Metropolitan Water Reclamation District Retiree Health Care Trust

A Component Unit of
the Metropolitan Water Reclamation District of Greater Chicago

Chicago, Illinois

Comprehensive Annual Financial Report
Period Ended December 31, 2007

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Retiree Health Care Trust

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the Metropolitan Water Reclamation District of Greater Chicago

Chicago, Illinois

Comprehensive Annual Financial Report
Period Ended December 31, 2007

PREPARED BY THE MANAGEMENT AND STAFF OF
THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

HAROLD G. DOWNS, TREASURER **TRUST ESTABLISHED DECEMBER 6, 2007**

Metropolitan Water Reclamation District Retiree Health Care Trust
A Component Unit of the Metropolitan Water Reclamation District of Greater Chicago

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Metropolitan Water Reclamation District
Retiree Health Care Trust
100 East Erie Street
Chicago, Illinois 60611
(312) 751-5150

April 28, 2008

Board of Trustees
MWRD Retiree Health Care Trust
100 East Erie Street
Chicago, Illinois 60611

Dear Trustees:

Submitted herewith is the Comprehensive Annual Financial Report (“CAFR”) of the Metropolitan Water Reclamation District Retiree Health Care Trust (“Trust”) for the period ended December 31, 2007. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Trust. To the best of our knowledge and belief, the enclosed financial statements, supporting schedules, and statistical tables are accurate in all material respects and are reported in a manner designed to present fairly the financial position and the results of operations of the Trust. All disclosures necessary to enable the reader to gain an understanding of the Trust’s financial activities have been included.

This report consists of five sections:

1. An Introductory Section which contains this Letter of Transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report from the independent public auditor, the financial statements of the Trust, and certain required supplementary information;
3. The Investment Section which contains a summary of the Trust’s investment authority, investment management approach, and the current period’s investment activity and performance;
4. The Actuarial Section which contains the report of the Actuary, a plan summary, a summary of the major actuarial assumptions, and certain additional actuarial information;
5. The Statistical Section which contains significant statistical data.

FUND DESCRIPTION

Pursuant to 70 ILCS 2605/9.6d, the Metropolitan Water Reclamation District Retiree Health Care Plan (“Plan”) and the Metropolitan Water Reclamation District Retiree Health Care Trust Agreement were adopted by the Board of Commissioners (“BOC”) of the Metropolitan Water Reclamation District of Greater Chicago (“District”), effective December 6, 2007, to recognize the contribution made to the employer by its employees. Its purpose is to reward the employees by providing retiree health care benefits for qualifying employees and their eligible spouses and dependents. The Plan is intended to satisfy the requirements of Section 115 of the Internal Revenue Code of 1986, as amended. The District established the Trust to fund future benefits to be provided under the Plan.

The Plan and Trust descriptions are provided within the footnotes to the Financial Statements in the Financial Section and within the Actuarial Section of this report.

BOARD OF TRUSTEES

The Board of Trustees is comprised of the Board of Commissioners of the District. The Trustee of the Trust is the District. The Trustee takes, holds, invests, administers, and distributes contributions and assets paid or delivered to the Trust. All right, title and interest in and to the assets of the Trust Fund are at all times vested exclusively in the Plan. All contributions received together with the income from the contributions are held, managed, and administered by the Trustee pursuant to the terms of the Plan without distinction between principal and income and without liability for the payment of interest.

The BOC appointed an Executive Committee, comprised of the Chairman of Finance, the Treasurer, and the Director of Finance, to be responsible for certain activities with regard to the Trust, subject to the approval of the BOC. These activities include but are not limited to: recommendation of an investment advisor; acceptance or rejection of investment recommendations from the investment advisor; and certain financial reporting responsibilities.

PROFESSIONAL STAFF AND SERVICES

The District staff is responsible for providing the various services and information to the Trustee and to the members of the Trust, active and retired. This team is comprised of an Investment Advisor (“Advisor”) and personnel from the Treasury, Finance, Personnel, and Law Departments of the District. The Trustee selects the Advisor for a three-year service contract via a public Request for Proposal.

Typical staff activities include the development of an Investment Policy and Asset Allocation Strategy; investment and management of Trust assets; regular reporting to the Trustee; internal and external audits of the Trust; and training of the Trustee. General accounting activities are tracked on the SAP Enterprise system.

FUNDING POLICY

The BOC established a partial funding policy to advance-fund retiree health care costs. The District believes that advance funding will establish a reserve that will help ensure the financial ability to provide health care coverage for District retirees and their beneficiaries in the future. The Policy is as follows:

Target Funding Level:	50%
Funding Period:	50 years
Funding Amount:	Funding for the Trust was approved to be an amount of at least $15 million per year for 2007 and 2008, and $10 million each year for the next three years. Additional funds may be appropriated for this purpose in 2007 and 2008.
Basis for Funding:	Percentage of Payroll for each year after first 5 years.

There is currently no requirement for the District to partially or fully fund the Trust and any funding is on a voluntary basis.

FUNDING STATUS

On December 6, 2007, the District’s BOC authorized an initial deposit of $15 million to establish the Trust. On December 20, 2007, an additional $10 million was authorized to be transferred to complete the Trust’s initial asset deposit. All of the above funds were transferred from the District’s Corporate Fund. The $25 million was invested December 24, 2007, in short-term funds. Funds will be invested following the hiring of the Advisor and completion of the Investment Policy.

For fiscal year 2007, the District funded 83.4% of the actuarially determined employer contribution requirement. The funding is accomplished in two parts. The District pays the retiree health care claim payments and insurance premiums from operating funds, and also contributes the advance funding amount to the Trust. Benefit payments and premiums are not paid from the Trust. Currently, the Trust functions solely as an advance funding vehicle.

INVESTMENT POLICY AND PERFORMANCE

The assets of the Trust shall be managed by the Treasurer of the District in any manner, subject only to prudent investor standards and any requirements of federal law. The District is currently drafting an Investment policy for approval by the Board of Trustees in late 2008. The Trust will utilize a cautious investment policy, with a recommended initial investment mix of 50% equity and 50% bonds investment.

Refer to the Investment Section of this report for further information regarding investment authority and performance.

ECONOMIC OUTLOOK

Income for the Trust is from two sources: employer contributions and investment income. Income from employer contributions is appropriated each year by the BOC. The Actuarial Accrued Liability at January 1, 2007, was $443 million. In the long term, both assets and liabilities of the Trust are expected to grow. The target funding level is 50%, with an expected funding period of 50 years. It is projected that the Trust will begin to pay claims in 2023; therefore, there is no liquidity risk in investing the assets for the long term.

BENEFITS

The establishment and funding of the Trust is expected to provide multiple benefits, including:

- Progress towards reducing large unfunded liability;
- Capture of long-term investment returns by using the Trust only as a funding vehicle;
- Reduction in future GASB 45 expense and cash funding requirements; and
- Provide funding so that the District is able to ease the financial burden of administering the Plan benefits to its current and future retirees.

ACKNOWLEDGMENTS

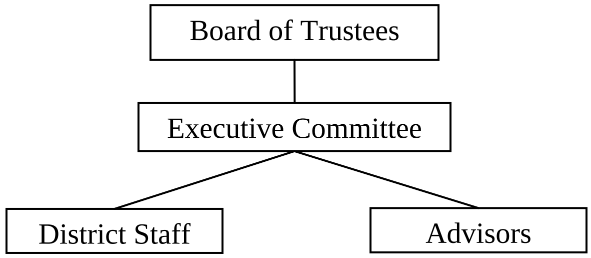
The preparation of this report reflects the combined efforts of the District staff under the direction of the Board of Trustees. This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the assets of the Trust.

Respectfully submitted,

Harold G. Downs

Harold G. Downs, Treasurer
Metropolitan Water Reclamation District of Greater Chicago

ORGANIZATION CHART



BOARD OF TRUSTEES

The Board of Trustees is comprised of the Board of Commissioners for the Metropolitan Water Reclamation District of Greater Chicago.

Board of Trustees	Year First Elected	Term Expires
Terrence J. O'Brien, *President*	1988	2012
Kathleen Therese Meany, *Vice President*	1990	2008
Gloria Alitto Majewski, *Chairman of Finance*	1984	2010
Frank Avila	2002	2008
Patricia Horton	2006	2012
Barbara J. McGowan	1998	2010
Cynthia M. Santos	1996	2008
Debra Shore	2006	2012
Patricia Young	1992	2010

EXECUTIVE COMMITTEE

Gloria A. Majewski, Chairman of Finance
Harold G. Downs, Treasurer of the District
Jacqueline Torres, Director of Finance/Clerk of the District

DISTRICT STAFF

Treasury Department – Harold G. Downs, Treasurer
Finance Department – Jacqueline Torres, Director of Finance/Clerk of the District
Personnel Department – Patrick Foley, Director of Personnel
Law Department – Frederick Feldman, Attorney

ADVISORS

Actuary: Deloitte Consulting LLP
Actuary: McGladrey & Pullen LLP
Investment Advisor (to be determined)

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

Members of the Board of Trustees of
The Metropolitan Water Reclamation District
Retiree Health Care Trust

We have audited the accompanying financial statements of the Metropolitan Water Reclamation District Retiree Health Care Trust ("Trust"), a component unit of the Metropolitan Water Reclamation District of Greater Chicago ("District"), as of and for the period ended December 31, 2007, which collectively comprise the Trust's statement of plan net assets and the statement of changes in plan net assets. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2007 and the changes in its financial position for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Trust, as of December 31, 2007 and the changes in plan net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 – 5 and the trust related information on page 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Trust. The accompanying introductory, investment, actuarial and statistical sections listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Metropolitan Water Reclamation District Retiree Health Care Trust's ("Trust") financial performance for the period ended December 31, 2007 and provides an introduction to the financial statements of the Trust. It is designed as supplementary information which focuses on current activities, resulting changes and current known facts. It should be read in conjunction with the letter of transmittal found in the Introductory Section, the financial statements and their accompanying notes, required supplementary information, and statistical information.

OVERVIEW AND ANALYSIS OF THE FINANCIAL STATEMENTS

The Trust's annual financial report consists of five parts: the independent auditor's report; management's discussion and analysis (current section); the financial statements, including notes to financial statements; and the required supplementary information.

The Trust prepared its financial statements on an accrual basis in accordance with the Governmental Accounting Standards Board's generally accepted accounting principles. The Statement of Plan Net Assets includes all of the Trust's assets and liabilities and provides information about the nature and amount of investments available to satisfy the retiree health care benefits of the Trust. All additions to and deductions from the net assets held in the Trust for retiree health care benefits are accounted for in the Statement of Changes in Plan Net Assets. This statement measures the Trust's success in increasing the net assets available for retiree health care benefits.

On August 23, 2007, the General Assembly of the State of Illinois approved the amendment to the Metropolitan Water Reclamation District Act (70 ILCS 2605/9.6d), which authorized and set forth the requirements for the establishment of the Metropolitan Water Reclamation District Other Postemployment Benefit Trusts ("OPEB Trusts"), for the purpose of providing for the funding and payment of health and other fringe benefits for retired, disabled, or terminated employees of the District or for their dependents and beneficiaries.

The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets measure the value of plan net assets and the changes to them. As of December 31, 2007, the plan net assets increased to $25,024,760 during its initial period of operation.

PLAN NET ASSETS

The following table summarizes the Plan's Statement of Net Assets:

Summary of Plan Net Assets as of December 31, 2007	
Assets	
Investments	$ 25,024,760
Liabilities	-
Plan Net Assets held in Trust for OPEB	$ 25,024,760

The increase resulted from the Employer's initial contribution to the Trust of $25 million in late December 2007, as well as interest earnings of $24,760 for the period. The Trust's investment rate of return for the period was 4.52% on an annualized basis.

Statement of Changes in Plan Net Assets Period Ended December 31, 2007	
Additions:	
Contributions by Employer	$ 25,000,000
Interest	24,760
Total Additions	25,024,760
Net Increase in Plan Net Assets held in Trust for Other Postemployment Benefits	$ 25,024,760

There were no Trust expenses for the period.

REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information provides a Schedule of Funding Progress, a Schedule of Employer Contributions, and a Summary of Actuarial Assumptions.

The Schedule of Funding Progress shows selected actuarial information, including the ratio of actuarial value of assets to actuarial accrued liability (funded ratio). The funded ratio increases or decreases over time dependent upon the relationships between contributions, investment performance, benefit changes, and actuarial assumption changes based upon participant information and characteristics. Actuarial liabilities in excess of assets indicates that an insufficient amount of assets have accumulated to fund future benefits of current members and retirees. The funded ratio was 0% at January 1, 2007, the date of the Actuarial Valuation. The Trust was not funded until December 2007.

The Schedule of Employer Contributions shows the value of total annual contributions the employer must pay and the related percentages the employer has contributed to meet the requirements. The Employer contributed 83.4% of the actuarial required contribution for 2007.

The Actuarial Assumptions presented were determined as part of the initial actuarial valuation at January 1, 2007.

OTHER INFORMATION

This report also includes an Investment Section, an Actuarial Section, and a Statistical Section. The Investment Section contains an investment report, an outline of investment policies, and a schedule of investment results. The Actuarial Section contains the Actuary's Certification Letter, an introduction, a summary of assumptions and methods, and other actuarial information. The Statistical Section consists of the change in net assets, participant statistics, revenues by source, schedule of return on investments, schedule of employer contributions, and schedule of expenses by type.

CONTACT INFORMATION

This Report is intended to provide a general overview of the Metropolitan Water Reclamation District Retiree Health Care Trust. Questions or requests for additional information should be addressed to the Trust at 100 East Erie Street, Chicago, Illinois 60611, Attn: Treasurer, or call (312) 751-5150.

FINANCIAL STATEMENTS

Statement of Plan Net Assets
As of December 31, 2007

Assets	
Investments	
Illinois Funds Investment Pool	$ 25,024,760
Liabilities	-
Plan net assets held in trust for other postemployment benefits	$ 25,024,760

See accompanying Notes to the Financial Statements.

Statement of Changes in Plan Net Assets
Period Ended December 31, 2007

Additions:	
Contributions - employer	$ 25,000,000
Interest	24,760
Total additions	25,024,760
Net increase	25,024,760
Net assets held in trust for other postemployment benefits	
Beginning of period	-
End of period	$ 25,024,760

See accompanying Notes to the Financial Statements.

Pursuant to 70 ILCS 2605/9.6d, the Metropolitan Water Reclamation District of Greater Chicago ("District") adopted the Metropolitan Water Reclamation District Retiree Health Care Plan ("Plan") and the Metropolitan Water Reclamation District Health Care Trust Agreement ("Trust") effective December 6, 2007 to recognize the contribution made to the District by its Employees. Its purpose is to reward them by providing benefits for those Employees who shall qualify hereunder and their eligible Spouses and Dependents.

The intention of the District is that the Plan satisfies the requirements of Section 115 of the Internal Revenue Code of 1986, as amended. A private letter ruling regarding the exclusion of the Trust's income from gross income under Section 115 has been requested from the IRS.

1. Summary of Significant Accounting Policies

a. Reporting Entity

The Trust is a component unit of the District and, as such, is included in the District's financial statements.

b. Basis of Accounting

The Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions to the Trust are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

c. Investments

The Trust fund is authorized under State Statute 70 ILCS 2605/9.6d. In accordance with the Statute, the Trust funds shall be managed by the District Treasurer in any manner deemed appropriate subject only to the prudent person standard. The Trust has not yet adopted a written investment policy.

At year-end, the Trust's assets were invested in the Illinois Funds Prime Fund. Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price the investment could be sold for.

d. Management's Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities revenues and expenses. Actual results could differ from those estimates. The Metropolitan Water Reclamation District of Greater Chicago uses an actuary to determine the actuarial accrued liability for postretirement benefits and to determine the actuarially required

1. Summary of Significant Accounting Policies (continued)

contribution and annual OPEB expense. A change in the actuarial assumptions used could significantly change the amounts reported in the accompanying financial statements.

e. Description of Fiscal Year

The District established the Trust on December 6, 2007 and elected to follow a calendar year for financial reporting, consistent with the District. These financial statements cover the 26 day period beginning December 6, 2007 and ending December 31, 2007. Beginning with fiscal year 2008, the Trust will report a full fiscal year.

2. Plan Description and Contribution Information

a. Membership

Membership of the Trust consisted of the following at January 1, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,873
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	1,964
Total	3,837

b. Plan and Trust Description

The Plan is a single-employer defined benefit postemployment health care plan that covers eligible retired employees of the District. The Plan allows employees who retire and meet certain eligibility requirements to continue medical and prescription drug coverage as a participant in the District's postretirement medical plan. Spouses and dependents of eligible retirees are also eligible for medical coverage. All employees of the District are eligible to receive postemployment health care benefits. Lifetime coverage for retirees and their spouses and dependents is provided. The Trust was established to advance fund benefits provided under the Plan.

c. Contributions.

State Statute 70 ILCS 2605/9.6d is the legislation establishing the Trust and gives the District BOC discretionary authority to determine contribution amounts to be paid by the District. In accordance with the legislation, the Board may lawfully agree with the Trust to a binding level of funding for periods of time not to exceed 5 fiscal years. As of the date of this report, the District Board has not entered into any such agreements. In addition, the Trust documents permit employees of the District to contribute money to provide for such benefits. No contribution is required at this time.

2. Plan Description and Contribution Information (continued)

Under the terms of the Plan, the Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. The District is required to contribute the balance of the current premium costs. For the fiscal year 2007, there were no plan member contributions or District contributions to the Trust pertaining to health insurance premiums. The District contributed $25 million dollars upon establishing the Trust as the initial advance funding amount.

d. Administrative Costs

Administrative costs of the Trust will be financed primarily through investment earnings; however, the Trust is not prohibited from expending contributions for administrative purpose.

3. Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Assets in Excess of AAL/(AAL in Excess of Assets) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/07	$ -	$ 442,682,586	$ (442,682,586)	0.00%	$ 154,900,000	(286%)

Note: The Trust was established in 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarially determined amounts 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 information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The schedule of employer contributions is included as part of the required supplementary information and presents information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (“ARC”), an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year

3. Funded Status and Funding Progress (continued)

and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions 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.

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	30 Years
Asset valuation method	*
Actuarial assumptions:	
Investment rate of return	*
Discount Rate	5.5% compounded annually
Health care cost trend rate	10% Initial 5% Ultimate

* As of the date of the initial actuarial valuation, the Trust had no assets.

4. Investments

a. Interest Rate Risk

The Trust does not have a written investment policy. The Trust's investments in the Illinois Funds have a maturity of less than one year.

4. Investments (continued)

b. Credit Risk

The Trust does not have a written investment policy. As of December 31, 2007, the credit rating for the Illinois Funds Prime Fund was AAA by Standard & Poor's.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
Period Ended December 31, 2007

SCHEDULE OF FUNDING PROGRESS:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Assets in Excess of AAL/(AAL in Excess of Assets) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
1/1/07	$ -	$ 442,682,586	$ (442,682,586)	0.00%	$ 154,900,000	(286%)

Note: The Trust was established in 2007.

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

Period Ended:	Annual Required Contribution	Percentage Contributed
2007	$ 44,739,006	83.4%

Note: The Trust was established in 2007.

ACTUARIAL ASSUMPTIONS:

Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Remaining amortization period	30 Years
Asset valuation method	*
Investment rate of return	*
Discount Rate	5.5% Compounded Annually
Health care cost trend rate	10% Initial 5% Ultimate

* As of the date of the initial actuarial valuation, the Trust had no assets.

INVESTMENT SECTION

INVESTMENT REPORT

As authorized under State Statute 70 ILCS 2605/9.6d, the Trust's investment function is managed by the District's Treasurer, with the District as Trustee for the Trust. Per the Trust agreement, the Trustee has total discretion and authority with regard to the investment of the assets of the Trust to which it holds title. The Trustee is authorized and empowered to delegate to the District Treasurer and other individuals as deemed appropriate, the following powers, rights and duties, each of which shall be subject to the approval of the Trustee:

(a) To purchase and cause stocks, bonds, exchange-traded funds, mutual funds, or other investments to be registered in its name as Trustee or in the name of a nominee, or to take and keep the same unregistered;

(b) To employ such agents, advisors and legal counsel as it deems advisable or proper in connection with its duties and to pay such agents, advisors and legal counsel a reasonable fee. The Trustee shall not be liable for the acts of such agents, advisors and legal counselor for the acts done in good faith and in reliance upon the advice of such agents, advisors and legal counsel, provided it has used reasonable care in selecting such agents, advisors and legal counsel;

(c) To exercise where applicable and appropriate any rights of ownership in any contracts of insurance in which any part of the Trust may be invested and to pay the premiums thereon; and

(d) To buy, sell, convey or transfer, invest and reinvest any part of each and every kind of investment listed above in Section (a).

OUTLINE OF INVESTMENT POLICIES

In accordance with state Statute 70 ILCS 2605/9.6d, "To the extent participants do not direct the investment of their own account, the assets of the OPEB Trusts shall be managed by the Treasurer of the District in any manner, subject only to the prudent investor standard and any requirements of applicable federal law. The limitations of any other statute affecting the investment of District funds shall not apply to the OPEB Trusts. The trustee shall adopt an investment policy consistent with the standards articulated in Section 2.5 of the Public Funds Investment Act. As of December 31, 2007, the Trust has not yet established a written investment policy.

SCHEDULE OF INVESTMENT RESULTS

For the 26 day period ending December 31, 2007, the Trust's assets were invested in the Illinois Funds Prime Fund, at an average annualized rate of 4.52%. Total interest earned over that period amounted to $24,760.

ACTUARIAL SECTION

Metropolitan Water Reclamation District of Greater Chicago
Postretirement Medical Plan
January 1, 2007
Actuarial Valuation

August 2007

ACTUARIAL VALUATION CERTIFICATION

This report presents results of the actuarial valuation of the Metropolitan Water Reclamation District of Greater Chicago's Postretirement Medical Plan ("the Plan") as of January 1, 2007. To the best of our knowledge, this report is complete and accurate and presents fairly the actuarial position of the Plan in accordance with the Statement of Governmental Accounting Standards No. 45, and generally accepted actuarial principles as prescribed by the American Academy of Actuaries.

In preparing this report, we have relied upon information regarding plan provisions and plan participants provided by the Metropolitan Water Reclamation District of Greater Chicago. We assumed this information was accurate and complete. The assumptions used in this report were selected by the Metropolitan Water Reclamation District of Greater Chicago.

In our opinion, all costs, liabilities, rates of interest, and other factors under the Plans have been determined on the basis of actuarial assumptions and methods which are each reasonable (taking into account the experience of the Plan and future expectations) and which, when combined, represent our best estimate of anticipated experience under the Plan.

Any tax advice included in this written or electronic communication was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed by any governmental taxing authority or agency.

We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Deloitte Consulting LLP

David Hilko

David M. Hilko
Principal, EA, MAAA

John J. Schubert
Senior Lead, ASA, FCA, MAAA

Robert L. Rietz, Jr.
Manager, EA, MAAA

INTRODUCTION

Annually, the Trust's actuary will prepare a valuation of the liabilities and reserves of the Trust in order to make a determination of the amount of contributions required from the District. These results are then communicated to the District's Board of Commissioners ("BOC").

The BOC, in turn, has the duty of determining the employer contribution amount it intends to pay to the Trust the following fiscal year.

The Trust received one contribution from the District in December 2007 in the amount of $25,000,000. In succeeding fiscal years the Trust will receive the District (employer) contribution as determined by the BOC. There is currently no requirement for the District to partially or fully fund the Trust, and any funding is on a voluntary basis.

Although voluntary in nature, the District intends to accumulate resources sufficient to ease the burden of administering the District's postemployment health care plan. For fiscal year 2007, the District funded 83.4% of the actuarially determined employer contribution requirement.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS:

The Trust was established in 2007 and the first actuarial valuation was performed as of January 1, 2007. The actuarial cost method used for this valuation is the Projected Unit Credit method. Under this method, the benefits expected to be paid to each participant are projected based in the applicable actuarial assumptions. The projected benefits are then divided on a pro-rata basis over the applicable years of service. For purposes of this cost method, the applicable years of service commence at the age at which the funding eligibility conditions are first met. The applicable years of service extend to the date each particular projected benefit is expected to be incurred, or if earlier, the date at which the credited service requirements for each particular benefit are satisfied.

Each year the unfunded actuarial accrued liability is expected to be equal to the sum of the unfunded actuarial accrued liability and normal cost from the prior year, plus interest, less the accumulated value of employer contributions made to the fund. The extent to which this expected value differs from the actual value of the unfunded actuarial accrued liability reflects the actuarial experience for the plan year. If the expected value exceeds the actual value, an actuarial gain has occurred. Conversely, if the actual value exceeds the expected value then an actuarial loss has occurred. The unfunded actuarial accrued liability is further modified only for changes in plan provisions, actuarial assumptions or methods. Actuarial gains or losses or changes in the unfunded actuarial liability due to changes in plan provisions, actuarial assumptions or methods are amortized over time. Actuarial gains (losses) will decrease (increase) future costs.

Dates of adoption: The Projected Unit Credit normal cost method and all other actuarial assumptions were adopted January 1, 2007.

The actuarial assumptions have been recommended by the actuary, and adopted by the Trust's Board as of January 1, 2007.

The mortality table used for postretirement mortality was the "Unisex Pension 1994 Mortality Table" (set back 1 year for males and set forward one year for females).

Below are the most significant actuarial assumptions:

Valuation date	January 1, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Closed
Discount Rate	5.5% compounded annually
Remaining amortization period	30 Years
Asset valuation method	*
Actuarial assumptions:	
Investment rate of return	*
Health care cost trend rate	10% Initial 5% Ultimate
Disability	None
Age of Spouse	Husbands are assumed to be 4 years older than their wives.
Coverage at	60% of active employees are assumed to have single plus spouse coverage at retirement.
Dependent children	No children are assumed to be covered at retirement.
Medicare eligibility	90% of retirees are assumed to be eligible for Medicare coverage.

* As of the date of the initial actuarial valuation, the Trust had no assets.

OTHER ACTUARIAL INFORMATION

Summary of Participant Information

All employees of the District are eligible to receive postretirement medical benefits. The participant data detailed in the following table and used in the actuarial valuations includes all employees that are eligible or may become eligible to receive postretirement benefits and currently elect medical coverage. The table is based on eligibility for postretirement medical benefits.

	Total*
Active participants	
Eligible for postretirement benefits	685
Not yet eligible for postretirement benefits	1,279
Total	1,964
Retirees/Beneficiaries receiving benefits	1,873
Total participants	3,837
Active participant characteristics	
Average age	48.7
Average past service	13.33
Average age of inactive participants	72.13

*Participant data determined as of January 1, 2006.

Retirees and their dependents that fulfill the eligibility requirements can receive postretirement medical and prescription drug coverage. Retirees and their dependents are eligible at the earlier of: (a) age 55 and 10 years of service, or (b) age + service greater than or equal to 80. Benefits commence at retirement, provided the eligibility requirements are fulfilled and the coverage is lifetime for retirees and their spouses.

Retiree Annual Contributions:

The following annual retiree contribution rates are effective July 1, 2007 through June 30, 2008:

	HMO		PPO	
All Retirees	Without Medicare	With Medicare	Without Medicare	With Medicare
Single	$ 1,452.72	$ 1,223.28	$ 2,202.12	$ 1,055.64
Single + 1	2,722.92	2,446.68	4,404.24	2,112.00
Single + 1 w/ Medicare	-	2,669.40	-	3,257.88

Turnover:
The rates below show the percentage of employees expected to terminate in one year at each age:

	Rate	
Age	Males	Females
20	7.7%	8.3%
25	7.7	8.3
30	5.8	6.0
35	3.8	3.8
40	2.7	2.5
45	1.4	1.5
50	0.6	0.7
55	0.0	0.0

The retirement decrement table below shows the percentage if early retirement eligible employees expected to retire in one year at each age:

Age	Rate
50 - 51	0 %
52	7
53 - 54	8
55	9
56	10
57	12
58	13
59	14
60	15
61	18
62 - 69	21
70	100

Starting Health Care Claims Costs:
Starting claims and administrative costs generally represent the District's net incurred claims cost, plus administrative expenses, before any reduction of retiree contributions, if any. The starting claims and administration costs are presented below and reflect the District's group experience through March 2006 and then trended forward to January 2007. Starting claims and health care costs for the plan were developed based on a combination of the following:

- Active and retiree plan experience adjusted for excess claims, incurrals, trend, administrative costs and age-sex differentials between active and retired employees.

	HMO		PPO	
Age	With Medicare	Without Medicare	With Medicare	Without Medicare
45	$ 4,791	$ 4,791	$ 6,674	$ 6,674
50	5,642	5,642	7,861	7,861
55	6,646	6,646	9,259	9,259
60	7,827	7,827	10,905	10,905
64	8,921	8,921	12,430	12,430
65	3,937	12,253	3,468	12,803
70	4,563	14,136	4,019	14,770
75	5,138	15,916	4,525	16,629
80	5,618	17,400	4,948	18,180
85	5,875	18,197	5,175	19,012
90+	5,993	18,563	5,279	19,395

Annual Medical Trend Assumptions:
Trend rates are used to project current medical claim costs into the future. The derived medical trend rates illustrated below are based on a general per capita gross national product (GNP) growth assumption of 5% and capping the medical component of the GNP at approximately 20% of total GNP.

Year	Trend
2007	10 %
2008	9
2009	8
2010	7
2011	6
2012 and later	5

STATISTICAL SECTION

CHANGE IN NET ASSETS

	2007
Additions:	
Contributions - employer	$ 25,000,000
Interest	24,760
Total additions	25,024,760
Net increase	25,024,760
Net assets held in trust for other postemployment benefits	
Beginning of period	-
End of period	$ 25,024,760

Note: The Trust was established in 2007.

PARTICIPANT STATISTICS

All employees of the District are eligible to receive postemployment health care benefits. The same benefit is available to all participants. The participant data detailed in the following table includes all employees that are eligible or may become eligible to receive benefits and currently elect medical coverage.

Participants

	Active Members				
Actuarial Valuation Date	Eligible	Not Yet Eligible	Retirees and Beneficiaries	Total	% Active to Retirees
1/1/2007	685	1,279	1,873	3,837	105%

Retirees and Beneficiaries

Actuarial Valuation Date	Employee	Surviving Spouse	Child	Total
1/1/2007	1,346	526	1	1,873

Note: Actuarial valuations are required to be completed every two years.

REVENUES BY SOURCE

Year Ended	Employer Contributions	Investment Income	Total Additions
2007	$25,000,000	$24,760	$25,024,760

SCHEDULE OF RETURN ON INVESTMENTS

Year Ended	Year-End Investment Balance	Annual Rate of Return
2007[1]	$25,024,760	4.52%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

		Actual			
Year Ended	Annual Required Contribution (ARC)	Benefit Payments[2]	Retiree Contributions[2]	Contribution to Trust	Total
2007	$44,739,006	$16,159,127	$(3,825,262)	$25,000,000	$37,333,865

Percentage of ARC Contributed by Employer: **83.4%**

SCHEDULE OF EXPENSES BY TYPE[2]

Year Ended	Investment Expenses	Administrative Expenses	Total Deductions
2007	$0	$0	$0

No expenses were incurred in the period December 6-31, 2007.

[1] Period invested December 24-31, 2007.
[2] Net benefit payments are paid directly by the District. Amounts are not paid through the Trust.