

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 Year Ended December 31, 2014

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

MARY ANN BOYLE, 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
Illinois**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

Metropolitan Water Reclamation District Retiree Health Care Trust

100 East Erie Street
Chicago, Illinois 60611
(312) 751-5150

May 11, 2015

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 year ended December 31, 2014. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, is fully assumed by management of the Metropolitan Water Reclamation District of Greater Chicago (“the District”). 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.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

INTERNAL CONTROLS

The District operates within a system of internal controls established and continually reviewed by management. This provides reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must consider the cost of the control and value of the benefit derived from its utilization. Management normally maintains and implements all sensitive controls and those controls whose value adequately exceeds their cost. Management believes both the District’s and the Trust’s internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. The Trust’s annual independent audit disclosed no material weakness.

FUND DESCRIPTION

Pursuant to 70 ILCS 2605/9.6d, the Metropolitan Water Reclamation District Retiree Health Care Plan (“Plan”) and the Trust Agreement were adopted by the Board of Commissioners (“BOC”) of the 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. Retiree health care benefits are defined as post-retirement medical and prescription drug coverage only; no dental, life, or disability benefits are provided by the Plan. 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 Trust is

considered a component unit of the District and as such is included in the District's financial statements as a retiree health care trust fund.

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 ("BOC"). 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 rights, 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, Human Resources, Budget, and Law Departments of the District. The Trustee selects the Advisor for a five-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

In 2007 the BOC adopted an initial advance funding policy meant to (i) improve the District's financial position by reducing the amount of future contributions and (ii) serve to establish a reserve to help ensure the financial ability to provide healthcare coverage for District retirees and annuitants in the future. On October 2, 2014, the advance funding policy was amended by the BOC with the following guidelines:

| | |
|-----------------------|---|
| Target Funding Level: | 100% maximum |
| Funding Period: | 12 years |
| Funding Amount: | \$5 million funding in each of the twelve years 2015 through 2026, with no further advance funding contributions required after 2026. |

Beginning in 2027, cash to be withdrawn from the Trust to fund claims and insurance premiums will be determined by the Trust's actuary with the target funding level to be maintained at 100 percent for all future years. There is currently no legal requirement for the District to partially or fully fund the OPEB ("Other Postemployment Benefits") Trust Fund and any funding is on a voluntary basis.

FUNDING STATUS

The funding for the Trust 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 advance funding contributions to the Trust. Currently, the Trust functions solely as an advance funding vehicle.

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 District's BOC has discretionary authority to determine contribution amounts to be paid into the Trust. Through December 31, 2014, an aggregate of \$112,400,000 has been contributed by the District to the OPEB Trust Fund. The advance funding contribution for 2014 was \$20,000,000 which exceeded the Trust's initial funding policy requirement. In succeeding fiscal years the Trust will receive the District (employer) contributions as determined by the BOC.

The Accumulated Unfunded Actuarial Accrued Liability was \$139,481,000 as of December 31, 2013, the date of the most recent actuarial valuation. The unfunded liability represents the amount by which the Accrued Liability exceeds the value of the plan assets that have been placed in a trust and dedicated to providing benefits to retirees and their beneficiaries. Future direction may be changed based on national health care policies.

For fiscal year 2014, the District funded 255.2% of the actuarially determined annual required contribution requirement. The funded ratio was 46.4% at December 31, 2013, the date of the most recent actuarial valuation.

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 Trust shall discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; diversify the holdings of the Trust to minimize the risk of loss and maximize the rate of return; and discharge duties solely in the interest and for the benefit of the funds managed. The Trust Investment Policy was initially adopted by the Board of Trustees on November 19, 2009 and revised on December 19, 2013.

The Trust reported a total investment return of \$5,573,457 for 2014, yielding 4.9%, compared to the Trust's Policy Index return of 6.3%. In 2013 the Trust reported a total investment return of \$14,862,614, yielding 16.3%, compared the Policy Index return of 16.5%.

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

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.

AWARDS AND 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.

The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Trust for its CAFR for the period ended December 31, 2013. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed the program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

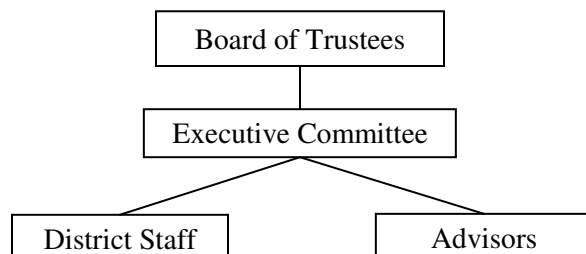
A Certificate of Achievement is valid for only one year. The Trust received a Certificate of Achievement for the last seven years. We believe our current report continues to conform to the Certificate of Achievement program requirements; we are therefore submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for the year ending December 31, 2014.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary Ann Boyle". The signature is written in a cursive, flowing style.

Mary Ann Boyle, Treasurer
Metropolitan Water Reclamation District of Greater Chicago

ORGANIZATION CHART AND PRINCIPAL OFFICIALS



BOARD OF TRUSTEES

The Board of Trustees is comprised of the District's Board of Commissioners.

| Board of Trustees | Year First Elected | Term Expires |
|---|-----------------------|-----------------|
| Barbara J. McGowan, <i>Acting President</i> | 1998 | 2016 |
| Mariyana T. Spyropoulos, <i>Chairman of Finance</i> | 2010 | 2016 |
| Michael A. Alvarez | 2010 | 2016 |
| Frank Avila | 2002 | 2020 |
| Timothy Bradford | 2014 | 2020 |
| Cynthia M. Santos | 1996 | 2020 |
| Debra Shore | 2006 | 2018 |
| Kari K. Steele | 2012 | 2018 |
| Patrick D. Thompson | 2012 | 2018 |

EXECUTIVE COMMITTEE

Mariyana T. Spyropoulos, Chairman of Finance
 Mary Ann Boyle, Treasurer of the District
 Jacqueline Torres, Clerk/Director of Finance

NOTE: EFFECTIVE JANUARY 8, 2015:

Mariyana T. Spyropoulos, President
 Barbara J. McGowan, Vice President
 Frank Avila, Chairman of Finance

DISTRICT STAFF

Treasury Department – Mary Ann Boyle, Treasurer
 Finance Department – Jacqueline Torres, Clerk/Director of Finance
 Department of Human Resources – Denice Korcal, Director of Human Resources
 Law Department – Ronald Hill, General Counsel

ADVISORS

Actuary: PriceWaterhouseCoopers, LLP. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015.

Investment Advisor: Segal Advisors, Inc. d/b/a Segal Rogerscasey. See further detail in the summary schedule of investment fees on page 21.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Trustees
Metropolitan Water Reclamation District Retiree Health Care Trust
Chicago, Illinois

Report on the Financial Statements

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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Trust'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 Trust'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 Trust'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.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Trust's financial statements include partial prior year comparative information. Such information does not include notes to the basic financial statements or management's discussion and analysis which are required to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2013 from which such partial information was derived.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of funding progress, employer contributions, and actuarial assumptions 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 Information

Our audit for the year ended December 31, 2014 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The summary schedules of administrative expenses and investment fees for the year ended December 31, 2014, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2014, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, the summary schedules of administrative expenses and investment fees are fairly stated in all material respects, in relation to the basic financial statements as a whole for the year ended December 31, 2014.

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

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Trust as of and for the year ended December 31, 2013 (not presented herein), and have issued our report thereon dated May 7, 2014, which contained an unmodified opinion on the financial statements of the Trust. The summary schedules of administrative expenses and investment fees for the year ended December 31, 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the summary schedules of administrative expenses and investment fees are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2013.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The Introductory Section, Investment Section, Actuarial Section and the Statistical Section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 it.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
May 11, 2015

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

FINANCIAL SECTION

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014 (With comparative amounts for prior year)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section presents management's discussion and analysis of the Trust's financial performance for the years ended December 31, 2014 and 2013, and provides an introduction to the financial statements of the Trust. It is designed as required 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 of this report.

Overview and Analysis of the Financial Statements

The Financial Section of the Trust's Comprehensive Annual Financial Report consists of the following parts: the independent auditor's report; management's discussion and analysis; the financial statements, including notes to the financial statements; required supplementary information and supplementary information.

The Trust prepared its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Statement of Plan Net Position 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 position held in trust for retiree health care benefits are accounted for in the Statements of Changes in Plan Net Position. These statements measure the Trust's success in increasing the net position 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 District Other Postemployment Benefit Trust ("OPEB Trust"), 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 Trust was established December 6, 2007.

The Statement of Plan Net Position and Statement of Changes in Plan Net Position measure the value of the plan's net position and the changes to it. As of December 31, 2014, the plan net position increased to \$146,374,627 from \$120,883,435 at December 31, 2013.

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

FINANCIAL SECTION

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014 (With comparative amounts for prior year)

PLAN NET POSITION AND CHANGES IN PLAN NET POSITION

The following table summarizes the Plan's Statements of Net Position:

Condensed Statements of Plan Net Position as of December 31:

| | 2014 | 2013 | Change | Percent Change |
|--|-----------------------|-----------------------|----------------------|----------------|
| Assets | | | | |
| Investments at Fair Value | \$ 146,317,546 | \$ 120,681,050 | \$ 25,636,496 | 21.2% |
| Accrued Interest Receivable | 71,081 | 205,885 | (134,804) | -65.5% |
| Total Assets | <u>146,388,627</u> | <u>120,886,935</u> | <u>25,501,692</u> | <u>21.1%</u> |
| Liabilities | | | | |
| Accounts Payable | 14,000 | 3,500 | 10,500 | -300.0% |
| Total Liabilities | <u>14,000</u> | <u>3,500</u> | <u>10,500</u> | <u>-300.0%</u> |
| Plan Net Position Held In Trust for OPEB | <u>\$ 146,374,627</u> | <u>\$ 120,883,435</u> | <u>\$ 25,491,192</u> | <u>21.1%</u> |

In 2014, the increase in plan net position resulted primarily from the Employer's contribution to the Trust of \$20 million as well as investment earnings for the year. The Trust's time-weighted investment rate of return was 4.87% for the year, and 11.81% for the three years ended December 31, 2014.

The following table summarizes the Plan's Statements of Changes in Net Position:

Condensed Statements of Changes in Plan Net Position:

| | 2014 | 2013 | Change | Percent Change |
|---|-----------------------|-----------------------|----------------------|----------------|
| Additions: | | | | |
| Contributions by Employer | \$ 33,716,523 | \$ 33,834,831 | \$ (118,308) | -0.3% |
| Contributions by Retirees | 6,773,271 | 6,217,826 | 555,445 | 8.9% |
| Total Contributions | <u>40,489,794</u> | <u>40,052,657</u> | <u>437,137</u> | <u>1.1%</u> |
| Net Appreciation in Fair Value of Investments | 2,266,999 | 13,146,950 | (10,879,951) | -82.8% |
| Interest and Dividends | 3,306,458 | 1,715,664 | 1,590,794 | 92.7% |
| Total Investment Return | <u>5,573,457</u> | <u>14,862,614</u> | <u>(9,289,157)</u> | <u>-62.5%</u> |
| Less Investment Expenses | (42,015) | (42,575) | 560 | 1.3% |
| Net Investment Income | <u>5,531,442</u> | <u>14,820,039</u> | <u>(9,288,597)</u> | <u>-62.7%</u> |
| Total Additions | <u>46,021,236</u> | <u>54,872,696</u> | <u>(8,851,460)</u> | <u>-16.1%</u> |
| Deductions: | | | | |
| Retiree Health Care Benefits | 20,489,795 | 20,052,657 | 437,138 | -2.2% |
| Administrative Expenses | 40,249 | 38,530 | 1,719 | -4.5% |
| Total Deductions | <u>20,530,044</u> | <u>20,091,187</u> | <u>438,857</u> | <u>-2.2%</u> |
| Net Increase in Net Position | 25,491,192 | 34,781,509 | (9,290,317) | -26.7% |
| Net Position | | | | |
| Beginning of year | 120,883,435 | 86,101,926 | 34,781,509 | 40.4% |
| End of year | <u>\$ 146,374,627</u> | <u>\$ 120,883,435</u> | <u>\$ 25,491,192</u> | <u>21.1%</u> |

Metropolitan Water Reclamation District Retiree Health Care Trust
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FINANCIAL SECTION

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014 (With comparative amounts for prior year)

Additions

Additions are accumulated through employer and retiree contributions, and returns are provided by invested assets. Total additions for 2014 were \$46.0 million compared to \$54.9 million in 2013, a decrease of \$8.9 million or 16.1%. Employer and retiree contributions were \$40.4 million for 2014, representing an increase of \$0.4 million or 1.1%. Advance funding contributions of \$20.0 million were made by the District in 2014. Through December 31, 2014, a total of \$112.4 million has been contributed to the Trust. The 2014 net investment income of \$5.5 million was due to the net appreciation in fair value of investments of \$2.2 million and dividends earned on mutual fund investments of \$3.3 million. Net investment income is a combination of interest and dividend income, and gains and losses on investments held at year-end. Overall the 4.9% investment return for 2014 reflected a 5.4% return on equity investments, while fixed income investments posted a 4.8% return. The positive return on equities was due to a strong domestic equity market as the S&P 500 posted a double digit return for the year. The international equity market hindered the overall equity composite return mainly due to the strengthening of the U.S. dollar. Fixed income investments were positive in 2014 as the U.S. Treasury market delivered its strongest return since 2011.

Deductions

The expenses paid by the Trust are retiree health care benefit payments and administrative expenses. Total deductions for 2014 were \$20.5 million compared to \$20.1 million in 2013, an increase of \$0.4 million or 2.2%. Benefit payments increased 2.2% from 2013, representing a normal increase due to medical cost inflation. Total administrative expenses represent the cost of fiduciary insurance for the Trustee, along with external audit fees.

Return on Investments and Asset Allocation

Comparative investment returns by asset allocation are as follows:

| Asset Class | | | 2014 | 2013 |
|-----------------------|--------------------|--------------------|----------------------|----------------------|
| | 2014 | 2013 | Time-Weighted | Time-Weighted |
| | Percent of | Percent of | Investment | Investment |
| | Investments | Investments | Return | Return |
| Domestic Equity | 31% | 51% | 5.44% | 30.32% |
| International Equity | 13% | 16% | -4.89% | 19.58% |
| Domestic Fixed Income | 44% | 30% | 4.79% | -3.16% |
| Global Balanced* | 9% | 0% | -5.12% | N/A |
| Money Market Funds | 3% | 3% | 0.02% | 0.02% |
| Total | <u>100%</u> | <u>100%</u> | 4.87% | 16.29% |

*Partial year return is presented for Global Balanced asset class due to mid-year funding (inception date of May 13, 2014)

The Trust had deposits awaiting investment of \$10,128,297 at December 31, 2014 and \$10,006,231 at December 31, 2013 in the Illinois Funds money market investment pool, as managed by the State of Illinois, Office of the Treasurer. The deposits on hand at Illinois Funds were awaiting investment direction from the Executive Committee and are therefore excluded from the above asset allocation percentages.

The increase in value of the Trust's invested assets was 21.1%. The return on invested assets for 2014 using the Modified Dietz time-weighted approach was 4.9%, calculated on a quarterly

Metropolitan Water Reclamation District Retiree Health Care Trust
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FINANCIAL SECTION

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014 (With comparative amounts for prior year)

compounded basis. The disparity between the percentage return on investments and the larger increase in asset value reflects the impact and timing of \$20.0 million advance funding contributions made during 2014.

Funded Status

The Trust's funded status is the ratio of the actuarial value of assets to the actuarial liability and is a measure of the ability to pay all future benefits from the assets held in the Trust. The Trust's funded ratio as of December 31, 2013, was 46.4%, an increase from 13.9% as of December 31, 2011, the date of the previous actuarial valuation.

The District's Annual Required Contribution (ARC) represents the employer contribution that would be needed each year to fund the retiree health care benefits over a period not exceeding 30 years. The District's ARC was calculated to be \$13.2 million for 2014 and 2013. The actual contribution for 2014 and 2013 was 255% and 256% of the ARC, respectively. Details about both of these indicators are found in the Statistical section of the CAFR.

The increase in the funded ratio was due to changes in actuarial assumptions to more accurately reflect claims experience for the Plan, and the significant amount of advance funding contributions from the District well ahead of the funding policy requirements. The District is well on its way to meet its goals of providing financial stability to the Plan.

Required Supplementary Information

To provide actuarial determined information about the Trust, this report includes schedules of historical trend information in the Required Supplementary Information (RSI) section. The RSI provides a Schedule of Funding Progress, a Schedule of Employer Contributions, and a Summary of Actuarial Assumptions. The Schedule of Funding Progress and the Schedule of Employer Contributions provide actuarial information to help the reader understand the changes in the actuarial funding and funded status of the Trust over time. Please note that the actuarial information is based on assumption about future events, and therefore, the figures presented are estimates.

The Schedule of Funding Progress provides information about the progress made to accumulate sufficient assets to pay benefits when due. It presents the funded status of the Trust by comparing the actuarial value of the assets to the actuarial accrued liability, including the ratio of the actuarial value of assets to the 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 indicate that an insufficient amount of assets have accumulated to fund future benefits of current members and retirees. The funded ratio was 46.4% at December 31, 2013, the date of the most recent actuarial valuation. The schedule presents information for the four previous actuarial valuation dates.

The Schedule of Employer Contributions presents information about the Trust's annual required contributions and the contributions actually made to display the performance of the funding of the Trust, along with the related percentages the employer has contributed to meet the requirements. The Employer contributed 255% of the actuarial required contribution for 2014. The Schedule of Employer Contributions presents information from the last eight years.

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

FINANCIAL SECTION

Management's Discussion and Analysis (Unaudited)

Year Ended December 31, 2014 (With comparative amounts for prior year)

The Actuarial Assumptions presented were determined as part of the actuarial valuation at December 31, 2013. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015.

Other Information

This report also includes an Investment Section, an Actuarial Section, and a Statistical Section. The Investment Section contains the investment consultant report, a statement on investment authority and responsibility, an outline of investment policies, reports on investment objectives, allocation, performance, assets, and analytics, a schedule of investment returns, and a summary schedule of investment fees. The Actuarial Section contains the Actuarial Certification Letter, an introduction, a summary of assumptions and methods, and other actuarial information. The statistical section consists of a description of the statistical schedules, member statistics, and the change in net positions, 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.

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

FINANCIAL SECTION
Financial Statements

Statements of Plan Net Position
December 31, 2014
(With comparative amounts for prior year)

| | <u>2014</u> | <u>2013</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Investments at Fair Value | | |
| Fixed Income Mutual Funds | \$ 60,132,364 | \$ 33,666,900 |
| Equity Mutual Funds | 59,948,775 | 73,747,135 |
| Balanced Mutual Funds | 12,379,432 | - |
| Money Market Funds | 13,856,975 | 13,267,015 |
| Total Investments | <u>146,317,546</u> | <u>120,681,050</u> |
| Accrued Interest Receivable | 71,081 | 205,885 |
| Total Assets | <u>146,388,627</u> | <u>120,886,935</u> |
| Liabilities | | |
| Accounts Payable | <u>14,000</u> | <u>3,500</u> |
| Total Liabilities | <u>14,000</u> | <u>3,500</u> |
| Plan Net Position Held In Trust for OPEB | <u>\$ 146,374,627</u> | <u>\$ 120,883,435</u> |

See accompanying notes to the Financial Statements

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

FINANCIAL SECTION
Financial Statements

Statements of Changes in Plan Net Position
Year Ended December 31, 2014
(With comparative amounts for prior year)

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| Additions: | | |
| Contributions by Employer | \$ 33,716,523 | \$ 33,834,831 |
| Contributions by Retirees | 6,773,271 | 6,217,826 |
| Total Contributions | <u>40,489,794</u> | <u>40,052,657</u> |
| Net Appreciation in Fair Value of Investments | 2,266,999 | 13,146,950 |
| Interest and Dividends | 3,306,458 | 1,715,664 |
| Total Investment Return | <u>5,573,457</u> | <u>14,862,614</u> |
| Less Investment Expenses | <u>(42,015)</u> | <u>(42,575)</u> |
| Net Investment Income | <u>5,531,442</u> | <u>14,820,039</u> |
| Total Additions | <u>46,021,236</u> | <u>54,872,696</u> |
| Deductions: | | |
| Retiree Health Care Benefits | 20,489,795 | 20,052,657 |
| Administrative Expenses | 40,249 | 38,530 |
| Total Deductions | <u>20,530,044</u> | <u>20,091,187</u> |
| Net Increase in Plan Net Position | 25,491,192 | 34,781,509 |
| Net Position Held in Trust for OPEB | | |
| January 1 | 120,883,435 | 86,101,926 |
| December 31 | <u>\$ 146,374,627</u> | <u>\$ 120,883,435</u> |

See accompanying notes to the Financial Statements

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

**FINANCIAL SECTION
Year Ended December 31, 2014**

1. Summary of Significant Accounting Policies

a. Reporting Entity

Pursuant to 70 ILCS 2605/9.6d, the Metropolitan Water Reclamation District of Greater Chicago (District) adopted the Plan and 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 received from the IRS.

The Metropolitan Water Reclamation District Retiree Health Care Trust (Trust) is a component unit of the District and, as such, is included in the District's financial statements. As defined by accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable, or for which the nature and significance to the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or otherwise incomplete. Based on the required criteria, the Trust has no component units.

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 the plan.

c. Investments

The Trust 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 adopted its investment policy on November 19, 2009, which was revised on December 19, 2013.

The Trust's assets are invested in fixed income and equity open-ended mutual funds traded on national securities exchanges. Investments are stated at fair value. The fair value of mutual fund units traded on national securities exchanges is the last reported sales price on the last business day of the fiscal year of the Trust. Purchases and sales of mutual fund units are accounted for on the trade dates. For purposes of determining realized gains or losses on the disposal of investments, the "first in first out" disposition method is used at the time of sale.

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

FINANCIAL SECTION
Year Ended December 31, 2014

The Trust's assets are also invested in the Illinois Funds. 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 District uses an actuary to determine the actuarial accrued liability for post-retirement benefits and to determine the actuarially required contribution and annual OPEB expense. A change in the actuarial assumptions used could significantly change the amounts reported in the accompanying financial statements.

The information included in this report is based on the actuarial valuation performed as of December 31, 2013. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015.

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 year ended December 31, 2014.

f. Comparative Data

The Trust's financial statements present comparative data for the prior year to provide an understanding of the changes in position and activities.

g. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Plan net position held in Trust was not affected by these reclassifications.

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

**FINANCIAL SECTION
Year Ended December 31, 2014**

2. Plan Description and Contribution Information

a. Membership

Membership of the Trust consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

| | |
|--|---------------------|
| Retirees and survivors receiving benefits | 1,964 |
| Retiree dependent spouses receiving coverage | 844 |
| Active plan members | <u>1,875</u> |
| Total | <u><u>4,683</u></u> |

b. Plan and Trust Description

The Metropolitan Water Reclamation District's Retiree Health Care Plan (Plan) is a single-employer defined benefit postemployment health care plan that covers eligible retired employees of the District. The Plan, which is administered by the District, allows employees who retire and meet certain eligibility requirements to continue medical and prescription drug coverage as a participant in the District's 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 Board of Commissioners (BOC) discretionary authority to determine contribution amounts to be paid by the District. In accordance with the legislation, the BOC 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 BOC 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.

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 and claims costs. Contributions by the District in excess of the employer portion of current premiums and claims costs represent advance funding in accordance with the funding policy. The District has contributed \$112,400,000 to the Trust as the advance funding amount to date.

d. Retiree Health Care Benefit Costs

Benefit costs are post-retirement medical and prescription drug coverage benefit premiums and claims paid by the District.

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

FINANCIAL SECTION
Year Ended December 31, 2014

e. 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 purposes.

3. Funded Status and Funding Progress

The funded status of the plan as of the December 31, 2013, actuarial valuation is as follows (amounts in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|--|---------------------------|----------------------------|--|
| 12/31/2013 | \$120,883 | \$ 260,364 | \$ 139,481 | 46.43% | \$164,005 | 85.0% |

Note: Actuarial valuations are required to be completed every two years. The most recent actuarial valuation was as of December 31, 2013.

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 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.

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

**FINANCIAL SECTION
Year Ended December 31, 2014**

Additional information as of the latest actuarial valuation follows:

| | |
|-----------------------------|---|
| Valuation date | December 31, 2013 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percent of payroll Open |
| Amortization period | 30 Years |
| Asset valuation method | Fair Value |
| Actuarial assumptions: | |
| Discount Rate | 7.0% |
| Inflation Rate | 3.0% |
| Health Care Cost Trend Rate | 7.3% Initial 5.0% Ultimate (Year 2018) |
| Annual Payroll Growth Rate | 3.6% |
| Disability | None |
| Age of Spouse | Husbands are assumed to be 3 years older than their wives. |
| Coverage at | 90% of future eligible service retirees are assumed to elect coverage at retirement. 76% 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 | 100% of members are assumed to enroll in Medicare if eligible and hired on or after April 1, 1986. 93% of members are assumed to enroll in Medicare if eligible and hired prior to April 1, 1986. |

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

FINANCIAL SECTION
Year Ended December 31, 2014

4. Investments

a. Allocation Targets

The Trust's investment policy was initially adopted on November 19, 2009, and is designed to control for risk and provide guidance in establishing a prudent investment strategy that serves the long-term needs of the Trust and its beneficiaries. The investment policy was revised on December 19, 2013 to allow for new asset allocation targets that are structured to provide competitive performance while minimizing the potential for losses. The revised policy allows for a range of exposures to five aggregate asset classes as follows:

| Asset Class | Minimum | Normal | Maximum |
|----------------------------------|----------------|---------------|----------------|
| Domestic Equities | 25.0% | 30.0% | 35.0% |
| Developed International Equities | 12.0% | 15.0% | 18.0% |
| Fixed Income Securities (Bonds) | 40.0% | 45.0% | 50.0% |
| Global Balanced Portfolio | 7.5% | 10.0% | 12.5% |
| Money Market Funds and Cash | 0.0% | 1.0% | 100.0% |

b. Interest Rate Risk

The Trust's benefit liabilities extend many years into the future, and the Trust's policy is to maintain a long-term focus on its investment decision-making process. Fixed income investments susceptible to interest rate risk are monitored to prevent such investments from exceeding established allocation targets.

At December 31, 2014, the Trust's investments in open-ended fixed income mutual funds stated at fair value with weighted average maturities are as follows:

| Fund Name | Fair Value | Percentage | Weighted Average Maturities (Years) |
|--------------------------|-------------------|-------------------|--|
| Dodge & Cox Income | \$ 26,999,544 | 44.9% | 6.8 |
| Payden Core Bond Fund | 3,376,208 | 5.6% | 6.8 |
| PIMCO Total Return Instl | 29,756,612 | 49.5% | 10.5 |
| | | 100.0% | |

The Trust's net fair value of money market investment funds was \$13,856,975 as of December 31, 2014 having a weighted-average maturity of less than one year.

c. Credit Risk

Generally, credit risk is the risk that an 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 Trust's Investment Policy requires a minimum of 85% of the fixed income holdings of an actively managed fixed income mutual fund be of investment grade quality or higher at purchase; rated no

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

FINANCIAL SECTION
Year Ended December 31, 2014

lower than “Baa” by Moody’s and no lower than “BBB” by Standard and Poor’s. The Trustee, at its discretion, may impose a higher standard on an individual investment’s circumstances or as investment objectives dictate. Fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by the U.S. Government, Canadian Government, or any agency or instrumentality thereof, or to corporate and municipal issues.

As of December 31, 2014, the Trust’s investments in open-ended fixed income mutual funds were not individually rated by a nationally recognized statistical rating organization. The following are the percentages of fixed income investment portfolio securities within each credit-quality rating as of December 31, 2014:

| Credit Rating | Fund Name | | |
|----------------------|---------------------------|------------------------------|---|
| | Dodge & Cox Income (1) | Payden Core Bond Fund (1) | PIMCO Total Return Institutional (2) |
| | Percentage | | |
| AAA | 49.7 | 10.0 | 48.0 |
| AA | 6.5 | 39.0 | 18.0 |
| A | 14.8 | 11.0 | 9.0 |
| BBB | 23.2 | 26.0 | 17.0 |
| BB | 5.8 | 8.0 | 4.0 |
| B | - | 3.0 | 1.0 |
| Below B | - | 1.0 | 3.0 |
| Not Rated | - | 2.0 | - |
| Total | 100.0 | 100.0 | 100.0 |

(1) Provided by Morningstar, Inc. Report details the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Standard & Poor’s or Moody’s credit rating agencies.

(2) Provided directly from PIMCO Investments, LLC. Information not available from Morningstar, Inc.

The credit rating for the Illinois Funds money market investment pool was AAAM by Standard and Poor’s at December 31, 2014. The Trust’s investment in an additional money market fund was not individually rated by a nationally recognized statistical rating organization.

d. Foreign Currency Risk

The Trust’s Investment Policy requires that it disclose any investment denominated in a foreign currency. Exposure to foreign currency risk is limited to the international investment allocation target maximum of 20% of the fair value of the investment portfolio.

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

**FINANCIAL SECTION
Year Ended December 31, 2014**

As of December 31, 2014, the Trust investments in international equity open-ended mutual funds stated at fair value are as follows:

| <u>Fund Name</u> | <u>Fair Value</u> |
|------------------------------------|----------------------|
| Harbor International Institutional | \$ 11,895,999 |
| Artisan International Fund | 6,468,946 |
| | <u>\$ 18,364,945</u> |

e. Custodial Credit Risk

The Trust's Investment Policy requires that all investments and investment collateral be held in safekeeping by a third party custodial institution, as designated by the Treasurer, in the Trust's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities which are in the possession of the outside party. All cash balances maintained at banks are required to be collateralized with permitted U.S. Government Securities in an amount equal to 105% (at market) of the monies on deposit. Cash awaiting reinvestment in the Trust's investment account is protected up to \$250,000 under coverage by the Securities Investor Protection Corporation (SIPC). As of December 31, 2014, the Trust had no exposure to custodial credit risk since all investments were registered or held in the Trust's name.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS (amounts in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------------|--------------------------------------|--|--|---------------------------|----------------------------|--|
| 12/31/2013 | \$120,883 | \$ 260,364 | \$ 139,481 | 46.43% | \$164,005 | 85.0% |
| 12/31/2011 | 54,996 | 394,676 | 339,680 | 13.93% | 162,853 | 208.6% |
| 12/31/2009 | 47,891 | 526,476 | 478,585 | 9.10% | 170,392 | 280.9% |
| 1/1/2007 | 25,025 | 442,683 | 417,658 | 5.65% | 158,832 | 263.0% |

Note: The information included in this report is based on the actuarial valuation performed as of December 31, 2013. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015. As such, all actuarial valuation information presented in this report is the same as that which was presented in the comprehensive annual financial report (CAFR) for the period ended December 31, 2013.

SCHEDULE OF EMPLOYER CONTRIBUTIONS (amounts in thousands):
Years ended December 31

| Fiscal Year Ended | Annual Required Contribution | Annual Contributions to Trust* | Percentage Contributed* |
|--------------------------|-------------------------------------|---------------------------------------|--------------------------------|
| 2014 | \$ 13,212 | \$ 33,717 | 255.2% |
| 2013 | 13,212 | 33,835 | 256.1% |
| 2012 | 27,264 | 35,426 | 129.9% |
| 2011 | 27,264 | 18,020 | 66.1% |
| 2010 | 39,847 | 15,517 | 38.9% |
| 2009 | 39,847 | 14,592 | 36.6% |
| 2008 | 44,739 | 35,819 | 80.1% |
| 2007 | 44,739 | 37,334 | 83.4% |

Note: The Trust was established in 2007.

*The percentage contributed represents all contributions made by the employer (District) in relation to the Annual Required Contribution (ARC). Amounts contributed include both direct contributions to the Trust, and benefit payments made by the District.

Notes to Schedules of Funding Progress and Employer Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. An actuarial valuation is required to be performed biennially for the Trust. Additional information as of the most recent actuarial valuation is detailed on the following page.

See accompanying independent auditors' report.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACTUARIAL ASSUMPTIONS:

| | |
|-----------------------------|---|
| Valuation date | December 31, 2013 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percent of payroll Open |
| Amortization period | 30 Years |
| Asset valuation method | Fair Value |
| Actuarial assumptions: | |
| Discount Rate | 7.0% |
| Inflation Rate | 3.0% |
| Health Care Cost Trend Rate | 7.3% Initial 5.0% Ultimate (Year 2018) |
| Annual Payroll Growth Rate | 3.6% |
| Disability | None |
| Age of Spouse | Husbands are assumed to be 3 years older than their wives. |
| Coverage at | 90% of future eligible service retirees are assumed to elect coverage at retirement. 76% 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 | 100% of members are assumed to enroll in Medicare if eligible and hired on or after April 1, 1986. 93% of members are assumed to enroll in Medicare if eligible and hired prior to April 1, 1986. |

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

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

SUPPLEMENTARY INFORMATION

SUMMARY SCHEDULE OF ADMINISTRATIVE EXPENSES

| | <u>Year Ended December 31, 2014</u> | <u>Year Ended December 31, 2013</u> |
|------------------------------------|---|---|
| Professional services - audit fees | \$ 28,300 | \$ 27,200 |
| Fiduciary insurance | 11,949 | 11,330 |
| Total Administrative Expenses | <u>\$ 40,249</u> | <u>\$ 38,530</u> |

SUMMARY SCHEDULE OF INVESTMENT FEES

| | <u>Year Ended December 31, 2014</u> | <u>Year Ended December 31, 2013</u> |
|----------------------------|---|---|
| Investment consulting fees | \$ 42,000 | \$ 42,000 |
| Custodian transaction fees | 15 | 575 |
| Net Investment Expenses | <u>\$ 42,015</u> | <u>\$ 42,575</u> |

INVESTMENT SECTION

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

INVESTMENT SECTION

INVESTMENT CONSULTANT REPORT

Segal Rogerscasey
116 Huntington Ave, 8th Floor
Boston, MA 02116

March 13, 2015

Board of Trustees,
Metropolitan Water Reclamation District Retiree Health Care Trust
100 East Erie Street
Chicago, IL 60611-2829

To the Board of Trustees:

Segal Rogerscasey was hired as the investment consultant for the Metropolitan Water Reclamation District Retiree Health Care Trust during the third quarter of 2012. We are currently assisting the Trust in review of the investment policy, recommending changes to the Trust's asset allocation investment strategy and investment manager selections, and providing quarterly investment performance reviews and analysis.

Investment Policy

The Trust's investment policy was adopted on November 19, 2009 and revised on December 19, 2013 to allow for new asset allocation targets structured to provide competitive performance while minimizing the potential for losses. The revised policy allows for a range of exposures to five aggregated asset classes as follows:

| Asset Class | Benchmark Fund Asset Mix | | |
|---|---------------------------------|---------------|----------------|
| | Minimum | Normal | Maximum |
| Domestic Equities | 25% | 30% | 35% |
| Developed International Equities | 12% | 15% | 18% |
| Fixed Income Securities (Bonds) | 40% | 45% | 50% |
| Global Balanced Portfolio | 7.5% | 10% | 12.5% |
| Money Market Funds and Cash | 0% | 1% | 100% |

Investment Portfolio Activities

Investments are made in accordance with the guidelines stated within the Trust's investment policy. In 2014, \$20.0 million was contributed to the Trust along with interest, dividends and capital appreciation of \$5.5 generated by the underlying funds. Total District contributions to the Trust have aggregated to \$112.4 million as of year-end 2014. Trust holdings in the investment custodial accounts at year-end 2014 were valued at \$136.3 million. An additional \$10.1 million District contribution was invested in the Illinois funds money market account awaiting investment direction in 2015. Investments of the Trust are stated at fair value at the last reported sales price on the last business day for the fiscal year of the Trust.

**Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

At year-end 2014, Trust investments are allocated approximately 44% to equities, 44% to fixed income investments, 9% to Global Tactical Allocation, and 3% to Cash. The 44% allocation to equities is divided among six equity mutual funds that cover a broad range of equity style categories including domestic and international, and large and small capitalization equities. The 44% allocated to fixed income is divided among three fixed income managers that invest primarily in high quality domestic and international fixed income securities. The 9% allocated to Global Tactical Allocation is fully invested to the PIMCO All Asset Fund. A money market fund is used to facilitate transactions and to accumulate fund distributions pending reinvestment.

Trust assets invested in the custodial accounts totaled \$136.2 million at year-end 2014, compared with \$110.7 million at year-end 2013. As shown in the attached tables, the change in value of the account reflected a contribution of \$20.0 million and a gain of \$5.5 million in the investment accounts during 2014. The \$5.5 million gain reflected an increase in Capital Appreciation of \$2.2 million, bolstered by an additional \$3.3 million of Interest and Dividend Income. This resulted in a 21.1% increase in the assets held by the Trust. The return on invested assets for 2014 using the Modified Dietz approach was 4.87%, calculated on a quarterly compounded basis. The Modified Dietz approach is a time-weighted rate of return methodology based on market values and is consistent with the CFA (Chartered Financial Analyst) Institute global investment performance standards (GIPS). The disparity between the percentage return on investments and the larger increase in asset value reflects the impact and timing of the \$20.0 million contribution made during the year.

The 4.87% investment return generated by the OPEB Trust for 2014 reflected a 5.44% return on equity investments, while fixed income investments posted a 4.79% return. The positive return on equities was due to a strong domestic equity market as the S&P 500 posted a double digit return for the year. The international equity market hindered the overall equity composite return as the MSCI EAFE was in negative territory for the year. A major headwind throughout the year for the international market was the strengthening of the U.S. dollar, which ended the year at an 11-year high. Fixed Income was largely positive in 2014 as the U.S. Treasury market delivered its strongest return since 2011. The Aggregate Bond Index posted a 5.97% return for 2014 as long-term interest rates fell over the course of the year. A blended benchmark has previously been designated for evaluation of the performance of the Trust's investment account. Appropriate individual benchmarks are used for evaluation of underlying investments based on their respective investment style categories. At year-end, the blended benchmark for evaluation of the Trust account's performance is a mix of the Russell 3000 Index (30.0%), MSCI EAFE Index (15%), Barclay's U.S. Aggregate Bond Index (45.0%), and Barclays U.S. Treasury Inflation Notes: 1-10 Year Index (10%). The blended benchmark returned 6.34% during 2014, calculated on a quarterly compounded basis.

The Trust has maintained a money market fund account with the Illinois Funds, administered by the Illinois State Treasurer. According to the Trust, this account ended 2014 with a balance of \$10,128,297 compared with a balance of \$10,006,231 a year earlier.

Respectfully submitted,



Rafik Ghazarian, Senior Consultant
Vice President
Segal Rogerscasey

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

INVESTMENT SECTION

| | |
|---|-----------------|
| Beginning Balances January 1, 2014 | \$120.9 million |
| Contributions | \$20.0 million |
| Interest & Dividends | \$3.3 million |
| Net Capital Appreciation | \$2.2 million |
| Ending Balance December 31, 2014 | \$146.4 million |
| Time Weighted Return | 4.87% |

Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

| Table 2 | | | | | | | | |
|--|--|---------------------------------|--------------------------------|---------------------------------|--------------------------------|---|--|---|
| MWRD Retiree Health Care Trust | | | | | | | | |
| Time Weighted Returns of Investments - Calendar Year 2014 | | | | | | | | |
| | Ticker | 1 Year Investment Return | 1 Year Benchmark Return | 3 Year Investment Return | 3 Year Benchmark Return | Fund Inception Investment Return¹ | Fund Inception Benchmark Return¹ | Benchmark |
| <u>Equity Funds</u> | | | | | | | | |
| Harbor International Institutional | HAINX | -6.75% | -4.90% | 9.61% | 11.06% | 5.72% | 5.43% | MSCI EAFE Free Index |
| Artisan International Inv | ARTIX | -1.00% | -4.90% | N/A | 11.06% | 16.44% ² | 14.65% | MSCI EAFE Free Index |
| Fidelity Contrafund | FCNTX | 9.53% | 13.05% | 19.53% | 20.26% | 14.79% | 15.60% | Russell 1000 Growth Index |
| Spartan 500 Index | FUSVX | N/A | 13.69% | N/A | 20.41% | 7.56% ³ | 7.60% | Standard & Poor's 500 Index |
| LSV Value Equity | LSVEX | N/A | 13.45% | N/A | 20.89% | 4.38% ⁴ | 4.98% | Russell 1000 Value Index |
| Vanguard Small Cap Index Institutional | VSCIX | 7.49% | 7.54% | 20.50% | 20.56% | 15.53% | 15.54% | CRSP U.S. Small Cap TR Index |
| | <u>Total Equity Composite</u> | 5.44% | 6.46% | 17.46% | 17.59% | 12.17% | 12.43% | 67% Russell 3000/ 33% MSCI EAFE |
| <u>Fixed Income Funds</u> | | | | | | | | |
| Dodge & Cox Income | DODIX | 5.48% | 5.97% | 4.65% | 2.66% | 4.96% | 4.30% | Barclays U.S. Aggregate Bond |
| Payden Core Bond Fund | PYCBX | 6.13% | 5.97% | 4.69% | 2.66% | 4.75% | 4.30% | Barclays U.S. Aggregate Bond |
| PIMCO Total Return Institutional | PTTRX | 4.59% | 5.97% | 4.22% | 2.66% | 4.74% | 4.30% | Barclays U.S. Aggregate Bond |
| | <u>Total Fixed Income Composite</u> | 4.79% | 5.97% | 3.06% | 2.66% | 4.56% | 4.30% | Barclays U.S. Aggregate Bond Index |
| <u>Global Balanced Fund</u> | | | | | | | | |
| PIMCO All Asset Instl | PAAIX | N/A | 0.91% | N/A | 0.03% | -5.12% ⁵ | -2.69% | Barcap U.S. TIPS: 1-10 YR |
| | <u>Total Global Balanced Composite</u> | N/A | 0.91% | N/A | 0.03% | -5.12% | -2.69% | Barcap U.S. TIPS: 1-10 YR |
| <u>Money Market Fund</u> | | | | | | | | |
| Fidelity Money Market Fund | SPAXX | N/A | 0.04% | N/A | 0.06% | 0.00% ⁶ | 0.02% | 90-Day US Treasury Bill |
| | <u>Total Portfolio Time Weighted Return</u> | 4.87% | 6.34% | 11.81% | 11.56% | 9.34% | 9.59% | 30.0% Russell 3000 / 15.0% MSCI EAFE (Net) / 45.0% Barclays US Aggregate / 10% Barcap U.S. TIPS 1-10YR |

¹Partial returns are presented for funds due to mid-year inception date: 3/29/2010

²Artisan International, Inception: 6/1/2012

³Spartan 500, Inception: 8/1/2014

⁴LSV Value Equity, Inception: 10/1/2014

⁵PIMCO All Asset, Inception: 6/1/2014

⁶Fidelity Money Market, Inception: 5/1/2014

Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

Table 3

MWRD Retiree Health Care Trust

Time Weighted Returns of Composites - Calendar Year 2014

| | 1 Year Composite Return | 1 Year Benchmark Return | 3 Year Composite Return | 3 Year Benchmark Return | Inception Composite Return* | Inception Benchmark Return* | Benchmark |
|---|--|--|--|--|--|--|---|
| <u>Equity Composites</u> | | | | | | | |
| International Equity Composite | -4.89% | -4.90% | 11.07% | 11.06% | 6.83% | 5.43% | MSCI EAFE Free Index |
| Domestic Large Cap Composite | 12.44% | 13.69% | 20.68% | 20.41% | 14.54% | 15.05% | Standard & Poor's 500 Index |
| Domestic Small Cap Composite | 7.49% | 7.54% | 18.98% | 20.56% | 13.88% | 15.54% | CRSP U.S. Small Cap TR Index |
| Total Equity Composite | 5.44% | 6.46% | 17.46% | 17.59% | 12.17% | 12.43% | 67% Russell 3000/ 33% MSCI EAFE |
| <u>Fixed Income Composite</u> | | | | | | | |
| Total Fixed Income Composite | 4.79% | 5.97% | 3.06% | 2.66% | 4.56% | 4.30% | Barclays U.S. Aggregate Bond Index |
| <u>Global Balanced Composite</u> | | | | | | | |
| Global Balanced Composite** | N/A | 0.91% | N/A | 0.03% | -5.12% | -2.69% | Barcap U.S. TIPS: 1-10 YR |
| Total Portfolio Time Weighted Return | 4.87% | 6.34% | 11.81% | 11.56% | 9.34% | 9.59% | 30.0% Russell 3000 / 15.0% MSCI EAFE (Net) / 45.0% Barclays US Aggregate / 10% Barcap U.S. TIPS 1-10YR |

*Partial Returns are presented for Composites due to mid-year inception date: 3/29/2010

**Global Balanced Composite, Inception: 6/1/2014

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

INVESTMENT SECTION

INVESTMENT AUTHORITY AND RESPONSIBILITY

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, open-ended 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 Trust. The trustee shall adopt an investment policy consistent with the standards articulated in Section 2.5 of the Public Funds Investment Act." The Investment Policy for the Trust was initially approved by the Board of Trustees on November 19, 2009 and subsequently revised on December 19, 2013.

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

INVESTMENT SECTION

INVESTMENT OBJECTIVES

The Trust, based on its overall purpose of supporting the long-term financial ability to fund retiree healthcare expenditures, is structured to provide competitive performance while minimizing the potential for losses. Accordingly, the Trust will have a balanced overall structure in accordance with the Trust's strategy. The Trust's investment policy was revised on December 19, 2013 to allow for new asset allocation targets that are structured to provide competitive performance while minimizing the potential for losses. The asset allocation targets for the Trust are as follows:

| Asset Class | Fund Asset Mix | | |
|----------------------------------|-----------------------|---------------|----------------|
| | Minimum | Normal | Maximum |
| Domestic Equities | 25% | 30% | 35% |
| Developed International Equities | 12% | 15% | 18% |
| Fixed Income Securities (Bonds) | 40% | 45% | 50% |
| Global Balanced Portfolio | 7.5% | 10% | 12.5% |
| Money Market Funds and Cash | 0% | 1% | 100% |

The initial investments for the Trust were held in cash and cash equivalents until the Investment Policy was approved and the initial asset allocation was completed in 2010.

A blended benchmark has been designated for evaluation of the performance of the Trust's investment account. Appropriate individual benchmarks are used for evaluation of underlying investments based on their respective investment style categories. The blended benchmark for evaluation of the Trust account's performance is a mix of the Russell 3000 Index (30.0%), MSCI EAFE Index (15%), Barclay's U.S. Aggregate Bond Index (45.0%), and Barclays U.S. Treasury Inflation Notes: 1-10 Year Index (10%).

INVESTMENT ALLOCATION

Investment by the Trust is undertaken through investment custodial accounts. Through December 31, 2014, the Trust's cumulative contributions of \$112.4 million along with accumulated distributions have been invested in accordance with the Trust's strategy. All investments are in open-ended mutual funds and money market funds.

Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

As of December 31, 2014 and 2013, the Trust's asset allocations at fair value are as follows:

| Asset Class | Actual Asset Allocation 2014 | Actual Asset Allocation 2013 | Target Allocation 2014 |
|---------------------------|-------------------------------------|-------------------------------------|-------------------------------|
| Domestic Equity | 31% | 51% | 30% |
| International Equity | 13% | 16% | 15% |
| Domestic Fixed Income | 44% | 30% | 44% |
| Global Balanced | 9% | 0% | 10% |
| Money Market Funds & Cash | 3% | 3% | 1% |
| Total | 100% | 100% | 100% |

The Trust had deposits awaiting investment of \$10,128,297 at December 31, 2014 and \$10,006,231 at December 31, 2013 in the Illinois Funds money market investment pool, as managed by the State of Illinois, Office of the Treasurer. The deposits on hand at Illinois Funds were awaiting investment direction from the Executive Committee and are therefore excluded from the above asset allocation percentages. Cash dividends and capital gain distributions occurred primarily in December.

INVESTMENT PERFORMANCE

The Investment Advisor evaluates mutual fund performance and reports to the Executive Committee individual fund performance as well as overall performance. Investment returns are calculated based on a time-weighted rate of return based upon market values and in compliance with industry-accepted reporting standards. Exchange-traded mutual funds report return net of investment fees.

The investment rate of return on invested assets for the year ending December 31, 2014, was 4.87%, compared to the Trust's Policy Index return of 6.34%.

The investment rate of return on invested assets for the year ending December 31, 2013, was 16.29%, compared to the Trust's Policy Index return of 16.47%.

Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

INVESTMENT ASSETS

| | December 31, 2014 | | December 31, 2013 | |
|--|------------------------------|----------------------|------------------------------|----------------------|
| | Fair Value | Percent | Fair Value | Percent |
| Domestic Equity Funds | | | | |
| Fidelity Contrafund | \$ 10,056,104 | 6.9% | \$ 10,040,894 | 8.3% |
| Vanguard Small Cap Index Institutional | 10,172,273 | 7.0% | 11,768,961 | 9.8% |
| LSV Value Equity Institutional | 10,641,568 | 7.3% | - | 0.0% |
| Spartan 500 Index Advantage Class | 10,713,885 | 7.3% | - | 0.0% |
| American Funds Fundamental Invs F-2 | - | 0.0% | 11,357,263 | 9.4% |
| Invesco Equally-Weighted S&P 500 | - | 0.0% | 5,623,176 | 4.7% |
| MFS Massachusetts Investors Tr I | - | 0.0% | 10,276,662 | 8.5% |
| The Profit Fund | - | 0.0% | 2,738,286 | 2.3% |
| Vanguard REIT Index | - | 0.0% | 4,763,143 | 3.9% |
| Total Domestic Equity Funds | <u>41,583,830</u> | <u>28.5%</u> | <u>56,568,385</u> | <u>46.9%</u> |
| International Equity Funds | | | | |
| Artisan International Investor Class | 6,468,946 | 4.4% | 5,849,935 | 4.8% |
| Harbor International Institutional | 11,895,999 | 8.1% | 11,328,815 | 9.4% |
| Total International Equity Funds | <u>18,364,945</u> | <u>12.5%</u> | <u>17,178,750</u> | <u>14.2%</u> |
| Domestic Fixed Income Funds | | | | |
| Dodge & Cox Income | 26,999,544 | 18.5% | 13,701,005 | 11.4% |
| Payden Core Bond | 3,376,208 | 2.3% | 2,430,676 | 2.0% |
| PIMCO Total Return Institutional | 29,756,612 | 20.3% | 17,535,219 | 14.5% |
| Total Domestic Fixed Income Funds | <u>60,132,364</u> | <u>41.1%</u> | <u>33,666,900</u> | <u>27.9%</u> |
| Global Balanced Funds | | | | |
| PIMCO All Asset Institutional | 12,379,432 | 8.5% | - | 0.0% |
| Total Global Balanced Funds | <u>12,379,432</u> | <u>8.5%</u> | <u>-</u> | <u>0.0%</u> |
| Money Market Funds | | | | |
| Illinois Funds Investment Pool | 10,128,297 | 6.9% | 10,006,231 | 8.3% |
| Other Money Market Funds | 3,728,678 | 2.5% | 3,260,784 | 2.7% |
| Total Money Market Funds | <u>13,856,975</u> | <u>9.4%</u> | <u>13,267,015</u> | <u>11.0%</u> |
| Total Investments at Fair Value | <u>\$ 146,317,546</u> | <u>100.0%</u> | <u>\$ 120,681,050</u> | <u>100.0%</u> |

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

INVESTMENT SECTION

INVESTMENT ANALYTICS

History of Investment Yields at Fair Value

Years Ending December 31

| Year | Invested Assets | Yield at Market | Trust's Policy Index | Notes |
|------|-----------------|-----------------|----------------------|-------|
| 2014 | \$ 146,317,546 | 4.87% | 6.34% | |
| 2013 | 120,681,050 | 16.29% | 16.47% | |
| 2012 | 83,849,674 | 14.63% | 11.26% | |
| 2011 | 53,605,063 | 0.18% | 4.90% | |
| 2010 | 50,960,000 | 7.47% | 7.88% | (1) |
| 2009 | 47,902,573 | 0.29% | N/A | |
| 2008 | 47,807,878 | 2.28% | N/A | |
| 2007 | 25,024,760 | 4.52% | N/A | (2) |

(1) Reflects the portfolio performance from date of investment (March 29, 2010) through December 31, 2010.

(2) Represents the 26-day period ended December 31, 2007 (year of inception).

Schedule of Investment Returns

| | Year Ended 12/31/2014 (1) | Year Ended 12/31/2013 (2) | Three Years Ended 12/31/2014 | Inception (3) Through 12/31/2014 |
|---|------------------------------|------------------------------|------------------------------------|--|
| Trust's Total Portfolio | 4.87% | 16.29% | 11.81% | 9.34% |
| <i>Trust's Policy Index</i> | 6.34% | 16.47% | 11.56% | 9.59% |
| <i>(30% Russell 3000 Index; 15% MSCI EAFE Index; 45% Barclays U.S. Aggregate Bond Index; 10% Barcap U.S. Index)</i> | | | | |
| Trust's Equity Composite | 5.44% | 30.32% | 17.46% | 12.17% |
| <i>S&P 500 Index</i> | 13.69% | 32.39% | 20.41% | 15.05% |
| International Equity Composite | -4.89% | 19.58% | 11.07% | 6.83% |
| <i>MSCI EAFE Free Index</i> | -4.90% | 22.78% | 11.06% | 5.43% |
| Domestic Large Cap Composite | 12.44% | 33.05% | 20.68% | 14.54% |
| <i>S&P 500 Index</i> | 13.69% | 32.39% | 20.41% | 15.05% |
| Domestic Small Cap Composite | 7.49% | 37.79% | 18.98% | 13.88% |
| <i>Russell 2000 Small Cap Index</i> | 7.54% | 37.83% | 20.56% | 15.54% |
| Real Estate Comp (sold early 2014) | N/A | 2.46% | N/A | N/A |
| <i>Wilshire U.S. REIT Index</i> | N/A | 1.86% | N/A | N/A |
| Global Balanced Composite | -5.12%* | N/A | -5.12%* | -5.12%* |
| <i>Barcap U.S. TIPS: 1-10 Year</i> | -2.69%* | N/A | -2.69%* | -2.69%* |
| Trust's Fixed Income Composite | 4.79% | -3.16% | 3.06% | 4.56% |
| <i>Barclay's U.S. Aggregate Bond Index</i> | 5.97% | -2.02% | 2.66% | 4.30% |

Metropolitan Water Reclamation District Retiree Health Care Trust
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INVESTMENT SECTION

* Partial Year Returns are presented for the Global Balanced Composite due to Mid-Year Funding (Inception Date: 5/13/2014)

- (1) The increase in value of invested assets was 21.09% for the year ending December 31, 2014. The return on invested assets using the Modified Dietz approach was 4.87%. The disparity between the percentage return on investments and the increase in asset value reflects the impact and timing of the \$20 million advance funding contribution made during the year.
- (2) The increase in value of invested assets was 45.85% for the year ending December 31, 2013. The return on invested assets using the Modified Dietz approach was 16.29%. The disparity between the percentage return on investments and the increase in asset value reflects the impact and timing of the \$20 million advance funding contribution made during the year.
- (3) The inception date is March 29, 2010 which was when the Trust transferred assets to the investment custodial account.

Summary Schedule of Investment Fees

| Years Ending December 31 | 2014 | 2013 |
|---------------------------------|-----------------|-----------------|
| Investment Consulting Fees | \$42,000 | \$42,000 |
| Custodian Transaction Fees | 15 | 575 |
| Total Investment Expenses | <u>\$42,015</u> | <u>\$42,575</u> |

ACTUARIAL SECTION

Metropolitan Water Reclamation District Retiree Health Care Trust

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

ACTUARIAL SECTION

ACTUARIAL CERTIFICATION

We are pleased to present this report containing the results of the December 31, 2013 actuarial valuation of Metropolitan Water Reclamation District of Chicago's Postretirement Retiree Health Care Benefit Plan, pursuant to our engagement letter with Metropolitan Water Reclamation District of Chicago dated October 15, 2009.

Metropolitan Water Reclamation District of Chicago (MWRD) retained PricewaterhouseCoopers LLP ("PwC") to perform an actuarial valuation of its Retiree Health Care Benefit Plan ("the Plan") as of December 31, 2013. The purpose of this report is to present the results of the December 31, 2013 actuarial valuation of the Plan. These results are applicable to MWRD's fiscal year ending December 31, 2013. Successive valuations will be performed every two years. We have prepared the valuation for the purposes of calculating the necessary information for accounting and reporting requirements in accordance with Government Accounting Standards Board Statement No. 43 (GASB 43). This valuation has been conducted in accordance with the required Actuarial Standards of Practice as issued by the American Academy of Actuaries.

Actuarial calculations under GASB 43 are for purposes of fulfilling MWRD's financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB 43.

This report shows detailed summaries of the financial results of the valuation and membership data used in preparing this valuation. The actuaries prepared supporting schedules are included in the Actuarial and Statistical Sections of the MWRD Comprehensive Annual Financial Report (CAFR). The actuary prepared the trend data schedules to be included in the Financial Section of the MWRD CAFR. These schedules include:

- Annual OPEB Cost and Net OPEB Obligation
- Funding Status and Progress
- Schedule of Employer Contributions
- Schedule of Active Member Valuation Data
- Reconciliation of Change in Unfunded Liability
- Summary of Membership Data
- Schedule of Retirees and Beneficiaries Added to and Removed from the Rolls

In preparing the results presented in this report, we have relied upon information MWRD provided to us regarding plan provisions, plan participants, claims and premium data, unaudited plan assets and benefit payments. The census data, claims data and plan asset information used in calculating the results herein were collected as of December 31, 2013 for active members, retirees, survivors and dependents. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

GASB 43 requires that each significant assumption reflect the client's best estimate of the Plan's future experience solely with respect to that assumption. MWRD has determined and taken responsibility for the actuarial assumptions and the accounting policies and methods employed in the valuation of obligations and costs under GASB 43.

A range of results, different from those presented in this report could be considered reasonable. Future actuarial measurements may differ significantly from the current measurement presented in this report due to a number of factors including but not limited to: plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methods used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status), rounding conventions and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

This report was prepared for the internal use of MWRD in connection with our actuarial valuation of the Plan for the purpose noted above and not for reliance by any other person. PwC disclaims any contractual or other responsibility or duty of care to others based upon the services or deliverables provided in connection with this report.

**Metropolitan Water Reclamation District Retiree Health Care Trust
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ACTUARIAL SECTION

This report does not purport to comply with any other purposes not stated herein. Significantly different results from what is presented in this report may be needed for other purposes.

This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties. This includes penalties that may apply if the transaction that is the subject of this document is found to lack economic substance or fails to satisfy any other similar rule of law.

The undersigned actuaries are members of the Society of Actuaries and the American Academy of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to postretirement medical and life insurance plans. To the best of our knowledge, the individuals involved in this engagement have no relationship that may impair, or appear to impair, the objectivity of our work.

We appreciate this opportunity to be of service to MWRD. We are available to answer any questions with respect to our report.

Respectfully submitted,

PRICEWATERHOUSECOOPERS LLP



Jack Abraham
Fellow of the Society of Actuaries
Enrolled Actuary
Member of the American Academy of Actuaries



Jill Stockard
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries

March 27, 2014

**Metropolitan Water Reclamation District Retiree Health Care Trust
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ACTUARIAL SECTION

INTRODUCTION

Biennially, 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 information included in this report is based on the actuarial valuation performed December 31, 2013. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015.

The Board of Commissioners of the District has discretionary authority to determine contribution amounts to be paid into the OPEB Trust Fund. In 2007 the District adopted an initial OPEB advance funding policy meant to (i) improve the District's financial position by reducing the amount of future employer contributions and (ii) serve to establish a reserve to help ensure the financial ability to provide healthcare coverage for District retirees and annuitants in the future. The funding policy was amended on October 2, 2014 to change the target funding level from 50% to 100%; remaining advance funding period from 50 years to 12 years; and, advance funding amount of \$5 million to be contributed in each of the twelve years 2015 through 2026. No further advance funding contributions are expected after 2026. Beginning in 2027, cash to be withdrawn from the Trust to fund claims and insurance premiums will be actuarially determined with a target funding level to be maintained at 100 percent for all future years. Through December 31, 2014, \$112.4 million has been contributed by the District to the OPEB Trust Fund. There is currently no legal 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 years 2014 and 2013, the District funded 255.2% and 256.1%, respectively, of the actuarially determined employer contribution requirement.

SUMMARY OF ACTUARIAL ASSUMPTIONS, METHODS, AND DATA

The Trust was established in 2007 and the first actuarial valuation was performed as of January 1, 2007. The actuarial assumptions were recommended by the actuary and have been adopted by the Executive Committee of the OPEB Trust. 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 on 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. 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

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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 mortality table used for post-retirement mortality was the "Unisex Pension 1994 Mortality Table" (set back one year for males and set forward one year for females).

The following outlines the changes since the prior valuation:

- The assumed distribution of future benefit recipients among the individual health plans has been revised based on actual 2013 retiree elections.
- The per capita claims costs have been updated based on premiums in effect as of July 1, 2013 and historical claims data.
- Effective January 1, 2014, the District offered a Prescription Drug Plan ("PDP") through Envision. Envision will receive a subsidy directly from the Centers for Medicare and Medicaid Services ("CMS") and this amount will pass through to the District. The District will no longer receive the RDS Medicare Part D Subsidy.
- The valuation includes the costs of the temporary reinsurance fees and the Patient Centered Outcomes Research Institute ("PCORI") fees as required under the Patient Protection and Affordable Care Act ("PPACA") signed into law on March 23, 2010.
- The December 31, 2013 valuation reflects the impact of the 40% excise tax on high cost plans as a result of the PPACA signed into law on March 23, 2010.

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Below are the most significant actuarial assumptions:

| | |
|-----------------------------|---|
| Valuation date | December 31, 2013 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percent of payroll Open |
| Amortization period | 30 Years |
| Asset valuation method | Fair Value |
| Actuarial assumptions: | |
| Discount Rate | 7.0% |
| Inflation Rate | 3.0% |
| Health Care Cost Trend Rate | 7.3% Initial 5.0% Ultimate (Year 2018) |
| Annual Payroll Growth Rate | 3.6% |
| Disability | None |
| Age of Spouse | Husbands are assumed to be 3 years older than their wives. |
| Coverage at | 90% of future eligible service retirees are assumed to elect coverage at retirement. 76% 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 | 100% of members are assumed to enroll in Medicare if eligible and hired on or after April 1, 1986. 93% of members are assumed to enroll in Medicare if eligible and hired prior to April 1, 1986. |

**Metropolitan Water Reclamation District Retiree Health Care Trust
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ACTUARIAL SECTION

Summary of Participant Information

All employees of the District, with at least 10 years of service, are eligible to receive post-retirement 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 post-retirement benefits and currently elect medical coverage.

The following table is based on eligibility for post-retirement medical benefits:

| | <u>Total*</u> |
|--|---------------------|
| Active participants | |
| Eligible for postretirement benefits | 528 |
| Not yet eligible for postretirement benefits | <u>1,347</u> |
| Total | 1,875 |
| Retirees, Survivors, and Dependents | |
| Retirees and Survivors | 1,964 |
| Dependent Spouses | <u>844</u> |
| Total | <u>2,808</u> |
| Total participants | <u><u>4,683</u></u> |
| Active participant characteristics | |
| Average age | 50.0 |
| Average past service | 14.1 |
| Average age of inactive participants | 72.1 |

*Participant data determined as of December 31, 2013.

Retirees and their dependents that fulfill the eligibility requirements can receive post-retirement 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, 2013 through June 30, 2014:

| | <u>HMO</u> | | <u>PPO</u> | |
|---------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | <u>Without Medicare</u> | <u>With Medicare</u> | <u>Without Medicare</u> | <u>With Medicare</u> |
| All Retirees | | | | |
| Benefit Recipient: | | | | |
| Pre-65 | \$ 2,567 | \$ 2,567 | \$ 3,890 | \$ 3,890 |
| Post-65 | 2,567 | 1,994 | 3,890 | 1,698 |
| Dependent Spouses: | | | | |
| Pre-65 | 2,244 | 2,244 | 3,890 | 3,890 |
| Post-65 | 2,244 | 1,994 | 3,890 | 1,698 |

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ACTUARIAL SECTION

Withdrawal Rates

Employees are assumed to terminate based on age, entry age, and gender. The following tables summarize these rates:

| Males | | Entry Age | | | | | | | | |
|--------------|--------|------------------|-------|-------|-------|-------|-------|-------|-------|--|
| Age | 16-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60+ | |
| 20 | 10.6 % | - | - | - | - | - | - | - | - | |
| 25 | 8.0 | 7.7 % | - | - | - | - | - | - | - | |
| 30 | 4.2 | 5.8 | 6.1 % | - | - | - | - | - | - | |
| 35 | 1.9 | 3.3 | 4.3 | 5.6 % | - | - | - | - | - | |
| 40 | 0.7 | 1.6 | 2.3 | 4.0 | 5.4 % | - | - | - | - | |
| 45 | 0.2 | 0.6 | 1.3 | 2.1 | 3.7 | 4.8 % | - | - | - | |
| 50 | - | 0.2 | 0.4 | 0.6 | 1.0 | 3.5 | 5.4 % | - | - | |
| 55 | - | - | - | - | - | 1.1 | 3.4 | 3.2 % | - | |
| 60 | - | - | - | - | - | - | 0.8 | 1.3 | 2.2 % | |
| 65 | - | - | - | - | - | - | - | - | 0.9 | |
| 67 | - | - | - | - | - | - | - | - | - | |

| Female | | Entry Age | | | | | | | | |
|---------------|--------|------------------|-------|-------|-------|-------|-------|-------|-------|--|
| Age | 16-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60+ | |
| 20 | 10.6 % | - | - | - | - | - | - | - | - | |
| 25 | 8.8 | 8.3 % | - | - | - | - | - | - | - | |
| 30 | 5.8 | 6.0 | 5.8 % | - | - | - | - | - | - | |
| 35 | 3.1 | 3.1 | 4.4 | 4.2 % | - | - | - | - | - | |
| 40 | 1.4 | 1.6 | 2.6 | 3.4 | 3.2 % | - | - | - | - | |
| 45 | 0.5 | 0.7 | 1.5 | 2.1 | 2.2 | 2.0 % | - | - | - | |
| 50 | 0.2 | 0.2 | 0.5 | 0.6 | 0.6 | 1.8 | 2.2 % | - | - | |
| 55 | - | - | - | - | - | 0.6 | 1.7 | 2.2 % | - | |
| 60 | - | - | - | - | - | - | 0.6 | 0.9 | 1.9 % | |
| 65 | - | - | - | - | - | - | - | - | 0.8 | |
| 67 | - | - | - | - | - | - | - | - | - | |

Retirement Rates

Employees are assumed to retire according to the following illustrative schedule:

| Age | Rate | Age | Rate |
|------------|-------------|------------|-------------|
| 49 | - % | 60 | 15.4 % |
| 50 | 5.6 | 61 | 12.6 |
| 51 | 6.3 | 62 | 15.4 |
| 52 | 7.0 | 63 | 14.0 |
| 53 | 7.7 | 64 | 14.0 |
| 54 | 8.4 | 65 | 21.0 |
| 55 | 9.1 | 66 | 21.0 |
| 56 | 9.8 | 67 | 21.0 |
| 57 | 10.5 | 68 | 21.0 |
| 58 | 11.2 | 69 | 21.0 |
| 59 | 11.9 | 70 | 100.0 |

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ACTUARIAL SECTION

Annual Per Capita Claims

The claims tables for the 2013 valuation have been developed by calculating the weighted average of the 2013 premium rates based on the current enrollment data. These weighed average rates are subsequently expanded to an age-based table using the actuary's proprietary cost curve. The following table summarizes the assumed per capita claims (medical and prescription drugs) at illustrative ages.

| <u>Age</u> | <u>HMO</u> | | <u>PPO</u> | |
|------------|----------------------|-------------------------|----------------------|-------------------------|
| | <u>With Medicare</u> | <u>Without Medicare</u> | <u>With Medicare</u> | <u>Without Medicare</u> |
| 40 | \$ 2,790 | \$ 2,790 | \$ 4,002 | \$ 4,002 |
| 45 | 3,624 | 3,624 | 5,285 | 5,285 |
| 50 | 4,925 | 4,925 | 7,304 | 7,304 |
| 55 | 6,479 | 6,479 | 9,737 | 9,737 |
| 60 | 8,050 | 8,050 | 12,210 | 12,210 |
| 64 | 9,192 | 9,192 | 14,003 | 14,003 |
| 65 | 5,396 | 8,443 | 4,674 | 11,943 |
| 70 | 5,918 | 10,141 | 5,415 | 14,315 |
| 75 | 6,360 | 11,684 | 5,415 | 16,481 |
| 80 | 6,599 | 12,746 | 5,581 | 17,983 |
| 85 | 6,586 | 13,109 | 5,538 | 18,515 |
| 90 | 6,303 | 12,687 | 5,269 | 17,954 |
| 95 | 5,754 | 11,458 | 4,779 | 16,268 |

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.

| <u>Year</u> | <u>Trend</u> |
|----------------|--------------|
| 2014 | 7.3 % |
| 2015 | 6.7 |
| 2016 | 6.1 |
| 2017 | 5.5 |
| 2018 and later | 5.0 |

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ACTUARIAL SECTION

ANALYSIS OF FUNDING

Reconciliation of the Change in Unfunded Liability

(in thousands)

| | |
|---|------------------|
| Unfunded liability as of December 31, 2011 | <u>\$339,680</u> |
| Expected unfunded liability as of December 31, 2013 | \$314,214 |
| Decrease in unfunded liability due to investment return greater than expected | (13,950) |
| Decrease in unfunded liability due to changes in census | (10,187) |
| Decrease in unfunded liability due to net claims lower than expected ¹ | (134,606) |
| Decrease in unfunded liability due to implementation of EGWP prescription drug program effective January 1, 2014 ² | <u>(15,990)</u> |
| Net decrease in unfunded liability | <u>(174,733)</u> |
| Unfunded liability as of December 31, 2013 | <u>\$139,481</u> |

¹The per capita costs assumptions were lowered to reflect recent claims experience.

²Effective January 1, 2014, the District has offered a PDP (Prescription Drug Plan) EGWP (Employer Group Waiver Plan) through Envision. Envision will receive a subsidy directly from the Centers for Medicare and Medicaid Services (CMS) which will pass through to the District.

Note: Actuarial valuations are required to be completed every two years. The most recent actuarial valuation was as of December 31, 2013.

Annual OPEB Cost and Net OPEB Obligation

The Net OPEB Obligation is the cumulative difference between the annual OPEB cost and the employer's contributions. The Net OPEB Obligation recorded on the District's financial statement as of December 31, 2014, is calculated as follows (amounts in thousands):

| | |
|--|------------------|
| Annual Required Contribution for 2014 | \$ 13,212 |
| Interest on Net OPEB Obligation | 4,860 |
| Adjustment to Annual Required Contribution | <u>(3,804)</u> |
| Annual OPEB Cost | 14,268 |
| Contributions Made | <u>(33,717)</u> |
| Decrease in Net OPEB Obligation | (19,449) |
| Net OPEB Obligation Beginning of Year | <u>49,858</u> |
| Net OPEB Obligation End of Year | <u>\$ 30,409</u> |

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ACTUARIAL SECTION

Solvency Test

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded/ (Overfunded) AAL (UAAL) (b-a) | Funded Ratio (a/b) |
|---------------------------------|--------------------------------------|--|--|---------------------------|
| 12/31/2013 | \$120,883 | \$ 260,364 | \$ 139,481 | 46.43% |
| 12/31/2011 | 54,996 | 394,676 | 339,680 | 13.93% |
| 12/31/2009 | 47,891 | 526,476 | 478,585 | 9.10% |
| 1/1/2007 | 25,025 | 442,683 | 417,658 | 5.65% |

HISTORICAL VALUATION DATA

Schedule of Active Member Valuation Data

| Actuarial Valuation Date | 12/31/2013 | 12/31/2011 | 12/31/2009 | 1/1/2007 |
|---------------------------------|-------------------|-------------------|-------------------|-----------------|
| Members in Service | 1,875 | 1,893 | 2,095 | 1,964 |
| % Change | -1.00% | -9.60% | 6.70% | - |
| Covered Payroll | \$164,005,092 | \$162,853,163 | \$170,392,445 | \$158,831,772 |
| % Change | 0.70% | -4.40% | 7.30% | - |
| Average Salary | \$ 87,469 | \$ 86,029 | \$ 81,333 | \$ 80,872 |
| % Change | 1.67% | 5.80% | 0.60% | - |
| Payroll Growth Assumption | 3.60% | 3.60% | 3.60% | - |

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

| Actuarial Valuation Date | 12/31/2013 | 12/31/2011 | 12/31/2009 | 1/1/2007 |
|---------------------------------|-------------------|-------------------|-------------------|-----------------|
| Beginning of Year Balance | 1,977 | 1,900 | 1,873 | 1,850 |
| Number Added to Rolls | 118 | 221 | 183 | 150 |
| Benefit Cost | \$ 1,204,780 | \$ 2,302,378 | \$ 1,810,968 | \$ 1,294,050 |
| Number Removed from Rolls | 131 | 144 | 156 | 127 |
| Benefit Cost | \$ 1,337,510 | \$ 1,500,192 | \$ 1,543,776 | \$ 1,095,629 |
| End of Year Balance | 1,964 | 1,977 | 1,900 | 1,873 |
| Health Care Annual Benefit | \$ 20,052,657 | \$ 20,596,842 | \$ 18,802,036 | \$ 16,159,127 |
| Average Annual Benefit | \$ 10,210 | \$ 10,418 | \$ 9,896 | \$ 8,627 |
| Increase in Average Benefit | -2.00% | 5.30% | 14.70% | - |

Note: The information included in this report is based on the actuarial valuation performed as of December 31, 2013. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015. As such, all actuarial valuation information presented in this report is the same as that which was presented in the comprehensive annual financial report (CAFR) for the period ended December 31, 2013.

STATISTICAL SECTION

Metropolitan Water Reclamation District Retiree Health Care Trust
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STATISTICAL SECTION

DESCRIPTION OF THE STATISTICAL SCHEDULES

This part of the Trust's CAFR presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and the required supplementary information indicate about the Trust's overall financial health.

Demographics Information

Schedules contain Participant information to assist the readers of the financial statements in understanding the demographics of the Plan participants.

Financial Trends

These schedules contain trend information to assist the readers in understanding how the Trust's financial position, investment performance, revenues, and expenses have changed over time.

Sources: Unless otherwise noted, the information in these schedules is derived from the CAFR for the relevant years.

MEMBERSHIP STATISTICS

All employees of the District are eligible to receive post employment 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.

Active Members

| <u>Actuarial Valuation Date</u> | <u>Eligible</u> | <u>Not Yet Eligible</u> | <u>Retirees and Beneficiaries</u> | <u>Total</u> | <u>% Active to Retirees</u> |
|-------------------------------------|-----------------|-----------------------------|---------------------------------------|--------------|---------------------------------|
| 12/31/2013 | 528 | 1,347 | 1,964 | 3,839 | 95% |
| 12/31/2011 | 479 | 1,414 | 1,977 | 3,870 | 96% |
| 12/31/2009 | 493 | 1,602 | 1,900 | 3,995 | 110% |
| 1/1/2007 | 685 | 1,279 | 1,873 | 3,837 | 105% |

Retirees and Beneficiaries

| <u>Actuarial Valuation Date</u> | <u>Employee</u> | <u>Surviving Spouse</u> | <u>Child</u> | <u>Total</u> |
|-------------------------------------|-----------------|-----------------------------|--------------|--------------|
| 12/31/2013 | 1,480 | 484 | 0 | 1,964 |
| 12/31/2011 | 1,471 | 506 | 0 | 1,977 |
| 12/31/2009 | 1,382 | 518 | 0 | 1,900 |
| 1/1/2007 | 1,346 | 526 | 1 | 1,873 |

Note: An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is December 31, 2015.

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STATISTICAL SECTION

STATEMENTS OF CHANGES IN PLAN NET POSITION
Last Eight Years

| | Year Ended 2014 | Year Ended 2013 | Year Ended 2012 | Year Ended 2011 | Year Ended 2010 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Additions: | | | | | |
| Contributions by Employer | \$ 33,716,523 | \$ 33,834,831 | \$ 35,426,215 | \$ 18,020,374 | \$ 15,516,965 |
| Contributions by Retirees | 6,773,271 | 6,217,826 | 5,821,019 | 5,576,468 | 4,596,887 |
| Total Contributions | <u>40,489,794</u> | <u>40,052,657</u> | <u>41,247,234</u> | <u>23,596,842</u> | <u>20,113,852</u> |
| | | | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | 2,266,999 | 13,146,950 | 7,200,445 | (1,465,010) | 3,540,803 |
| Interest and Dividends | 3,306,458 | 1,715,664 | 1,586,602 | 1,383,304 | 797,212 |
| Total Investment Return | 5,573,457 | 14,862,614 | 8,787,047 | (81,706) | 4,338,015 |
| Less Investment Expenses | (42,015) | (42,575) | (45,337) | (45,608) | (46,109) |
| Net Investment Income (Loss) | <u>5,531,442</u> | <u>14,820,039</u> | <u>8,741,710</u> | <u>(127,314)</u> | <u>4,291,906</u> |
| | | | | | |
| Total Additions | <u>46,021,236</u> | <u>54,872,696</u> | <u>49,988,944</u> | <u>23,469,528</u> | <u>24,405,758</u> |
| | | | | | |
| Deductions: | | | | | |
| Retiree Health Care Benefits | 20,489,795 | 20,052,657 | 18,847,234 | 20,596,842 | 20,113,852 |
| Administrative Expenses | 40,249 | 38,530 | 36,068 | 29,833 | 29,795 |
| Total Deductions | <u>20,530,044</u> | <u>20,091,187</u> | <u>18,883,302</u> | <u>20,626,675</u> | <u>20,143,647</u> |
| | | | | | |
| Net Increase in Plan Net Position | 25,491,192 | 34,781,509 | 31,105,642 | 2,842,853 | 4,262,111 |
| | | | | | |
| Net Position Held in Trust for OPEB | | | | | |
| January 1 | 120,883,435 | 86,101,926 | 54,996,284 | 52,153,431 | 47,891,320 |
| December 31 | <u>\$146,374,627</u> | <u>\$120,883,435</u> | <u>\$ 86,101,926</u> | <u>\$ 54,996,284</u> | <u>\$ 52,153,431</u> |

Metropolitan Water Reclamation District Retiree Health Care Trust
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STATISTICAL SECTION

STATEMENTS OF CHANGES IN PLAN NET POSITION (Continued)
Last Eight Years

| | Year Ended 2009 | Year Ended 2008 | Year Ended 2007 (1) |
|---|----------------------|----------------------|------------------------|
| Additions: | | | |
| Contributions by Employer | \$ 14,591,543 | \$ 35,819,281 | \$ 37,333,865 |
| Contributions by Retirees | 4,210,493 | 3,727,752 | 3,825,262 |
| Total Contributions | <u>18,802,036</u> | <u>39,547,033</u> | <u>41,159,127</u> |
| | | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | - | - | - |
| Interest and Dividends | 158,828 | 801,118 | 24,760 |
| Total Investment Return | 158,828 | 801,118 | 24,760 |
| Less Investment Expenses | (45,333) | (11,333) | - |
| Net Investment Income (Loss) | 113,495 | 789,785 | 24,760 |
| | | | |
| Total Additions | <u>18,915,531</u> | <u>40,336,818</u> | <u>41,183,887</u> |
| | | | |
| Deductions: | | | |
| Retiree Health Care Benefits | 18,802,036 | 17,547,033 | 16,159,127 |
| Administrative Expenses | 18,720 | 18,000 | - |
| Total Deductions | <u>18,820,756</u> | <u>17,565,033</u> | <u>16,159,127</u> |
| | | | |
| Net Increase in Plan Net Position | 94,775 | 22,771,785 | 25,024,760 |
| | | | |
| Net Position Held in Trust for OPEB | | | |
| January 1 | 47,796,545 | 25,024,760 | - |
| December 31 | <u>\$ 47,891,320</u> | <u>\$ 47,796,545</u> | <u>\$ 25,024,760</u> |

(1) Represents the 26-day period ended December 31, 2007 (year of inception)

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STATISTICAL SECTION

SCHEDULE OF REVENUES BY SOURCE

| Year Ended | Employer Contributions | Retiree Contributions | Net Investment Income (Loss) | Total Additions |
|-------------------|-------------------------------|------------------------------|-------------------------------------|------------------------|
| 2014 | \$ 33,716,523 | \$ 6,773,271 | \$ 5,531,442 | \$ 46,021,236 |
| 2013 | 33,834,831 | 6,217,826 | 14,820,039 | 54,872,696 |
| 2012 | 35,426,215 | 5,821,019 | 8,741,710 | 49,988,944 |
| 2011 | 18,020,374 | 5,576,468 | (127,314) | 23,469,528 |
| 2010 | 18,020,374 | 5,576,468 | (127,314) | 23,469,528 |
| 2009 | 15,516,965 | 4,596,887 | 4,291,906 | 24,405,758 |
| 2008 | 35,819,281 | 3,727,752 | 789,785 | 40,336,818 |
| 2007 | 37,333,865 | 3,825,262 | 24,760 | 41,183,887 |

SCHEDULE OF RETURN ON INVESTMENTS

| Year Ended | Year-End Investment Balance | Annual Rate of Return |
|-------------------|------------------------------------|------------------------------|
| 2014 | \$146,317,546 | 4.87% |
| 2013 | 120,681,050 | 16.29% |
| 2012 | 83,849,674 | 14.63% |
| 2011 | 53,605,063 | 0.18% |
| 2010 | 50,960,000 | 7.47% (1) |
| 2009 | 47,902,573 | 0.29% |
| 2008 | 47,807,878 | 2.28% |
| 2007 | 25,024,760 | 4.52% |

(1) Reflects the portfolio performance from date of investment (March 29, 2010) through December 31, 2010.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended | Actual | | | | |
|-------------------|-------------------------------------|-------------------------|----------------------------------|------------------------------|---------------|
| | Annual Required Contribution | Benefit Payments | Retiree Contributions (2) | Contribution to Trust | Total |
| 2014 | \$ 13,211,937 | \$ 20,489,794 | \$ (6,773,271) | \$ 20,000,000 | \$ 33,716,523 |
| 2013 | 13,211,937 | 20,052,657 | (6,217,826) | 20,000,000 | 33,834,831 |
| 2012 | 27,263,684 | 18,847,234 | (5,821,019) | 22,400,000 | 35,426,215 |
| 2011 | 27,263,684 | 20,596,842 | (5,576,468) | 3,000,000 | 18,020,374 |
| 2010 | 39,847,021 | 20,113,852 | (4,596,887) | - | 15,516,965 |
| 2009 | 39,847,021 | 18,802,036 | (4,210,493) | - | 14,591,543 |
| 2008 | 44,739,006 | 17,547,033 | (3,727,752) | 22,000,000 | 35,819,281 |
| 2007 | 44,739,006 | 16,159,127 | (3,825,262) | 25,000,000 | 37,333,865 |

(2) Net benefit payments are paid directly by the District. Amounts are not paid through the Trust. The Plan pays a single benefit level and type: post-retirement medical and prescription drug coverage. No dental, life, disability, or child coverage is provided by the Plan.

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

STATISTICAL SECTION

Percentage of Annual Required Contribution (ARC) Contributed by Employer:

| <u>Year Ended</u> | <u>Percent Contributed</u> |
|-------------------|----------------------------|
| 2014 | 255.2% |
| 2013 | 256.1% |
| 2012 | 129.9% |
| 2011 | 66.1% |
| 2010 | 38.9% |
| 2009 | 36.6% |
| 2008 | 80.1% |
| 2007 | 83.4% |

HISTORY OF BENEFIT PAYMENTS

| <u>Year Ended</u> | <u>Number of Retirees & Beneficiaries</u> | <u>Retiree Benefit Payments</u> | <u>Average Annual Benefit</u> | <u>Average Monthly Benefit</u> |
|-------------------|---|---------------------------------|-------------------------------|--------------------------------|
| 2014 | 1,964 | \$ 20,489,794 | \$ 10,433 | \$ 869 |
| 2013 | 1,964 | 20,052,657 | 10,210 | 851 |
| 2012 | 1,977 | 18,847,234 | 9,533 | 794 |
| 2011 | 1,977 | 20,596,842 | 10,418 | 868 |
| 2010 | 1,900 | 20,113,852 | 10,586 | 882 |
| 2009 | 1,900 | 18,802,036 | 9,896 | 825 |
| 2008 | 1,873 | 17,547,033 | 9,368 | 781 |
| 2007 | 1,873 | 16,159,127 | 8,627 | 719 |

SCHEDULE OF EXPENSES BY TYPE

| <u>Year Ended</u> | <u>Investment Advisor Fee</u> | <u>External Audit Fee</u> | <u>Fiduciary Insurance</u> | <u>Custodian Transaction Fees</u> | <u>Total Expenses</u> |
|-------------------|-------------------------------|---------------------------|----------------------------|-----------------------------------|-----------------------|
| 2014 | \$ 42,000 | \$ 28,300 | \$ 11,949 | \$ 15 | \$ 82,264 |
| 2013 | 42,000 | 27,200 | 11,330 | 575 | 81,105 |
| 2012 | 44,222 | 26,100 | 9,968 | 1,115 | 81,405 |
| 2011 | 45,333 | 21,000 | 8,833 | 275 | 75,441 |
| 2010 | 45,333 | 19,815 | 9,980 | 776 | 75,904 |
| 2009 | 45,333 | 18,720 | - | - | 64,053 |
| 2008 | 11,333 | 18,000 | - | - | 29,333 |
| 2007 (3) | - | - | - | - | - |

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