previously procured) and shall maintain, so long as any of the Bonds are Outstanding, vehicular public liability insurance in reasonable amounts, but in no event less than \$100,000 for one person and \$300,000 for more than one person involved in

one accident, against claims for bodily injury and death, or either, and in no event less than \$10,000 for one accident, against claims for damage to property of others, suffered, or alleged to have been suffered, by others, arising from the District's operations of any vehicle.

(d) In addition to the above-designated fire and extended coverage insurance, public liability insurance and vehicular liability insurance, the District shall, at all times, also maintain, by self insurance or with responsible insurers, workers' compensation insurance and all other such insurance, if any, as is customarily maintained with respect to facilities of like character against loss or damage to the System and against loss of System Revenues. The costs of all insurance, including the maintenance of reserves for self insurance and the costs of paying self insured claims, shall be considered as Current Expenses. Upon the occurrence of any loss or damage covered by any of the insurance policies of the District, the Board, on behalf of the District and in its name, will cause due proof of loss and will do all things necessary to cause the insurers to make payment in accordance with the terms of each such policy.

Insurance During Construction

The District may require that each of its general contractors purchase and maintain, or assure that its subcontractors purchase and maintain, during the life of such contractor's contract, workers' compensation insurance and public liability and property damage insurance in amounts and on terms satisfactory to the District. The District may maintain, and may require that each of its construction contractors maintain, during the life of such contractor's contract, builder's risk insurance in amounts and on terms satisfactory to the District.

Contract Security

The District shall require that each construction contractor furnish a performance bond in an amount at least equal to 100% of such contractor's price, as security for the faithful performance of such contract, and also a payment bond in an amount not less than 100% of such contractor's contract price or in a penal sum not less than that prescribed by State law, as security for the payment of all persons performing labor on the project under such contract and furnishing materials in connection with such contract. The performance bond and the payment bond may be in one instrument or in separate instruments in accordance with local law.

Reconstruction

If any useful part of the System or of any Facility thereof shall be damaged or destroyed, the District, acting by and through the Board, shall, as expeditiously as may be possible, commence and diligently prosecute the repair or replacement of the damaged or destroyed property so as to restore the same to use. The proceeds of any such insurance appertaining thereto shall be payable to the District and shall be applied by the Board to the necessary costs involved in such repair and replacement, and to the extent not so applied, shall be deposited in the Revenue Fund by the Board, on behalf of the District, as System Revenues.

Alienation of System Prohibited

On and after this date, neither all, nor a substantial part, of the System shall be sold, leased, mortgaged, pledged, encumbered or otherwise disposed of until all the Bonds herein authorized have been paid in full, both as to principal and interest, unless provision has been made therefor, or until the Bonds herein authorized have otherwise been redeemed, including, but not necessarily limited to, the termination of the pledge herein authorized; and the District shall not dispose of its title to all, nor a substantial part of

the System, including any Facility necessary to the operation and use of the System and the lands and interest in lands comprising the site or sites of the System.

Service Charges

The District covenants that it will (except as limited by law) fix, establish and maintain rates or charges for water, services or facilities supplied or furnished by the District, and shall revise the same from time to time, whenever necessary, as will in each Fiscal Year provide an amount sufficient to pay Current Expenses and to generate Net Revenues at least equal to the sum of the following amounts:

- (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 therefor) that are payable from System Revenues, as the same shall become due.

No free water, service or facilities shall be furnished by the District, except that the District may provide fire protection water without charge to fire departments within the District's service area. The District shall forthwith take all steps necessary to enforce the prompt payment of all rates and charges. The Board will shut off or discontinue, or cause to be shut off or discontinued, service for delinquencies in the payment of such charges, and the Board will prescribe and enforce rules and regulations for the connection with and the disconnection from properties or the Facilities of the District

Competent Management

The District, acting by and through the Board, shall employ experienced and competent management personnel for the System, including a president to be superintendent of all the Facilities and improvements of the System, who shall have full control over the Facilities comprising the System and shall operate the System for the District, subject to the reasonable control of the Board. It shall establish, fix and, from time to time, modify such reasonable fees and charges, as will be sufficient to make the payments required by the Resolution; and the Board shall have the power to establish, fix and, from time to time, modify such reasonable fees and charges for all Facilities under its jurisdiction (except as herein otherwise expressly provided). The president shall enforce the collection of all such fees and charges, and he shall, in all things, so operate the System as to comply fully with all of the requirements and provisions of the Resolution.

Budget

The Board and its officials shall annually, and at such other times as may be provided by State law, prepare and adopt a budget appertaining to the District.

Records

So long as any of the 2018 Bonds remain Outstanding, proper books of record and account will be kept by the District, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the System and to the System Revenues. Such books shall include (but not necessarily be limited to) records showing: (a) the number of customers by class; (b) the revenues received from rates and charges by class of customers; and (c) a detailed statement of the Current Expenses.

Right To Inspect

Any registered owner of any of the 2018 Bonds or any duly authorized agent or agents of such registered owner have the right, at all reasonable times, to inspect all records, accounts and data relating thereto, concerning the System or the System Revenues, and shall have the right to inspect the System and all properties comprising the System.

Audit Required

At least once a year in the time and manner provided by the Act, the District will cause an audit to be performed of the records relating to the revenues and expenditures of the System. Such audit may be made part of and included within the general audit of the District, and made at the same time as the general audit. Copies of the audit will be filed and recorded in the places, time and manner provided by law.

Additional Bonds

Parity Revenue Bonds may be issued under the Act or any other statute authorizing the issuance of such bonds or obligations which are solely from System Revenues and have a lien on System Revenues on a parity with the 2012 Bonds, the 2015 Bonds and the 2018 Bonds if all of the following conditions are satisfied:

- (a) The Net Revenues of the System for any 12 consecutive months within the completed 18 months immediately preceding the issuance of the additional Parity Revenue Bonds must have been not less than 1.20 times the Average Principal and Interest Requirements for any succeeding Fiscal Year on all Bonds then Outstanding payable from the System Revenues and the Parity Revenue Bonds so proposed to be issued; provided however, if new rates and charges have been established during the completed 18 months immediately preceding the issuance of the additional Parity Revenue Bonds, the Net Revenues of the System may be adjusted by applying the new rates to the connections being served during such period as if such rates had been in effect for the entire 18 month period;
- (b) The payments required to be made by the Resolution into the various funds and accounts must be current;
- (c) The District shall not have defaulted in making any payments required by the Resolution during the 24 months immediately preceding the issuance of any such additional Parity Revenue Bonds;
- (d) The additional Parity Revenue Bonds shall bear interest payable on the dates, and shall mature on the date or dates, designated by resolution of the Board during the term of said Parity Revenue Bonds; and
- (e) The proceedings for issuance of each such additional Parity Revenue Bonds shall provide for the application of the proceeds from the sale thereof.

The District may also issue Parity Revenue Bonds to refund the 2018 Bonds or other series of Parity Revenue Bonds; provided that the Average Principal and Interest Requirements are not increased by the issuance thereof.

Nothing herein contained shall be construed so as to permit the District to issue additional bonds or other additional obligations or to incur other additional indebtedness payable from System Revenues and having a lien thereon prior and superior to the 2012 Bonds, the 2015 Bonds, the 2018 Bonds or the Parity Revenue Bonds then outstanding under the Resolution or any supplement thereof.

Limitations Upon Issuance of Subordinate Bonds

Nothing in the Resolution shall be construed in such a manner as to prevent the issuance by the District of Subordinate Bonds or Subordinate Obligations (other than Current Expenses) or the incurrence by the District of additional indebtedness (other than Current Expenses) payable from System Revenues and constituting a lien on System Revenues subordinate, inferior and junior to (but not on a parity with nor prior or superior to) the lien of the 2018 Bonds or any Parity Revenue Bonds then outstanding. The proceeds of the Subordinate Bonds or Subordinate Obligations, exclusive of costs of issuance, shall be used only for purposes from time to time authorized by law.

Bondholder's Remedies

Each registered owner of any 2018 Bond shall be entitled to all of the privileges, rights and remedies provided or permitted at law or in equity. Nothing in the Resolution shall affect or impair the right of any registered owner of any 2018 Bond to enforce the payment of the principal of and the interest on his 2018 Bond or the obligation of the District to pay the principal of and the interest on each 2018 Bond to the registered owner thereof at the time and place expressed in the 2018 Bond.

Events of Default

Each of the following events is an "Event of Default" under the Resolution:

- (a) **Nonpayment of Principal.** Payment of the principal of any of the 2018 Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for prior redemption, or otherwise.
- (b) *Nonpayment of Interest*. Payment of any installment of interest shall not be made when the same becomes due and payable.
- (c) *Failure To Perform*. The District shall, for any reason, be rendered incapable of fulfilling its obligations under the Resolution.
- (d) *Nonperformance of Duties*. The District shall have failed to carry out and to perform (or, in good faith, to begin the performance of) all acts and things lawfully required to be carried out or to be performed by it under the Resolution or under any contract relating to the System Revenues or to the System, or otherwise, and such failure shall continue for 30 days after receipt of notice from the registered owners of 25% in principal amount of the Bonds then Outstanding.
- (e) Appointment of a Receiver. Any order or decree shall be entered by a court of competent jurisdiction with the consent or acquiescence of the District, appointing a receiver or receivers for the System or for the System Revenues, or if an order or decree has been entered without the consent or acquiescence of the District, shall not be vacated, discharged or stayed on appeal within 60 days after entry.

(f) **Default of Any Provision**. The District shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Resolution, on its part to be performed, and if such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the District by the registered owners of 25% in principal amount of the Bonds then Outstanding.

Remedies for Default

Upon the happening and continuance of any Event of Default, then, and in every case, the registered owner or registered owners of not less than 25% in principal amount of the Bonds then Outstanding, including, but not limited to, a trustee or trustees therefor, may proceed against the District, to protect and to enforce the rights of any registered owner of Bonds under the Resolution by mandamus or by other suit, action or special proceedings in equity or at law, in any court of competent jurisdiction, either for the appointment of a receiver or for the specific performance of any covenant or agreement contained herein or in an award of execution of any power herein granted for the enforcement of any proper, legal or equitable remedy as, such registered owner or registered owners may deem most effectual to protect and to enforce the rights aforesaid, thereby to enjoin any act or things which may be unlawful or in violation of any right of any registered owner of any Bond, to require the Board to act as if it were the trustee of an expressed trust, or to proceed with any combination of remedies. All such proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all registered owners of the Bonds then Outstanding. Any receiver appointed in any proceedings to protect the rights of such registered owners hereunder, the consent to any such appointment being hereby expressly granted by the District, may enter and may take possession of the System, operate and maintain the same, prescribe rates and charges and collect, receive and apply all System Revenues arising after the appointment of such receiver, in the same manner as the District itself.

Investment of Funds

Any moneys accounted for in any account or fund designated in the Resolution and not needed for immediate use may be invested or reinvested at the request of the District in Permitted Investments. Subject to the rebate provisions of the Code, all such investments shall be credited to the fund or account from which the money used to acquire such investments shall have come, and all income and profits on such investments shall be credited to, and all losses therein shall be charged against, such account or fund; provided that earnings on Debt Service Reserve Account investments shall be credited thereto only if and to the extent necessary to maintain the Bond Fund Minimum Reserve, and otherwise shall be credited, at the option of the District, to the Revenue Fund or the Bond Fund.

Amendments; Supplemental Resolutions

The District may, without consent of or notice to any of the registered owners of the 2018 Bonds, enter into a resolution or resolutions supplemental to the Resolution for any one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Resolution;
- (b) To grant to or to confer upon registered owners of the 2018 Bonds, for the benefit of the registered owners of the 2018 Bonds, any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the registered owners of the 2018 Bonds;

- (c) To provide for the issuance of Parity Revenue Bonds in accordance with the Resolution:
- (d) To evidence the appointment of a Co-Paying Agent or Co-Registrar or the succession of a new Paying Agent or a new Registrar under the Resolution; or
- (e) In connection with any other change which, in the opinion of Bond Counsel, is not to the prejudice of the registered owners of the 2018 Bonds.

Exclusive of supplemental resolutions permitted by the preceding paragraph, any modification or amendment of the provisions of the Resolution or of any resolution amendatory thereof and of the rights and the obligations of the District and of the registered owners of the 2018 Bonds, in any particular, may be made by resolution of the District, as hereinafter specified, without receipt by the District of any additional consideration, but with the written consent of the registered owners of at least 51% in principal amount of the 2018 Bonds Outstanding at the time of the adoption of such amendatory resolution (not including, in any case, any 2018 Bonds which may then be owned for the account of the District), at time such consent is given; provided, however, that no such modification or amendment shall have the effect of permitting:

- (a) A change in the maturity or in the terms of redemption of the principal of any Outstanding 2018 Bond or the date of payment of any installment of interest thereon; or
- (b) A reduction in the principal amount of any 2018 Bond or the rate of interest thereon without the consent of the registered owner of the 2018 Bond; or
- (c) The creation of a lien on or a pledge of System Revenues ranking prior to the lien or to the pledge created by the Resolution; or
- (d) A reduction of the principal amount or percentages or other effect on the description of the 2018 Bonds, the consent of the registered owner of which is required for any such modification or amendment; or
- (e) The establishment of priorities as between Bonds Outstanding under the provisions of the Resolution; or
- (f) The modification of or other effect on the rights of the registered owners of less than all of the 2018 Bonds then Outstanding.

Consent of the Bondholders

The District may, at any time, adopt a resolution making a modification or an amendment permitted by the provisions of the preceding paragraph, except as hereinafter provided. Whenever the District shall propose to amend or to modify the Resolution as described in the preceding paragraph, it shall cause a copy of the proposed amendment to be certified by the Secretary and to be delivered to and to be held by the Paying Agent and the Registrar, respectively, and another copy to be filed in the office of the Secretary for the inspection of any registered owner of any 2018 Bond. A notice of the proposed amendment, together with a request to registered owners of 2018 Bonds for their consent thereto, in form satisfactory to the Secretary, and with a statement that a copy of the proposed amendatory resolution is on file with the Paying Agent and the Registrar (or any named successor of either or of both) and also on file in the office of the Secretary for public inspection, shall be given by the Secretary, in the name of the

District, by mail addressed to each registered owner of any 2018 Bond, but failure to mail such copy and request shall not affect the validity of the amendatory resolution, when so consented to.

Such amendatory resolution shall not be effective unless and until there shall have been filed with the Secretary, within one year from the date of mailing of said notice:

- (a) the written consents of registered owners of the percentages of Outstanding Bonds specified in the preceding paragraph; and
- (b) an opinion of nationally recognized bond counsel, or other Counsel's Opinion, stating that such amendatory resolution has been duly and lawfully adopted by the District, in accordance with the provisions of the Resolution, is authorized or is permitted by the Resolution, is valid and binding upon the District, and is enforceable in accordance with its terms.

Each such consent shall be effective only if accompanied by proof of ownership, at the date of such consent, of the 2018 Bonds with respect to which such consent is given, which proof shall be established by the registration books maintained by the Registrar for the 2018 Bonds. A certificate or certificates by the Secretary, filed in the office of the Secretary, that he has examined such proof and that such proof is sufficient under the provisions of this subsection (d), shall be conclusive that the consents have been given by the registered owners of the 2018 Bonds described in such certificate or certificates of the Secretary.

Any such consent shall be binding upon the registered owner of the 2018 Bonds giving such consent and upon any subsequent registered owner of such 2018 Bonds and of any 2018 Bonds issued in exchange therefor (whether or not such subsequent registered owner thereof has notice thereof.

Thereupon, the Board may adopt the resolution, and it shall be deemed conclusively binding upon the District, the Paying Agent, the Registrar and upon the registered owners of all Bonds upon its effective date and after the filing with the Secretary of the proof of its final passage.

Notwithstanding anything contained in the foregoing provisions of the Resolution to the contrary, the terms and provisions of the Resolution or of any resolution amendatory thereof and the rights and obligations of the District and of the registered owners of the 2018 Bonds may be modified or amended in any respect upon the adoption by the District and upon the filing with the Secretary of a resolution to that effect and with the consent of the registered owners of all the 2018 Bonds then Outstanding, such consent to be given as hereinabove provided, except that no notice to the registered owners of 2018 Bonds by mailing shall be required.

Defeasance

If the District shall pay, or shall cause to be paid, to the owner of any 2018 Bond the principal and interest to become due thereon at the times and in the manner stipulated therein and in the Resolution, then the pledge of the System Revenues and other moneys and securities hereby pledged and all other rights granted hereby shall be discharged and satisfied. In such event, the Paying Agent shall, at the request of the District, execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent and any other depository shall pay over or shall deliver to the District all moneys or securities held by it, pursuant to the Resolution, which are not required for the payment of the redemption of the 2018 Bonds not theretofore surrendered for such payment or redemption.

There shall be deemed to have been paid any installment of interest on, and any installment of principal of, the 2018 Bonds, for the payment of which in the manner provided therein and in the Resolution, if moneys shall then be held by any depository, through deposit by the District, or otherwise, of moneys for such payment on and prior to any prior redemption date or respective prior redemption dates designated therefor, or, if none, on their maturity or respective maturities, including the known minimum yield from interest and any other gain to be derived from any investment of any such moneys or any part thereof in any Federal Securities, in an amount at the time of the deposit, and at all times subsequently, at least fully sufficient to pay, on behalf of the District, without any deficiency or other default, such interest and principal as the same become due, subject to the following provisions:

- (a) If any such 2018 Bonds are to be redeemed prior to the maturity or respective maturities thereof, there shall have been taken, to the extent practicable, all action necessary to redeem such 2018 Bonds (or installments of principal thereof), and notice of such redemption shall have been duly given or provision satisfactory to each depository therefor acting as escrow agent shall have been made for the giving of such notice;
- (b) Any moneys held by each depository for such payment of any part thereof prior to the time or times on which such moneys are needed for such payment on behalf of the District of such interest and principal due, without default, may be invested in Federal Securities; provided, however, that each such investment shall be scheduled, and in the case of each reinvestment, if any, rescheduled by the Treasurer:
 - (i) so that the Federal Securities in which moneys are so invested or reinvested, other than any such securities which shall be subject to redemption at any time at least at face value at the option of and by the holder thereof, shall become due at a time or times at or prior to the time or respective times on which the proceeds thereof shall be needed (with the proceeds of any Federal Securities so subject to prior redemption by the holder thereof at the time or respective times such securities shall have been scheduled for redemption and with any other moneys held by each depository and available for such use) to pay the designated interest or installment or installments of interest on and the designated principal or installment or installments of principal due on the 2018 Bonds, as the same become due; and
 - (ii) so that no deficiency or other default shall result in the absence of a sale of any Federal Securities on the market prior to a time on which the federal government or other obligor is, upon demand or presentation, obligated to pay a fixed sum in discharge of the whole of such obligation and at which time the Federal Securities shall have been scheduled for redemption, at maturity or otherwise, for at least said sum;
- (c) Prior to any reinvestment of any moneys held by each depository for such payment of the District's securities, the depository shall state its approval thereof in writing and shall forward a copy of its written approval to the Treasurer; and

The foregoing shall not be construed as entitling any owner of any of the 2018 Bonds to the payment of the interest on and the principal of any such of the 2018 Bonds at any time prior to the time or respective times the same become due on and prior to any redemption date or, if none, to the maturity or respective maturities of the installments of principal in the Resolution, notwithstanding that moneys for such payment may be held at any time or times prior to such due dates by any depository fully sufficient for any such prior payment and regardless of whether or not such moneys shall at any time or times be invested or reinvested, wholly or in part, in Federal Securities.

APPENDIX D

FORM OF LEGAL OPINION OF BOND COUNSEL

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The Metropolitan Utilities District of Omaha Omaha, Nebraska

Janney Montgomery Scott LLC Philadelphia, Pennsylvania

Re: \$37,390,000 The Metropolitan Utilities District of Omaha, Water System Revenue Bonds, Series 2018

Ladies and Gentlemen:

We have acted as bond counsel to The Metropolitan Utilities District of Omaha (the "District"), in connection with the issuance of the above-captioned bonds (the "Bonds"). In this capacity, we have examined the law and the certified proceedings, certifications and other documents that we deem necessary to render this opinion.

The Bonds are issued pursuant to a Resolution adopted by the governing body of the District on May 2, 2018 (the "*Resolution*"). Capitalized terms used and not otherwise defined in this opinion have the meanings assigned to those terms in the Resolution.

Regarding questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify them by independent investigation.

Based on and subject to the foregoing, we are of the opinion, under existing law, as follows:

- 1. The District is validly existing as a political subdivision of the State of Nebraska (the "State") with the power to adopt the Resolution, perform the agreements on its part contained therein, and issue the Bonds.
- 2. The Bonds have been duly authorized, executed and delivered by the District and are valid and legally binding special obligations of the District.
- 3. The Bonds are payable solely from the net income and revenues derived by the District from the operation of the Water System, after providing for the costs of operation and maintenance thereof. The Bonds do not constitute general obligations of the District and do not constitute an indebtedness of the District within the meaning of any constitutional or statutory provision, limitation or restriction.

- 4. The Resolution has been duly adopted by the governing body of the District and constitutes a valid and legally binding obligation of the District enforceable against the District. The Resolution creates a valid lien on the revenues and other funds pledged by the Resolution for the security of the Bonds on a parity with other bonds, if any, issued or to be issued on a parity basis with the Bonds under the Resolution.
- 5. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) (i) is excludable from gross income for federal income tax purposes, (ii) is exempt from income taxation by the State of Nebraska, and (iii) is not an item of tax preference for purposes of computing the federal alternative minimum tax. The opinions set forth in this paragraph are subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding the perfection or priority of the lien on revenues or other funds pledged under the Resolution or tax consequences arising with respect to the Bonds other than as expressly set forth in this opinion.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of its date, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention or any changes in law that may occur after the date of this opinion.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

This **CONTINUING DISCLOSURE UNDERTAKING** dated as of September 27, 2018 (this "Continuing Disclosure Undertaking"), is executed and delivered by The Metropolitan Utilities District of Omaha (the "Issuer").

RECITALS

- **A.** This Continuing Disclosure Undertaking is executed and delivered by the Issuer in connection with the issuance by the Issuer of \$37,390,000 Water System Revenue Bonds, Series 2018 (the "Bonds"), pursuant to a Resolution adopted by the governing body of the Issuer on May 2, 2018 (the "Resolution").
- **B.** The Issuer is entering into this Continuing Disclosure Undertaking for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule. The Issuer is the only "obligated person" with responsibility for continuing disclosure pursuant to the Rule and hereunder.

Pursuant to the requirements of the Rule, the Issuer covenants and agrees as follows:

- **Section 1. Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Continuing Disclosure Undertaking unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:
- "Annual Report" means any Annual Report provided by the Issuer pursuant to, and as described in, **Section 2** of this Continuing Disclosure Undertaking.
- "Beneficial Owner" means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.
- **"EMMA"** means the Electronic Municipal Market Access system for municipal securities disclosures established and maintained by the MSRB, which can be accessed at www.emma.msrb.org.
- "Material Events" means any of the events listed in Section 3 of this Continuing Disclosure Undertaking.
- "MSRB" means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the Securities and Exchange Commission in accordance with the Rule.
- "Participating Underwriter" means any of the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.
- **"Rule"** means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Provision of Annual Reports.

- (a) The Issuer shall not later than **180** days after the end of the Issuer's fiscal year, commencing with the year ending December 31, 2018, file with the MSRB, through EMMA, the following financial information and operating data (the "Annual Report"):
 - (1) The annual financial statements of the Issuer for the prior fiscal year, prepared in accordance with accounting principles generally accepted in the United States for governmental units as prescribed by the Governmental Accounting Standards Board, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State of Nebraska.
 - (2) Updated financial information and operating data of the type contained in the final Official Statement as described in **Exhibit A**, in substantially the same format contained in the final Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been provided to the MSRB and are available through EMMA. If the document included by reference is a final official statement, it must be available from the MSRB on EMMA. The Issuer shall clearly identify each such other document so included by reference.

In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under **Section 3**.

(b) In addition to the foregoing requirements of this Section, the Issuer agrees to provide copies of the most recent Annual Report to any requesting Beneficial Owner or prospective Beneficial Owner, but only after the same has been provided to the MSRB.

Section 3. Reporting of Material Events. Not later than **10** business days after the occurrence of any of the following events, the Issuer shall give, or cause to be given to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Bonds ("Material Events"):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to rights of bondholders, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;

- (10) release, substitution or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
- (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

If the Issuer has not submitted the Annual Report to the MSRB by the date required in **Section 2(a)**, the Issuer shall send a notice to the MSRB of the failure of the Issuer to file on a timely basis the Annual Report, which notice shall be given by the Issuer in accordance with this **Section 3**.

All documents provided to the MSRB pursuant to this Continuing Disclosure Undertaking shall be accompanied by identifying information as prescribed by the MSRB.

Section 4. Termination of Reporting Obligation. The Issuer's obligations under this Continuing Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Issuer's obligations under this Continuing Disclosure Undertaking are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Undertaking in the same manner as if it were the Issuer, and the Issuer shall have no further responsibility hereunder. If such assumption occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such assumption in the same manner as for a Material Event under **Section 3**.

Section 5. Dissemination Agents. The Issuer may, from time to time, engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Any such Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the Issuer pursuant to this Continuing Disclosure Undertaking.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Continuing Disclosure Undertaking, the Issuer may amend this Continuing Disclosure Undertaking and any provision of this Continuing Disclosure Undertaking may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Issuer with its written opinion that the undertaking of the Issuer contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Undertaking.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Undertaking, the Issuer shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, notice of such change shall be given in the same manner as for a Material Event under **Section 3**.

- **Section 7. Additional Information.** Nothing in this Continuing Disclosure Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Continuing Disclosure Undertaking. If the Issuer includes any information in any Annual Report or notice of occurrence of a Material Event in addition to the information specifically required by this Continuing Disclosure Undertaking, the Issuer shall have no obligation under this Continuing Disclosure Undertaking to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.
- **Section 8. Default.** If the Issuer fails to comply with any provision of this Continuing Disclosure Undertaking, any Participating Underwriter or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Continuing Disclosure Undertaking. A default under this Continuing Disclosure Undertaking shall not be deemed an event of default under the Resolution or the Bonds, and the sole remedy under this Continuing Disclosure Undertaking in the event of any failure of the Issuer to comply with this Continuing Disclosure Undertaking shall be an action to compel performance.
- **Section 9. Beneficiaries.** This Continuing Disclosure Undertaking shall inure solely to the benefit of the Issuer, the Participating Underwriter, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.
- **Section 10. Severability.** If any provision in this Continuing Disclosure Undertaking, the Resolution or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Continuing Disclosure Undertaking shall not in any way be affected or impaired thereby.
- **Section 11. Electronic Transactions.** The arrangement described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.
- **Section 12. Governing Law.** This Continuing Disclosure Undertaking shall be governed by and construed in accordance with the laws of the State of Nebraska.

EXHIBIT A TO FORM OF CONTINUING DISCLOSURE UNDERTAKING

FINANCIAL INFORMATION AND OPERATING DATA TO BE INCLUDED IN ANNUAL REPORT

The following tables contained in the following sections of the final Official Statement:

• APPENDIX A—THE WATER SYSTEM

- o FIFTEEN LARGEST CUSTOMERS BY REVENUE (with respect to most recently completed fiscal year)
- CAPITAL PROGRAMS
- o OPERATINGS REVENUES AND WATER SALES (with respect to two most recently completed fiscal years only)
- o OPERATIONS AND MAINTENANCE EXPENSES (with respect to two most recently completed fiscal years only)
- HISTORICAL OPERATING RESULTS

• APPENDIX B