COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

Chicago, Illinois

For the Year Ended
December 31, 2017

Finance Department
JACQUELINE TORRES, Clerk/Director of Finance

Incorporated May 29, 1889

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A nearly complete Stage 1 of the McCook Reservoir, one of three reservoirs in the MWRD's TARP system, is seen in this aerial photo from August 2017. Completed at the end of 2017, McCook Reservoir Stage 1 has the capacity to contain 3.5 billion gallons.

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Metropolitan Water Reclamation District of Greater Chicago

Board of Commissioners and Principal Officers

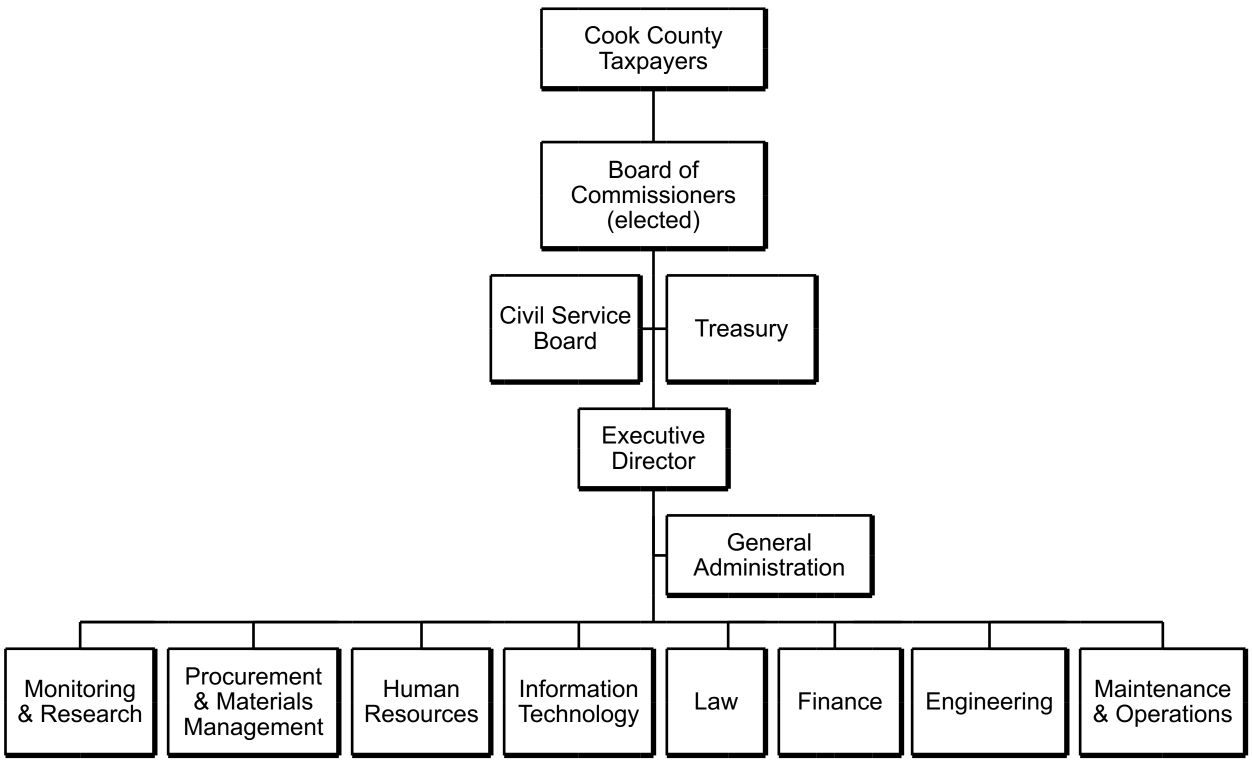
Board of Commissioners:
Honorable Mariyana T. Spyropoulos, President
Honorable Barbara J. McGowan, Vice President
Honorable Frank Avila, Chairman, Committee on Finance
Honorable Timothy Bradford
Honorable Martin J. Durkan
Honorable Josina Morita
Honorable Debra Shore
Honorable Kari K. Steele
Honorable David J. Walsh

Principal Officers:
David St. Pierre, Executive Director
Mary Ann Boyle, Treasurer
Allison Fore, Public and Intergovernmental Affairs Officer
Darlene A. LoCascio, Director of Procurement and Materials Management
Eileen M. McElligott, Administrative Services Officer
Susan T. Morakalis, General Counsel
John P. Murray, Director of Maintenance and Operations
Catherine A. O'Connor, Director of Engineering
Edward W. Podczerwinski, Director of Monitoring and Research
Beverly K. Sanders, Director of Human Resources
John H. Sudduth, Director of Information Technology
Jacqueline Torres, Clerk/Director of Finance

Main Office
100 East Erie Street
Chicago, Illinois 60611

Metropolitan Water Reclamation District of Greater Chicago

Organization Chart



2,042 Budgeted
Positions in 2017

Metropolitan Water Reclamation District of Greater Chicago

President's Annual Message **2017**

Over the past three years as president of the Metropolitan Water Reclamation District of Greater Chicago (MWRD) Board of Commissioners, I have had the pleasure of watching the MWRD exceed expectations in improving our environment. During that time, we have taken major steps toward fulfilling our vision statement of "Recovering Resources, Transforming Water." Certainly the pinnacle of these 2017 achievements is the opening of the McCook Reservoir Stage I, the last of three reservoirs constructed to protect the area waterways from pollution and mitigate flooding. When completed, this reservoir will be the largest of its kind in the world, providing 10 billion gallons of storage. Here is the annual review of other significant accomplishments this year.

Mariyana T. Spyropoulos
President of the Board of Commissioners

We had an award winning year

The Water Environment Federation (WEF) honored our work by bestowing us with three major awards at the world's largest annual water quality event, the Water Environment Federation Technical Exhibition and Conference (WEFTEC). The MWRD received two awards both for the completion of the Calumet System of the Tunnel and Reservoir Plan (TARP), as well as a Project Excellence Award for the completion of the nutrient recovery facility at our Stickney WRP. The nutrient recovery facility transformed the largest water reclamation facility in the world into a resource recovery facility.

The District received three awards for our creative use of 1.8 million cubic yards of overburden materials from McCook Reservoir which created Centennial Hill. After winning a statewide award for mined land reclamation from the Illinois Department of Natural Resources (IDNR), the MWRD received the Interstate Mining Compact Commission's Kenes C. Bowling National Mine Reclamation Award. The National Association of State Land Reclamationists recognized Centennial Hill for Best Innovation in Mining. In keeping with our efforts to recover and reuse resources, we are proud to be recognized for successfully reclaiming mined land.

We were recognized by the Illinois Water Environment Association and WEF as water leaders from across the state. I was honored to receive the Public Official Award, and the Laboratory Analyst Award was given to Assistant Director of Monitoring and Research Donna Coolidge.

We received three more awards for our shared role in implementing UV technology to improve water quality at our O'Brien WRP. The awards include: the American Academy of Environmental Engineers and Scientists 2017 Honor Award for Design; the American Council of Engineering Companies (ACEC) National Recognition Award; and the ACEC of Illinois Honor Award, which recognizes exceptional engineering projects that benefit the public welfare. The O'Brien WRP uses UV technology to disinfect water as a final layer to its treatment process to reduce pathogenic bacteria in the water being released from the plant into the North Shore Channel. It is considered the largest wastewater treatment UV installation in the world.

Our flood solutions plan for Chicago's South Side claimed the Innovation Award from the Illinois Association for Floodplain and Stormwater Management. The award was presented for work on a pilot stormwater management study that focused on urban flooding in a 17-square-mile residential area covering portions of eight city of Chicago wards on the South Side. The study evaluated how best to scale up green infrastructure (GI) within the urban landscape of Chicago to eliminate basement backups and alleviate street flooding.

We implemented a new compost and yard waste program

Our Monitoring & Research Department introduced two new programs this year. This summer, we began offering exceptional quality compost at two locations. Our compost is a product of water treatment that improves soil quality by supplying organic matter, improving soil structure and porosity for a better plant root environment, and retaining nutrients longer which allows plants to more effectively utilize them. This blend is effective, economical and already popular with gardeners, park districts, golf courses and landscapers. In fact, the compost had a dramatic effect on an unused piece of property in Franklin Park, turning it into a garden with 12-foot sunflowers and 18-inch corn husks. We also provided 110 tons of compost in collaboration with the Cook County Sheriff's office, the Ford Heights Park District, the Baseball Tomorrow Fund, Cubs Charities, James McHugh Construction, the U.S. Army Corps of Engineers and other partners to deliver a state-of-the-art baseball field in Ford Heights. The field provides young baseball players an opportunity to play on a local field instead of having to travel to neighboring suburbs which previously hampered local involvement. What once was a team of 10 players traveling without a home field expanded to a league of five teams consisting of 55 11- and 12-year-olds playing ball games on their regulation-size youth baseball field.

In September, we delivered 300 tons of compost to the Skokie Park District for the construction of a youth soccer field that will be unveiled next year. We have also partnered with other municipalities and park districts to distribute this sustainable resource that improves soil structure and is beneficial to our environment.

The second program pertains to our acceptance of yard waste and other organic materials to help produce the compost. Municipalities, park districts, landscape maintenance companies, yard waste haulers, tree trimming companies and utilities looking to unload bulk piles of woodchips are invited to participate in the program.

We pursued water reuse

In keeping with our resource recovery model, the MWRD Board of Commissioners agreed to establish an introductory price of $1 per thousand gallons for the clean water we produce with the flexibility to adjust the price based on market conditions. Water reuse involves recycling treated water for beneficial purposes such as agricultural and landscape irrigation, industrial processes, toilet flushing, and replenishing the ground water basin. In addition to being harnessed, water itself is also reused directly through the MWRD treatment process. Every day, 15.1 million gallons are reused in pipeline flushing, blower motor cooling, post-centrifuge centrate flushing and tank cleaning. When used appropriately, recycled water can satisfy many water demands while presenting financial savings and promoting water conservation by decreasing the diversion of water from sensitive water bodies like Lake Michigan. We are exploring partnerships and different opportunities to ensure this water can find new opportunities which will, in turn, strengthen our role as stewards of our water environment.

We continued restoring the canopy

We continued our popular program, Restore the Canopy: Plant a Tree, designed to help Cook County and its residents manage an increasing load of stormwater and replace the tree canopy that has been devastated by the emerald ash borer and severe weather. Besides greening our communities, the trees assist in stormwater management by absorbing stormwater and lessening the load to our sewer systems. I'm pleased to report that since the program started in mid-2016, we have distributed more

A ribbon cutting ceremony to mark the completion of the 3.5 billion gallon McCook Reservoir Stage 1 was held December 4, 2017. Stage I is estimated to provide $114 million per year in flood reduction benefits to 3.1 million people in Chicago and 36 other communities. When McCook Reservoir Stage II is completed, the reservoir will have a total storage capacity of 10 billion gallons and deliver an estimated total of $143 million per year in flood reduction benefits.

than 42,000 saplings. To aid in this effort, the MWRD partners with dozens of municipalities, schools, and community groups to distribute the trees.

We continued our partnership with the Space to Grow program

Our award winning Space to Grow program gained widespread national recognition when the US Water Alliance acknowledged this partnership for its ability to maximize environmental and community benefits through the transformation of local schoolyards. The collaborative program converts Chicago schoolyards into community spaces for physical activity, outdoor learning, environmental literacy and engagement with art, while also addressing neighborhood flooding issues. The projects serve a vital purpose in educating school communities about the value of green infrastructure. Our engineers are sharing their design expertise in planning for the next five schools to be built in 2018. The Space to Grow program was highlighted in the national briefing paper, “An Equitable Water Future,” as a case study that exemplified how water infrastructure investments can lead to neighborhood revitalization. The Space to Grow project was named one of the Top Projects for 2017 by Storm Water Solutions magazine.

We hosted two diversity outreach vendor fairs

To expand and maximize business opportunities for local Minority Business Enterprises (MBE), Women Business Enterprises (WBE) and Small Business Enterprises (SBE), we welcomed hundreds of contractors, consultants, subcontractors and potential vendors during two vendor outreach fairs. Participants met with MWRD officials and other firms to learn how to register as a vendor and secure work opportunities with contractors and the MWRD.

We began accepting liquid waste for enhanced biological phosphorus removal (EBPR)

We began removing and recovering phosphorous from our treated water. In May, the MWRD began accepting liquid waste from local breweries as well as sugary and starchy liquid wastes. What makes this waste special for the EBPR process is the readily biodegradable carbon that serves as food for the phosphorus accumulating organisms that work under anaerobic and aerobic conditions in the secondary treatment.

We helped launch Overflow Action Days

We joined the Friends of the Chicago River in launching the Overflow Action Days initiative to educate area residents to use less water at home when weather forecasts predict significant rain, thus giving sewers more capacity to handle rain and improving our water environment. Overflow Action alerts remind people to conserve water before and during rain events. Actions such as delaying showers or reducing their duration, flushing less, and waiting to run the dishwasher can help reduce the amount of water in the sewer system. If our residents keep water from entering the water treatment system, there will be more space in the sewers to accommodate rain water and our waterways will be cleaner. We were reminded throughout the year of the importance of conserving water at home after several significant rain events impacted our region.

We celebrated

We believe in paying tribute to significant groups and occasions throughout the year. This year we celebrated African American History Month by inviting a panel of former aldermen that served under Mayor Harold Washington.

During National Engineers week February 19-26, the many contributions of engineers were commemorated by the MWRD Board of Commissioners through a resolution celebrating National Engineers Week. Engineers Week provides an opportunity for engineering professionals to extol their impact on the world and increase public dialogue about the need for future engineers and their work.

In March, the MWRD celebrated Women's History Month to honor the more than 500 women employed by the MWRD. Three employees received specific recognition for contributions in their respective fields as supervising environmental specialist, environmental chemist, and engineering technician.

As part of our annual recognition for Veteran's Day, we honored the military service of Secretary of State Jesse White and Assistant Director of Illinois Department of Veteran's Affairs Harry F. Sawyer. As with all of our men and women who serve, we are thankful to Secretary White, Assistant Director Sawyer, and our own district employees who served, for their sacrifice on behalf of this country.

We educated

We participate in more than 100 community events every year to discuss our work. In addition to providing tours of the McCook Reservoir and our facilities, commissioners and staff give hundreds of presentations throughout the county. This year, the MWRD facilitated WaterPalooza and an outdoor garden construction event at Manierre Elementary School to kick off WEFTEC 2017 in September. WaterPalooza is a fun day of hands-on environmental activities for students and teachers. The following day, volunteers and water experts transformed a paved, flood-prone area into an outdoor classroom that will also capture stormwater. MWRD coordinates this effort every other year with other government agencies, elected officials and water companies. Manierre School is also our Working in the Schools (WITS) partner where MWRD staff visit once a week to read to students.

We held our fifth annual Sustainability Summit at the Stickney Water Reclamation Plant (WRP) in October. This event offers local government leaders, park districts, landscapers and others to learn about our initiatives, specifically our biosolids and new compost program.

In pursuit of our ongoing goal of providing safer and cleaner waterways, the MWRD set up permanent collection boxes for safe disposal for unused and expired medication at four locations. We also continue to partner with the U.S. Drug Enforcement Agency's National Prescription Drug Take Back Days.

MWRD produced a new brochure entitled "A healthy waterway begins with you: A Guide to Water Wellness." Readers are encouraged to consider how they can make lifestyle modifications that will result in fewer contaminants entering the waterways.

Commissioner Timothy Bradford Passes

Commissioner Timothy Bradford passed away suddenly on December 1. Tim was not only a colleague, but a mentor, a confidant, an entertainer, and most importantly, a dear friend. He was larger than life, and his passing has left our Board shocked and saddened. Tim was a proud man. He was proud of his family, proud of his work in the community, proud of the help he was able to give to so many people throughout his life. And we, the Metropolitan Water Reclamation District, are so very proud to be able to claim him as one of our own. Tim, we love you, we miss you, and we promise to carry on the important work you did for the people of Cook County.

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Metropolitan Water Reclamation District of Greater Chicago

Multi-Year Awards

1975-2016
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting/Comprehensive Annual Financial Report

1993-2016
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting Award for Retirement Fund's Comprehensive Annual Financial Report

1985-2017
Government Finance Officers Association of the United States and Canada
Award for Distinguished Budget Presentation

2007-2016
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting Award for the Retiree Health Care Trust Fund's Comprehensive Annual Financial Report

Individual Year Awards (partial listing)

2014
Academy of Interactive and Visual Arts
The Interactive Multimedia Communicator Award for "National Save for Retirement Week Campaign"

Center for Active Design
Excellence Award (Honorable Mention) for the Space to Grow program, a collaboration between the District, Chicago Public School Systems, and the City of Chicago Department of Water Management. Space to Grow was the only submission from Chicago to be recognized. Fellow award recipients span the globe.

Illinois Association for Floodplain and Stormwater Management
Sustainability Award for the Space to Grow program for the redevelopment of four school properties using a variety of Best Management Practices for creating green space

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewerage Agencies
Excellence in Management Platinum Award for excellence in utility management and successful implementation of programs that address the range of management challenges facing public wastewater utilities in today's competitive environment

National Physical Plan Alliance
Champion Award for the Space to Grow program for the collaborative efforts of the District, Chicago Public Schools, and the Department of Water Management in transforming Chicago's underused and outdated schoolyards into vibrant outdoor spaces that benefit students, communities and the environment

United States Green Building Council
Emerald Award for the Space to Grow Program in the Chapter Mission category recognizes the impact collaborations can have in building better, brighter, and healthier spaces to live, learn and work

2015
Chatham Business Association
Partner Award

Construction Industry Service Corporation (CISCO)
Public Body of the Year
Project of the Year - Infrastructure category for constructing the Wet Weather Treatment Facility and Reservoir at the Lemont Water Reclamation Plant

Government Finance Officers Association of the United States and Canada
Budget document received outstanding in the overall category of Communications Device

United States Green Building Council
Best of Green Schools Award for Collaboration, Space to Grow Partnership

2016
American Infrastructure Magazine; American Public Works Association; American Public Works Association, Chicago Metro Chapter; American Society of Civil Engineers - Illinois Section; Water and Wastes Digest
PUBBY Award for Water Project of the Year: Thornton Composite Reservoir
Project of the Year for the Thornton Composite Reservoir
Outstanding Civil Engineering Achievement Award, Over $25 Million Category, for the Thornton Composite Reservoir
Top Projects for 2016 Award

American Society of Civil Engineers - Illinois Section
Outstanding Civil Engineering Achievement Award, Under $10 Million Category,
for the Busse Reservoir South Dam Modification Project

Federation of Women Contractors
Advocate of the Year Award

Friends of the Chicago River
Chicago River Blue Awards Green Ribbon Award
for Disinfection at the Calumet Water Reclamation Plant and O'Brien Water Reclamation Plant and Thornton Reservoir

Illinois Department of Natural Resources
Illinois Mined Land Reclamation Award in the non-coal category for the Thornton Composite Reservoir

Illinois Water Environment Association
Best Presentation Award, "Biosolids Beneficial Reuse Programs: SWOT and PEST Evaluations to Ensure Sustainability"

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewerage Agencies
Utility of the Future Today Recognition
NACWA Award for Compliance with National Pollutant Discharge Elimination System
Platinum Award for 25 consecutive years of full compliance for Calumet Water Reclamation Plant
Platinum Award for 20 consecutive years of full compliance for Lemont Water Reclamation Plant
Platinum Award for 12 consecutive years of full compliance for James C. Kirie Water Reclamation Plant
Platinum Award for 11 consecutive years of full compliance for Terrence J. O'Brien Water Reclamation Plant
Platinum Award for 9 consecutive years of full compliance for Hanover Park Water Reclamation Plant

National Association of Flood and Stormwater Management Agencies (NAFSMA)
Green Infrastructure Award, First Place in the Large Agency Category for the Space to Grow Program

Risk and Insurance Magazine
Honorable Mention, Theodore Roosevelt Workers' Compensation and Disability Management (TEDDY) Award competition
for excellence in safety and workers' compensation risk management

Stormwater Solutions Magazine
Top 10 Stormwater Project for the Blue Island Green Infrastructure Project

2017
American Council of Engineering Companies of Illinois
Special Achievement Water Resources Award
for the Wescott Park Stormwater Storage Facility Project in the Village of Northbrook

Friends of the Chicago River
Chicago River Blue Awards Green Ribbon Award
for the Wescott Park Stormwater Storage Facility Project in the Village of Northbrook

Illinois Association for Floodplain and Stormwater Management
Flood Reduction Project Award for Floodway Buyouts in the Village of Glenview

Illinois Department of Natural Resources
Illinois Mined Land Reclamation Award in the non-coal category for the McCook Composite Reservoir

Illinois Water Environment Association
Mariyana Spyropoulos, President, is the recipient of the annual Public Official of the Year award,
for significant contribution in the areas of clean water legislation, public policy, government service,
or another area of public prominence that resulted in improvements to the water environment

Interstate Mining Compact Commission
Kenes C. Bowling National Mine Reclamation Award for the McCook Reservoir

National Institute of Governmental Purchasing 2017-2003
Outstanding Agency Accreditation Achievement Award

Water Environment Federation
Project Excellence Award for the Nutrient Recovery Facility at the Stickney Water Reclamation Plant
Water Quality Improvement Award for the Calumet Tunnel and Reservoir Plan
Schroepfer Innovative Facility Design Medal for the Calumet Tunnel and Reservoir Plan

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Water Reclamation

District of Greater Chicago, Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morrill

Executive Director/CEO

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

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Jacqueline Torres
Clerk/Director of Finance

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May 11, 2018

To the Citizens of the Metropolitan Water Reclamation District of Greater Chicago and to the Financial Community:

The Comprehensive Annual Financial Report (CAFR), of which this transmittal letter is a component, has been prepared in accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.13, for the fiscal year ended December 31, 2017. This statute requires that the Clerk/Director of Finance prepare and publish the financial statements and any other data necessary to reflect the true financial condition and operations of the Metropolitan Water Reclamation District of Greater Chicago (the District) within six months of the close of each fiscal year.

The CAFR's basic financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) in the United States of America, promulgated by the Governmental Accounting Standards Board (GASB). In accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.12, the District's basic financial statements for the period ended December 31, 2017, have been subject to an audit by independent accountants. The unmodified opinion of RSM US LLP has been included in the Financial Section of this report.

District management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in accordance with GAAP. The cost of internal controls should not outweigh their benefits; therefore, the District's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatement. Management understands the risks of financial processing and has implemented procedures to evaluate the effectiveness of these controls. District management and Internal Audit staff continually evaluate the internal control structure.

Both the investment community and taxpayers rely on the CAFR for basic information about the District, its past performance, current financial condition, future plans, and services provided. Financial data and the facts contained herein create an indispensable profile for potential bond investors. Taxpayers can, with full confidence, assess the level, efficiency, and effectiveness of the services provided and the related costs.

GAAP requires that management provide a narrative introduction, overview, and an analysis to accompany the basic financial statements in the form of a 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 District's MD&A can be found immediately following the independent auditor's report.

MISSION STATEMENT

The District will protect the health and safety of the public in its service area, protect the quality of the water supply source (Lake Michigan), improve the quality of water in watercourses in its service area, protect businesses and homes from flood damages and manage water as a vital resource for its service area. The District's service area is 882.1 square miles of Cook County, Illinois. The District is committed to achieving the highest standards of excellence in fulfilling its mission.

BACKGROUND

The District was originally organized as the Sanitary District of Chicago in 1889 under an act of the Illinois General Assembly. The enabling act was in direct response to a typhoid and cholera epidemic. The District reversed the flow of the Chicago and Calumet River systems to divert contaminated water from Lake Michigan so it could be diluted as it flowed downstream into the Mississippi River. Subsequently, the District built collection treatment facilities to treat sewage in an environmentally effective manner.

The District operates primarily within the boundaries of Cook County. Although the District exercises no direct control over wastewater collection and transmission systems maintained by cities, towns, and villages in Cook County, it does control municipal sewer construction by permits in suburban Cook County. Furthermore, the District provides the main sewer lines for the collection of wastewater from local sewer systems together with the treatment and disposal thereof. Combined sewage and stormwater runoff is stored, treated, and released using District facilities. The District owns and operates seven water reclamation plants (WRP) and 23 pumping stations that treat an average of 1.3 billion gallons of wastewater each day. The Central (Stickney) WRP is the largest plant in the world. The District controls approximately 76.1 miles of navigable waterways that serve as headwaters of the Illinois Waterway system. Stringent federal and state standards require that the District's wastewater treatment processes keep the waterways free of pollution. The District monitors industries in Cook County to assure that hazardous substances not suitable for a sewer are disposed of in an environmentally responsible way that complies with applicable laws.

The multi-award winning Metropolitan Water Reclamation District of Greater Chicago is headed by the Board of Commissioners who determine its policies. (Seated L to R) Vice President Barbara J. McGowan, President Mariyana T. Spyropoulos and Chairman of Finance Frank Avila (Standing L to R) David J. Walsh, Kari K. Steele, Debra Shore, Timothy Bradford, Josina Morita and Martin J. Durkan.

REPORTING ENTITY

The District is governed by a nine-member Board of Commissioners, elected at large for six-year terms. The terms are staggered so that three commissioners are elected every two years. The Executive Director, who is appointed by the Board of Commissioners, manages and controls all District operations and serves as the Chief Executive Officer.

The District is a separate legal entity sharing an overlapping tax base with the City of Chicago, the Chicago Board of Education, the County of Cook, the Cook County Forest Preserve District, the Chicago Park District, the Chicago Public Building Commission, the City Colleges of Chicago, and various municipalities and school districts outside the City of Chicago but within the District's boundaries. However, these governments do not meet the established criteria for inclusion in the reporting entity and are therefore excluded.

Improve Water Quality

The District cost effectively collected and treated approximately 453.7 billion gallons of wastewater from businesses and homes and captured stormwater runoff from its service area. Our performance for treating this wastewater approaches 100 percent compliance with all applicable effluent standards at all water reclamation plants. Disinfection technology has been implemented and placed into service at two plants using multiple cost-effective strategies. Chlorination/de-chlorination has been implemented at the Calumet Water Reclamation Plant and ultraviolet technology at the O'Brien Water Reclamation Plant.

Provide Stormwater Management

Flooding continues to be the number one issue facing the District. The Stormwater Management Program is aggressively working to minimize flooding damage by helping communities with local flooding issues, acquiring flood-prone properties, and partnering with municipalities or other local governments on large capital green infrastructure projects. Since 2004 the District has distributed more than 139,800 low-cost rain barrels, and in 2017, the District distributed more than 42,000 tree saplings as a part of the "Restore the Canopy, Plant a Tree" initiative.

The District undertakes stormwater management projects under two phases of its Stormwater Management Program. Phase I consists of projects identified under Detailed Watershed Plans (DWPs), which were completed in 2010. Phase I projects address regional waterway overbank flooding and streambank stabilization concerns. The District performed construction work on three Phase I projects in 2017, two of which were substantially completed. It is anticipated that an additional eight Phase I projects will begin construction in 2018. The design of two Phase I projects were completed in 2017 and are scheduled to begin construction in 2019.

The District initiated Phase II of its Stormwater Management Program in 2013 to address local flooding problems not necessarily involving overbank flooding. Since then, the District accepted 40 Phase II projects into its program in order to assist communities and agencies across Cook County in addressing flooding issues. Since 2014, a total of 17 shovel ready projects were completed with partial District funding. Construction on one Phase II conceptual design project will begin in 2018 while another conceptual design project may start construction later that year. The remaining 21 projects (12 conceptual and 9 shovel ready) are currently in either preliminary, final design, or construction. It is anticipated these projects will complete construction or start construction in 2018 and beyond.

For circumstances where a flood control project is not feasible, the District initiated a Flood-Prone Property Acquisition Program in 2015 and has partnered with nine local municipalities in order to remove nearly a total of 200 structures from the floodplain. Once all 200 properties have been removed, deed restrictions will be imposed and recorded, requiring the properties to remain as open space into perpetuity. The municipalities will own the acquired properties and perform all required maintenance. In late 2017, the District initiated another call for Flood-Prone Property projects and will soon partner with additional municipalities to remove more properties from the floodplain.

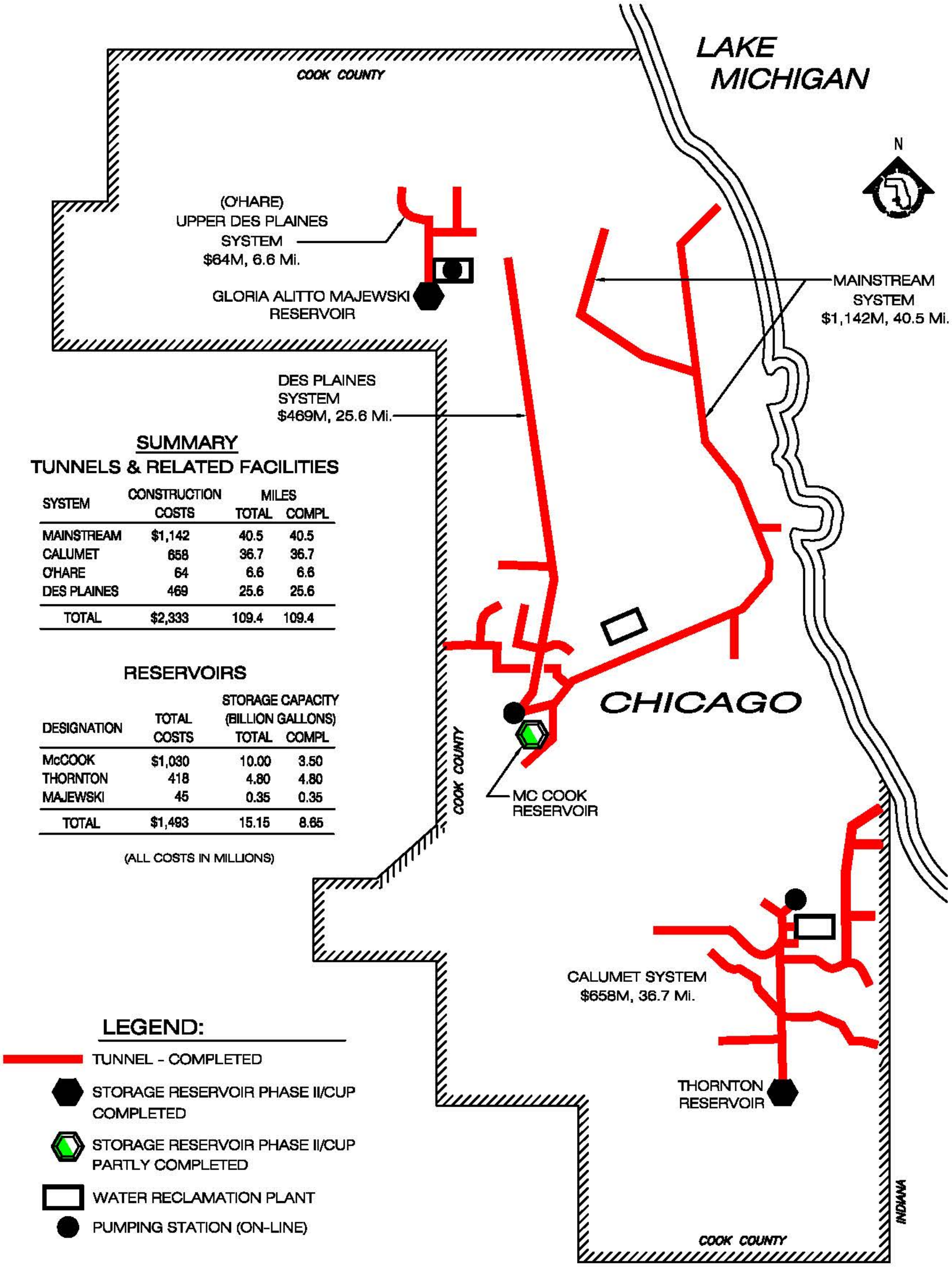
On October 3, 2013, the District's Board of Commissioners adopted the Watershed Management Ordinance (WMO), which replaced the Sewer Permit Ordinance and established uniform, minimum, countywide stormwater management regulations for new development and redevelopment in Cook County. Components regulated under the WMO include drainage and detention, volume control, floodplain management, isolated wetland protection, riparian environment protection, and soil erosion and sediment control. The WMO became effective on May 1, 2014. The stormwater management regulations of the WMO serve to prevent the flooding situation in Cook County from worsening through development or redevelopment. Over 1,200 WMO permits have been issued to date. Since the development of the WMO, the District has conducted numerous training events in addition to presenting at various seminars and conferences hosted by professional organizations.

Provide flood protection with Tunnel and Reservoir Plan and Green Infrastructure

The primary goals of TARP are as follows: protect Lake Michigan, the area's primary source of drinking water from polluted backflows; clean up the area's waterways; and provide an outlet for floodwater and rainfall runoff by capturing wastewater before it enters streams and rivers from within the District's service area. TARP consists of 109.4 miles of deep rock tunnels designed to capture 2.3 billion gallons of the first flush of sewage contaminated stormwater from combined sewers which had previously flowed into the area waterways.

The flood control segment of TARP consists of three storage reservoirs to serve as outlets for combined sewer overflows (CSO's). The three reservoirs - Gloria Alitto Majewski, Thornton, and McCook - will provide 15.2 billion combined gallons of storage for CSO's that otherwise would spill into local waterways, degrading the water quality and causing flooding. The Gloria Alitto Majewski Reservoir, the smallest of the three, was completed in 1998 at a cost of $45 million and has prevented over 5.7 billion gallons of combined sewer overflow from entering the waterways and mitigated over $400 million in flood damage. The Thornton Composite Reservoir became operational in 2015 and, through the end of 2017, more than 14.4 billion gallons have been captured during 32 fill events. The first stage of the McCook Reservoir was completed in 2017 and the second stage will be completed in 2029. The McCook Reservoir is projected to bring $143 million per year in flood reduction benefits to its residents when fully completed. The combined engineering, construction and land rights cost for all three reservoirs is estimated at $1.48 billion, with the Corps and the District providing approximately $540 million and $940 million, respectively.

MWRD Commissioners display a commemorative plaque that was installed on a large fragment of 400 million year old dolomite limestone that was mined from the newly completed McCook Reservoir Stage 1. (L-R): Commissioner Kari K. Steele, President Mariyana T. Spyropoulos, David J. Walsh, Martin J. Durkan, Chairman of Finance Frank Avila, Debra Shore and Vice President Barbara J. McGowan.



SUMMARY
TUNNELS & RELATED FACILITIES

SYSTEM	CONSTRUCTION COSTS	MILES TOTAL	MILES COMPL
MAINSTREAM	$1,142	40.5	40.5
CALUMET	658	36.7	36.7
O'HARE	64	6.6	6.6
DES PLAINES	469	25.6	25.6
TOTAL	$2,333	109.4	109.4

RESERVOIRS

DESIGNATION	TOTAL COSTS	STORAGE CAPACITY (BILLION GALLONS) TOTAL	COMPL
McCOOK	$1,030	10.00	3.50
THORNTON	418	4.80	4.80
MAJEWSKI	45	0.35	0.35
TOTAL	$1,493	15.15	8.65

(ALL COSTS IN MILLIONS)

TUNNEL and RESERVOIR PLAN PROJECT STATUS

Excavation for the Des Plaines Dewatering Tunnel on May 9, 2017, which would eventually connect to the McCook Reservoir, a major component of the MWRD's Tunnel and Reservoir Plan (TARP).

A consent decree between MWRDGC and the U.S. Department of Justice was entered into in 2014. One section of the consent decree is designed to foster the use of green infrastructure controls to reduce the amount of stormwater that flows into the sewer systems during a storm and requires MWRDGC to develop a Green Infrastructure Program Plan, which was approved by the Environmental Protection Agency in 2015. In 2014, MWRDGC partnered with Chicago Public Schools System (CPSS) and the Chicago Department of Water Management (CDWM) to incorporate stormwater retention at four elementary schools while reconstructing substandard playgrounds under a program known as Space to Grow. The projects serve to educate the public on the importance of stormwater management and the value of green infrastructure to reduce basement backup flooding. The success of this project led to MWRDGC, CPSS, and CDWM to agree to partner on 30 more schools from 2015 through 2020. In 2015 and 2016, five more CPSS school playgrounds were completed, and design is underway for six additional schools to be improved in 2018. The District completed construction of a green infrastructure project in the City of Blue Island, where permeable pavement and rain gardens were installed to combat local flooding. The District partnered with the City of Evanston to install permeable pavement, swales, and rain gardens at the City's Civic Center, and also partnered with the Village of Wilmette to install four green alleys. In 2016, the District partnered with the Village of Northbrook in its installation of a green stormwater detention system at Wescott Park, and also partnered with the Village of Kenilworth on rain garden installations. In 2017, the

The Water Environment Federation's Young Professionals Committee worked with community members, teachers and students at Manierre Elementary School in Chicago to convert a portion of the school's asphalt playground into a multipurpose green space and outdoor classroom, featuring native plants and pervious surfaces that will enhance the property and capture stormwater. The annual WEFTEC event includes a community service project every year it is in Chicago, with past projects constructed at Haines Elementary School, Pulaski Park and Pershing Magnet School in Chicago.

District completed the construction of a permeable parking lot at its John E. Egan Water Reclamation Plant. The District also partnered with the City of Berwyn on a green alley project, and the Village of Niles on a bioswale and permeable parking lot. In 2017, the District also solicited information from Cook County communities and other governmental organizations for additional green infrastructure partnership opportunities. Based on the project submittals received, the District intends to partner on an additional 20 green infrastructure projects throughout its service area beginning in 2018. The consent decree provides an enforceable schedule for implementing MWRDG's Tunnel and Reservoir Plan, which will result in a significant decrease in the volume of water discharged to the waterways from combined sewer overflows in Cook County, along with dramatically reducing the potential for flooding.

Maintenance of Facilities and Infrastructure
The District owns and operates seven water reclamation plants, 560 miles of intercepting sewers and force mains,109.4 miles of TARP tunnels, 23 pumping stations, 35 flood control reservoirs, and three TARP reservoirs. Through preventative maintenance management, modernization, rehabilitation, and planned replacement, the District will ensure the long-term reliability and cost-effectiveness of operations. To aid planning and prioritize projects for both near term and long term, the District implemented procedures for project vetting and Long-Term Capital Plan evaluation.

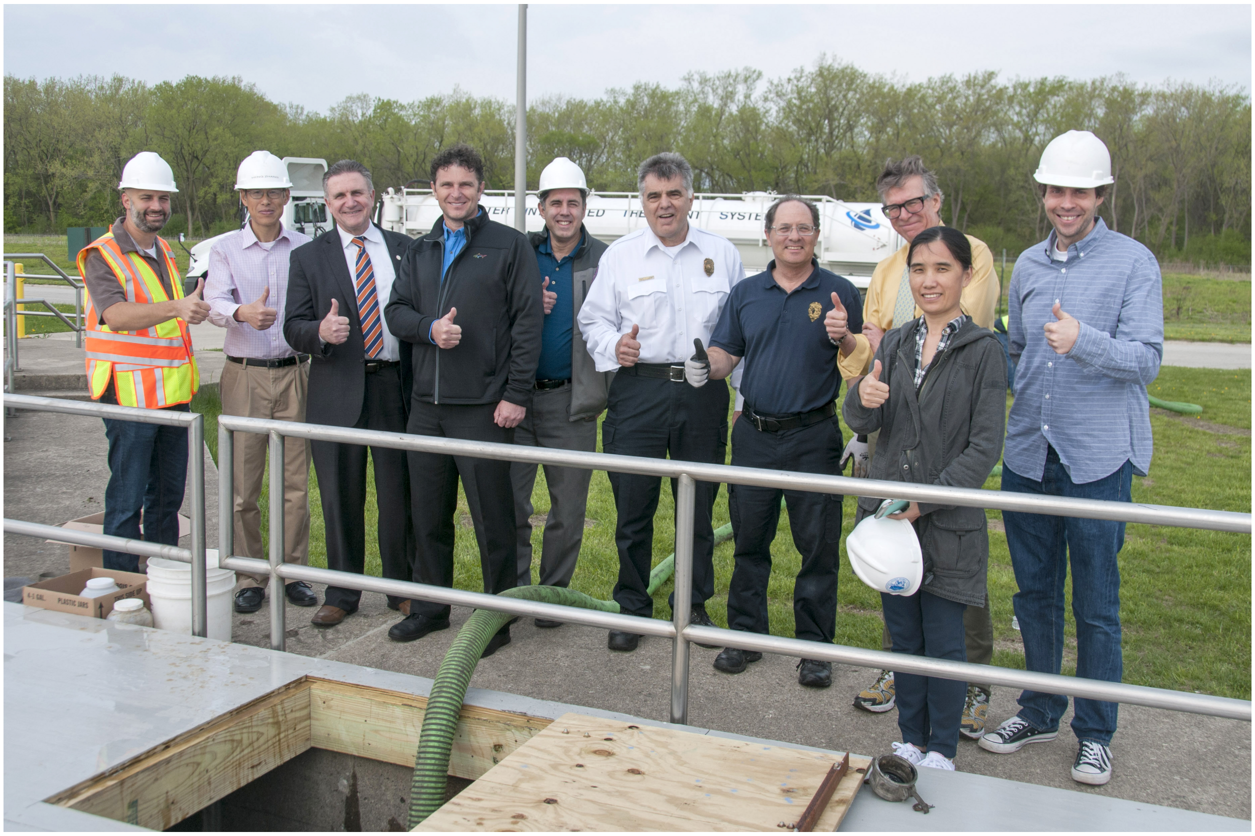
Many of the District's plants and interceptor sewers were placed in service over 50 years ago. In order to maintain continuous operations, the District has initiated a Capital Improvements Plan to replace physically deteriorating facilities through rehabilitation, alteration or expansion. The expected construction cost over the next five years for the replacement and maintenance of facilities is $126.4 million. As discussed in the MD&A, condition assessments required under the modified approach alert management to the need for maintenance and preservation projects for its infrastructure assets.

RESOURCE RECOVERY

The District understands the obligation to implement sustainable practices and has maintained that focus for the past few years by investing in research and development of resource recovery programs. The current sustainability effort is focused on recovering phosphorous, biosolids, water, and energy.

Phosphorus
The District had voluntarily sought a phosphorus discharge limitation in our National Pollutant Discharge Elimination System (NPDES) permits and had decided we would pursue achieving this through our biological process. With one of the District's objectives of sustainability, at the Stickney WRP, the District is pursuing the recovery of phosphorus. In partnership with Ostara Nutrient Recovery Technologies, startup of the world's largest nutrient recovery facility occurred in May 2016 and is in the operational testing phase of the construction contract. Phosphorus is recovered from the plant's liquid waste stream and turned into a fertilizer pellet, which is marketed and distributed. Construction of the Waste Activated Sludge Stripping to Remove Internal Phosphorous (WASSTRIP) process began in June 2016. This process will be operational by the spring of 2018 and will further increase the recoverable phosphorous by repurposing existing tanks in combination with the Ostara process to remove magnesium ammonium phosphate from wasted active sludge. Phosphorus and nitrogen recovery will provide significant environmental benefits to the Chicago Area Waterway System and downstream through the Mississippi to the Gulf of Mexico. By taking this approach, the District is recovering a non-renewable resource and placing it back into the food cycle, rather than letting it be diluted and lost to the water environment.

In fulfillment of the special provisions of the O'Brien Water Reclamation Plant's (OWRP) NPDES permit, the District has created an Algae Research Facility at the OWRP. This facility carries out research on treatment technologies using algae to recover phosphorus from the wastewater. Algae treatment technology has several advantages over the traditional chemical precipitation approach including the ability to recover and reuse the phosphorus, the ability to generate revenue through sale of the harvested algae as a raw material for sustainable commodity products, sequestration of atmospheric carbon dioxide, and use of natural energy from sunlight. Currently, the District has promising results from a one-year study from a technology that cultivates algae using a revolving biofilm reactor, and will continue with a larger pilot-scale research project in 2018. In addition, in 2018 the District will be evaluating the results of another year-long bench-scale algae treatment technology that uses submerged artificial light in a flow-through configuration. Results from these pilot studies will be used to inform the projected performance, life cycle costs, and design criteria for a full-scale installation at the OWRP.



Staff from the Metropolitan Water Reclamation District of Greater Chicago's Monitoring and Research Department watch as a tanker truck delivers the first load of brewery waste from Goose Island as part of an ambitious plan to recover phosphorus and promote cleaner waterways.

Biosolids

Due to changes in Illinois law, the District can sell Exceptional Quality (EQ) biosolids and EQ biosolids blend that is composted with wood chips to the general public. By taking this approach, the District is recovering a non-renewable resource and placing it back into the food cycle, rather than letting it be diluted and lost to the water environment. Biosolids can be used almost anywhere that chemical fertilizers are used. The District can also reduce its carbon footprint by reducing significant vehicle traffic as organics will no longer need to be hauled to landfills.

Water

Efforts have been focused on reuse applications for the high quality water produced at the plants and the capture and reuse of stormwater. Reuse opportunities are being explored at the Calumet and Stickney industrial corridors. The District is also exploring reuse at parks and golf courses.

The District is also researching technologies using algae as a means to recover nutrients from wastewater. The algae can be used in a sustainable manner such as compost, aquaculture food supplement, bio plastics, and commercial dyes.

Energy

The District's goal is to achieve energy neutrality by 2023. The anaerobic digesters at the Calumet and Stickney Water Reclamation Plants produce biogas as a natural byproduct of the digestion process. The biogas contains methane gas, which is currently used as fuel for the plants' boilers. A significant step towards the District's goal of becoming energy neutral will be the utilization of the biogas to produce renewable energy. The Stickney WRP currently utilizes all of their digester gas. Once the existing Imhoff tanks are replaced with Primary Settling tanks, the Stickney WRP is projected to double digester gas production. A plan is in place to fully utilize all of this additional gas production. The digester gas utilization at the Calumet WRP is being reviewed and a utilization plan will be in place in April 2018. In order to boost biogas production, the District will accept liquid organic wastes, such as restaurant grease and industrial food waste, into the anaerobic digesters under the Resource Recovery Ordinance, which was approved by the Board of Commissioners in 2016. To handle the incoming feedstock, a new Liquid Organic Waste Receiving Station will be constructed at the Calumet WRP. Design of the receiving station is complete. Similar work will occur at the Stickney WRP. Existing initiatives are also being examined for further reduction of energy consumption. The District is looking to maximize use of digester capacity at the Stickney WRP, market electrical capacity at Lockport to maximize return on investment and optimize the aeration processes to further reduce energy consumption by 25%.

BUDGET PROCESS

The Board of Commissioners is required to adopt an annual budget no later than the close of the previous fiscal year. This annual budget serves as the foundation for the Metropolitan Water Reclamation District's financial planning and control. Annual budgets are prepared for the General Corporate, Construction, Capital Improvements Bond, Stormwater Management, and Debt Service Funds.

The District utilizes an enterprise resource planning computer system to provide budget control at the line item level for the General Corporate, Construction, and Stormwater Management Funds, at the fund level for the Debt Service Fund, and at the line item class level for the Capital Improvements Bond Fund. All budget-relevant transactions are tested for the sufficiency of available appropriation before any obligations resulting from purchase requisitions, purchase orders, or contracts are formally recognized, or payments resulting from payroll or other expenditures are released.

ECONOMIC BASE OUTLOOK

The District's service area is sizeable, encompassing 98% of the assessed valuation of Cook County. The Equalized Assessed Valuation (EAV) of the District has experienced a .24% average growth rate over the last ten years and the current equalized assessed valuation of $140,752,201,171 is 8.0% higher than the previous year. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels. The District operates a fiscally sound organization, maintaining a AAA bond rating with Fitch Ratings and AA+ with Standard and Poor's. Our finances are managed in a prudent manner, as evidenced by our excellent bond ratings, healthy fund balance, and continuing efforts to manage costs. To ensure that the District's finances remain healthy, projects are prioritized to ensure best use of current funding, project base budget targets assure funding above the base are tied to strategic initiatives, and resources are managed to ensure financial stability targets are met.

FINANCIAL POLICIES

In order to protect the strong financial position of the District, ensure uninterrupted services, and stabilize annual tax levies, the Board of Commissioners adopted the following policies on December 21, 2006 to enhance and maintain budgetary fund balances. The General Corporate Fund policy was amended on December 10, 2009. The Bond Redemption & Interest Funds Investment Income policy was amended on November 3, 2011. The Stormwater Management Fund policy was adopted on December 10, 2009 and amended on November 3, 2011 and December 17, 2015.

To ensure the long-term financial health of the pension program and other post-employment benefits, the Pension Funding Policy and the amended OPEB Advance Funding Policy were adopted on October 2, 2014.

General Corporate Fund

- Corporate Fund undesignated fund balance as of January 1 of each budget year is to be kept between 12 percent and 15 percent of appropriations. The fund balance may be maintained by not fully appropriating prior year fund balances. This level of fund balance will ensure the District's ability to maintain all operations even in the event of unanticipated revenue shortfalls and provide time to adjust budget and operations.

- Corporate Working Cash Fund must be sufficient to finance 95 percent of the full annual expenditure of the Corporate Fund. This will be financed through transfers of surpluses from the Construction Working Cash Fund, direct tax levies, tax levy financed debt (Working Cash Bonds) and transfers of accumulated interest from other funds. This level of fund balance will continue financing the Corporate Fund in the event of the typical and extraordinary delays in second installment real estate tax collections.

- Reserve Claim Fund balance will be targeted toward the maximum level permitted by statute, 0.05 percent of the Equalized Assessed Valuation, whenever economically feasible. This will be financed through tax levies at the maximum 0.5 cents per $100 of Equalized Assessed Valuation when economically feasible and financially prudent. This level of funding will protect the District in the event that environmental remediation costs cannot be recovered from former industrial tenants of District properties, catastrophic failure of District operational infrastructure or other claims. As the District is partially self-insured, adequate reserves are critical.

The District will appropriate funds from the unassigned fund balance for emergencies as well as for other requirements that the District believes to be in its best interest. In the event that any of these specific component objectives cannot be met, the Executive Director will report this fact and the underlying causes to the Board of Commissioners with a plan to bring the fund balances back into compliance with policy within a two-year period. In order to maintain relevance, this policy will be reviewed every three years following adoption or sooner at the discretion of the Executive Director.

Stormwater Management Fund
The maximum property tax levy of five cents per $100 of Equalized Assessed Valuation for the Stormwater Management Fund shall be allocated at a maximum two cents per $100 of Equalized Assessed Valuation to fund operations and maintenance expenditures and the remainder of the levy shall fund direct cash outflows for capital and capital-related expenditures and the interest and redemption of general obligation bond issues for capital projects.

Capital Improvements Bond Fund Investment Income
Investment earnings from the Capital Improvements Bond Fund resulting from all future bond issues will fund an equity transfer to the Bond Redemption & Interest Funds and be used to abate property tax levies or for other corporate needs. This practice will also limit the payment of arbitrage rebates.

Bond Redemption & Interest Funds Investment Income (Debt Service Fund)
Fund balances in the Bond Redemption & Interest Funds that might accumulate due to investment income will be identified and used to abate Bond Redemption & Interest property tax levies or for other corporate purposes. These abatements appropriately reduce property tax levies by the amount earned on invested balances above what is necessary for paying principal and interest due over the following 12 months, while still maintaining appropriate fund balances and when not required for other corporate purposes. This policy and the subsequent tax abatements will assist in compliance with the Board of Commissioners' overall tax levy policy, which is not to exceed a five percent increase over the prior year, excluding the Stormwater Management Fund tax levy.

Abatement of Interest Rate Subsidies from Build American Bond Issuances
Interest reimbursement payments related to taxes levied for Build America Bond issuances will be presented to the Board of Commissioners for approval to abate, to be used for any lawful corporate purpose, or a combination thereof as determined as part of the annual budget process. Such abatement or alternative lawful use of the funds will be presented to the Board of Commissioners for approval prior to any abatement or use of reimbursement funds.

Capital Improvements Bond Fund Accumulated Income
Revenues that have accumulated in the Capital Improvements Bond Fund (CIBF) from investment income, grants, or State Revolving Fund revenues will primarily be used for capital projects. Capital projects are generally in the CIBF; however, capital projects in the Construction or Corporate Funds of critical importance may be financed by transfers from this revenue source. These funds may be transferred to the Bond Redemption & Interest Funds to be used to abate property taxes or may be used for other corporate needs as necessary.

Accounting Policies of Fund Balance

The General Corporate Fund is a combination of the Corporate, Working Cash, and Reserve Claim Funds. In the General Corporate Fund, the District considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, followed by committed amounts, and then assigned amounts. Unassigned amounts are used only after the other categories of fund balance have been fully utilized. In governmental funds, other than the General Corporate Fund, the District considers restricted amounts to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District will first utilize assigned amounts, followed by committed amounts, and then restricted amounts.

Committed Fund Balance

The District's Board of Commissioners shall establish, modify, or rescind a fund balance commitment by formal action of the Board of Commissioners.

Assigned Fund Balances

The Executive Director may assign amounts of fund balances to a specific purpose.

Retirement Fund

The District's Board of Commissioners adopted a Funding Policy recommended by the Retirement Fund Board of Trustees to ensure the long-term financial health of the pension program while balancing the interests of the employees, retirees, taxpayers, and the District. The funding goal of the policy is to contribute annually to the Fund an amount that will increase the funded ratios to 100 percent by the year 2050. This is to be achieved by accumulating adequate resources for future benefit payments in a manner that fully funds the long-term costs of benefits and reduces volatility in the employer contribution amounts, in accordance with statutory requirements.

OPEB Trust

The OPEB Trust establishes a reserve that will help ensure the financial ability to provide health care coverage for District retirees and their beneficiaries in the future. The Advance Funding Policy for the OPEB Trust Fund, amended in October 2014, reflects a 100 percent funding goal to be achieved by 2027 with no further advance contributions required after 2026. The policy to increase the OPEB liability funding percentage helps to solidify the District's solid financial foundation and makes the retiree healthcare plan sustainable for the long-term.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Water Reclamation District of Greater Chicago for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. This was the 42nd consecutive year that the Metropolitan Water Reclamation District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District has been presented with the award for Distinguished Budget Presentation by the GFOA for the annual budget for the year beginning January 1, 2017. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, financial plan, communications medium, and operations guide. The award, which is valid for a one year period only, has been received for 33 consecutive years.

ACKNOWLEDGMENTS

Preparation of this report reflects the combined efforts of the dedicated professional personnel of the operating and support departments. Their expertise, enthusiasm, and unswerving focus on excellence are gratefully acknowledged. The general citizenry, in our opinion, may fully rely on the 2017 Comprehensive Annual Financial Report as a fair and accurate presentation, in all material aspects, of the financial position and operational results of the Metropolitan Water Reclamation District of Greater Chicago.

Respectively submitted,

Jacqueline Torres
Jacqueline Torres
Clerk/Director of Finance

Matt Glavas
Matthew Glavas
Comptroller

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

100 EAST ERIE STREET CHICAGO, ILLINOIS 60611-3154 312.751.5600

May 11, 2018

STATEMENT OF RESPONSIBILITY

To the Citizens of the Metropolitan Water Reclamation District of Greater Chicago and to the Financial Community:

The Board of Commissioners and management of the Metropolitan Water Reclamation District of Greater Chicago assume full responsibility in presenting financial statements that are free from any material misstatements, and are complete and fairly presented in accordance with accounting principles generally accepted in the United States of America. To this end, the undersigned hereby state and attest, having reviewed these financial statements, to the best of their knowledge:

- The statements fairly present the financial position and changes in financial position of the Metropolitan Water Reclamation District of Greater Chicago, and its component units, for the fiscal year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America;
- The statements contain no untrue statement of material facts; and
- There are no omissions of material fact(s).

Mariyana T. Spyropoulos
President

David St. Pierre
Executive Director

Jacqueline Torres
Clerk/Director of Finance

Matthew Glavas
Comptroller

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II.
FINANCIAL SECTION

MWRD skimmer boat "Skim Pickens" arrives to assist with the "Big Jump" event, during which elected officials and representatives from various agencies jumped into the Chicago River at Ping Tom Memorial Park in Chinatown.

RSM US LLP

Independent Auditor's Report

To the Honorable President and Members of the Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, the respective changes in financial position thereof and the respective budgetary comparisons for the General Corporate Fund and the Retirement Fund for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metropolitan Water Reclamation District Pension Trust Fund (Pension Fund), which represents 83 percent and 76 percent, respectively, of the assets and revenues/additions of the aggregate remaining fund information. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pension Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2017, the respective changes in financial position thereof and the respective budgetary comparisons for the General Corporate Fund and the Retirement Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Prior-Year Comparative Information
The basic financial statements include partial prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government’s basic financial statements for the year ended December 31, 2016, from which such partial information was derived. Our audit report on the financial statements for the year ended December 31, 2016, dated May 12, 2017, expressed an unmodified opinion.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management’s discussion and analysis, modified approach information, and pension and other postemployment benefit plans schedules on pages 35-51 and 116-123 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 which 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.

Other Information
Our audit for the year ended December 31, 2017, was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combining and Individual Fund Statements and Schedules and the Introductory and Statistical and Demographic Section for the year ended December 31, 2017, 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 Combining and Individual Fund Statements and Schedules have been subjected to the auditing procedures applied in the audits of the financial statements for the year ended December 31, 2017, 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 and that of the other auditors, the procedures performed as described above, and the report of the other auditors, the Combining and Individual Fund Statements and Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2017.

Our audit report on the financial statements for the year ended December 31, 2016, dated May 12, 2017, expressed an unmodified opinion. The report stated that the Combining and Individual Fund Statements and Schedules for the year ended December 31, 2016, were subjected to the auditing procedures applied in the audit of the 2016 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in our opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended December 31, 2016.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and the Statistical and Demographics 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Chicago, Illinois
May 11, 2018

The Metropolitan Water Reclamation District of Greater Chicago (the "District") is providing Management's Discussion and Analysis (MD&A) to assist the readers in understanding the financial information presented in this report. The MD&A includes a discussion of the basic financial statements and their relationship to each other. It also offers an analysis of the District's financial activities at both the government-wide and fund levels, based on known facts, and compares the current year's results with the prior year's. A budgetary analysis of the District's General Corporate Fund is provided, as well as an analysis of capital assets and debt activity. Finally, the MD&A concludes with a discussion of issues that are expected to be significant to the District's finances.

The MD&A should be read in conjunction with the Clerk/Director of Finance's letter of transmittal and the basic financial statements.

2017 FINANCIAL HIGHLIGHTS

- The District's government-wide net position is $4,616,429,000. This can be attributed to the District's positive balance of $4,710,123,000 in net investment in capital assets.
- The District's government-wide net position increased by $76,484,000 and is mostly attributable to the net effect of the increased investment in capital, adding approximately $118 million in capital assets offset by the spending of available bond proceeds. In addition, the District had increased tax revenues, interest on investments, grant revenue and a decrease in construction costs. These variances are explained further in the key financial comparisons section.
- The District's combined fund balances for its governmental funds at December 31, 2017 totaled $820,495,001, a decrease of $62,968,999 from the prior year. The decrease is primarily attributable to not issuing general obligation bonds in 2017 and a decrease in construction costs.
- The District's government-wide liabilities increased by $55,532,999 in 2017 which is largely attributable to an increase in converted bond anticipation notes of approximately $30 million, an increase in the net pension liability of approximately $16 million, and a smaller increase in accounts payable and deferred revenue combined of approximately $6.2 million.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The District's basic financial statements include both a short and long-term view of its financial activities. The focus is on both the District as a whole (government-wide) and on major individual funds. The District's basic financial statements include three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements. In addition to the basic financial statements, the financial section of this report includes Required Supplementary Information (RSI) and Combining and Individual Fund Statements and Schedules.

Government-wide financial statements. The government-wide financial statements are provided to give readers a long-term overview of the District's finances, similar to a private-sector business. Government-wide statements consist of the Statements of Net Position and Statements of Activities, and are prepared using the accrual basis of accounting and the economic resources (long-term) measurement focus. They include all the District's governmental activities; there are no business-type activities. The fiduciary funds' resources are restricted for employee pensions and other post-employment benefits, and are not available to support the operations of the District. Therefore, the fiduciary funds are not reported in the government-wide financial statements.

The Statements of Net Position report the financial position of the District as a whole, presenting all the assets and liabilities (including capital assets and long-term obligations) with the difference between the assets and deferred outflows of resources less liabilities and deferred inflows of resources representing net position. The increase or decrease in net position over time can serve as a useful indicator of whether the financial position of the District is improving or declining.

The Statements of Activities report the operating results of the District as a whole, presenting all revenues and expenses of the District as well as the change in net position. The Statements of Activities include revenues earned in the current fiscal year that will be received in future years, and expenses incurred for the current year that will be paid in future years (i.e. revenue for uncollected taxes and expenses for accumulated, but unused, compensated absences). Revenues are segregated as general revenues and program revenues. General revenues include taxes, interest on investments, and all other revenues not classified as program revenues. Program revenues include charges for services (i.e. user charges, land rentals, fees, forfeitures, and penalties) and capital grants. Depreciation for depreciable capital assets is recorded as an expense in this statement.

Fund financial statements. The District uses fund accounting to demonstrate compliance with finance-related legal requirements. For this purpose, a fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives.

The fund financial statements include information segregated between the District's governmental funds and its fiduciary funds. The governmental funds are used to account for the day-to-day activities of the District, while the fiduciary funds account for employee pensions (Pension Trust Fund) and other post-employment benefits (OPEB Trust Fund). The Governmental Funds Balance Sheets and Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances focus the reader's attention on the short-term financial position and results of operations, respectively, using the modified accrual basis of accounting. They also include budgetary statements for the General Corporate Fund and the Retirement Fund that compares the original and final budget amounts to actual results. This statement is provided to demonstrate compliance with the budget.

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the net position available for future pension and OPEB benefits and the change in net position, respectively. The fiduciary financial statements utilize the accrual basis of accounting, similar to that used for the government-wide financial statements.

Reconciliation of governmental fund financial statements to government-wide financial statements. Because the short-term focus of governmental fund financial statements is narrower than the long-term government-wide financial statement focus, reconciliations are required to explain the differences between the fund and government-wide financial statements. As a special purpose government, the District has elected to present the reconciliation by combining the presentation of the governmental fund statements with the government-wide statements. The Governmental Funds Balance Sheets are reconciled to the Statements of Net Position in a combined financial statement presentation (Exhibit A-1). Likewise, the Statements of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances are reconciled to the Statements of Activities in a combined financial statement presentation (Exhibit A-2).

Notes to the basic financial statements. The basic financial statements include notes that provide additional disclosure to better explain the financial data provided in the basic financial statements.

KEY FINANCIAL COMPARISONS

Property taxes. The primary source of revenue for the District is ad valorem property taxes. All District funds, with the exception of the District's Capital Improvements Bond Fund, derive their revenues primarily from property taxes. In 2017, total tax revenues increased by $11,349,000 in the District's Statement of Activities, as shown on page 39. The property tax levies for the Corporate Fund was the only levy that decreased from prior year; however, the majority of the increase in property taxes recorded is due to the change in deferral of tax revenue affecting the timing of collections.

Program revenue. The other notable changes were in user charge revenue and land rentals. The user charge revenue increase of $2,477,000, as shown on page 39, was primarily due to a new significant industrial user paying both 2016 and 2017 user charges in 2017. User charge rates and remaining customers have not varied significantly from the prior year. The decrease of $2,814,000 in land rental revenue is due to a change in the rental revenue recognition policy in the current year where the District will defer all rental revenue based on current year payments if they cover the rental period for any time period subsequent to year end. The prior policy was to defer payments only for payments in the last 60 days of the year.

Construction costs. The decrease in construction costs of $50,668,000, shown on page 39, was due to fewer projects being classified as substantially complete in 2017. To be compliant with GASB 34 reporting, the expense is reduced and the asset is increased when construction projects are capitalized. Thornton Reservoir was substantially complete in 2016. Although large construction projects continued throughout 2017, fewer were completed, thereby decreasing the construction costs for the current year.

Pension costs. The 2017 pension cost decreased $1,792,000 from 2016, as seen on page 39. The decrease can be attributed to changes in the pension expense due to GASB 68 additions and reductions to pension expense. Pension expense is made up of a variety of items including employee service cost, interest, benefit payments, administrative expenses and differences between expected and actual experiences. Employee contributions and net investment income of the fund offset some of these annual expenses.

Claims and judgments. The $5,886,000 increase on the Statement of Activities claims and judgments expense on page 39 is partly due to an increase in claims paid from the governmental funds of $2,119,000. The remainder of the expense is a result of the change in the claims liability.

Employee costs. The District's employee-related expenditures are the largest single cost of the General Corporate Fund, comprising 67.1% of the total outlays for 2017. Employee costs comprise regular pay, overtime, and health care benefits. The increase in employee costs of $2,166,845, shown on page 41, was attributable to an increase in salary and wages for existing employees and several budgeted positions being filled in 2017.

Energy costs. In 2017, energy costs in the General Corporate Fund showed an increase of $1,037,000 as seen on page 41. Energy costs are made up of electricity and natural gas. Both expenses increased in 2017. Natural gas increased approximately $533,000 as a result of a higher unit cost related to weather fluctuation, and an overall decrease in digester gas production at the Calumet Water Reclamation Plant. The remainder of the increase in energy cost was due to an increase in electricity use from increased aeration blower run time, which is part of the sewage treatment process, and resulting expenses.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

A condensed comparison of the Statements of Net Position for December 31, 2017 and 2016, is presented in the following schedule (in thousands of dollars):

	2017	2016	Increase (Decrease)	Percent Increase (Decrease)
Assets:				
Current and other assets	$ 1,405,592	$ 1,419,531	$ (13,939)	(1.0)%
Capital assets	7,594,442	7,426,934	167,508	2.3
Total assets	9,000,034	8,846,465	153,569	1.7
Deferred Outflows of Resources:				
Loss on prior debt refunding	4,899	5,426	(527)	(9.7)
Deferred amounts related to pension	182,036	187,959	(5,923)	(3.2)
Total deferred outflows of resources	186,935	193,385	(6,450)	(3.3)
Liabilities:				
Current liabilities	363,413	320,758	42,655	13.3
Long-term liabilities	4,192,025	4,179,147	12,878	0.3
Total liabilities	4,555,438	4,499,905	55,533	1.2
Deferred Inflows of Resources:				
Deferred inflows for other pension	15,102	—	15,102	100.0
Total deferred inflows of resources	15,102	—	15,102	
Net Position:				
Net investment in capital assets	4,710,123	4,591,899	118,224	2.6
Restricted	700,839	735,309	(34,470)	(4.7)
Unrestricted (Deficit)	(794,533)	(787,263)	(7,270)	0.9
Total net position	$ 4,616,429	$ 4,539,945	$ 76,484	1.7 %

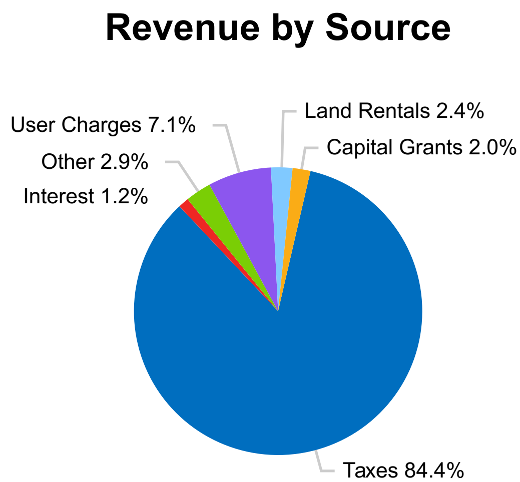
The above schedule reports that the District's net position totaled $4,616,429,000 at December 31, 2017, which represents the amount the District's assets and deferred outflows exceeded its liabilities. The largest portion of the net position, $4,710,123,000, represents the District's capital assets used to provide services to taxpayers, net of the related debt. These assets include land, buildings, equipment, and infrastructure, and they are not available for the District's future spending needs. Restricted net assets totaled $700,839,000 and represent resources that are subject to external or legal restrictions as to how they may be spent, such as federal grants or state loans, capital bond proceeds, tax levies for working cash, and debt service. The remaining portion of the unrestricted net position is a deficit of $794,533,000.

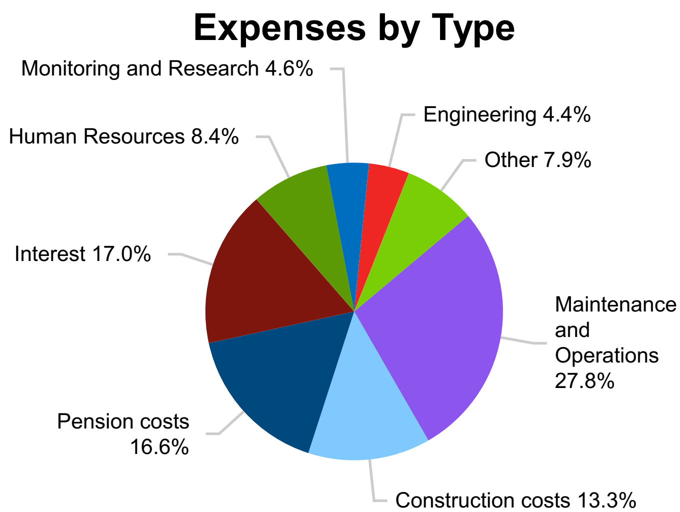
A comparison of the changes in net position resulting from the District's operations for the years ended December 31, 2017 and 2016 is presented in the following schedule (in thousands of dollars):

	2017	2016	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
General Revenues:				
Taxes	$ 606,958	$ 595,609	$ 11,349	1.9%
Interest	8,784	6,181	2,603	42.1
Other	15,752	16,174	(422)	(2.6)
Program Revenues:				
User charges	51,098	48,621	2,477	5.1
Land rentals	17,352	20,166	(2,814)	(14.0)
Fees, forfeits, and penalties	5,401	4,164	1,237	29.7
Capital grants	14,558	12,825	1,733	13.5
Total revenues	719,903	703,740	16,163	2.3
Expenses				
Board of commissioners	4,094	4,166	(72)	(1.7)
General Administration	15,791	15,690	101	0.6
Monitoring and Research	29,591	28,753	838	2.9
Procurement and Materials Management	5,947	6,602	(655)	(9.9)
Human Resources	54,267	54,447	(180)	(0.3)
Information Technology	12,734	14,702	(1,968)	(13.4)
Law	5,830	6,709	(879)	(13.1)
Finance	3,520	3,570	(50)	(1.4)
Engineering	27,830	28,002	(172)	(0.6)
Maintenance and Operations	178,994	177,829	1,165	0.7
Pension costs	106,814	108,606	(1,792)	(1.7)
OPEB Trust Fund costs	(6,681)	(7,008)	327	(4.7)
Claims and judgments	(2,662)	(8,548)	5,886	(68.9)
Construction costs	85,535	136,203	(50,668)	(37.2)
Loss on disposal of capital assets	202	13	189	1,453.8
Unallocated depreciation	12,063	12,083	(20)	(0.2)
Interest	109,550	111,182	(1,632)	(1.5)
Total expenses	643,419	693,001	(49,582)	(7.2)
Increase in net position	76,484	10,739	65,745	612.2
Total net position, beginning of year	4,539,945	4,529,206	10,739	0.2
Total net position, end of year	$ 4,616,429	$ 4,539,945	$ 76,484	1.7%

Total revenues increased by $16,163,000 in 2017, or 2.3% from the prior year, and total expenses decreased by $49,582,000 in 2017 or 7.2%. The major reasons for the variances are detailed under "Key Financial Comparisons" on pages 36-37.

The following charts show the major sources of revenue and expenses for the year ended December 31, 2017:





ANALYSIS OF DISTRICT'S GOVERNMENTAL FUND FINANCIAL STATEMENTS

As previously discussed, the focus of the District's governmental funds is on short-term inflows, outflows, and currently available resources. The emphasis in the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the governmental fund financial statements. For 2017, the District reports four major funds and two non-major funds. The four major governmental funds are the General Corporate Fund, the Retirement Fund, the Capital Improvements Bond Fund, and the Debt Service Fund. The non-major governmental funds are the Construction Fund and the Stormwater Management Fund.

The District ended the current fiscal year with combined governmental fund balances of $820,495,001, a decrease of $62,968,999 or 7.1% from 2016. A total of $38,967,000 of the fund balances represents non-spendable fund balances. Restricted fund balances totaled $687,933,000, assigned fund balances totaled $147,473,000, and the remaining deficit of $53,877,999 was unassigned.

General Corporate Fund

The General Corporate Fund is the principal operating fund of the District. It includes annual property taxes and other revenues, which are used for the payment of general operating expenditures not chargeable to other funds. The General Corporate Fund's fund balance at the end of the current fiscal year totaled $291,943,001. The fund balance represented 84.9% of the General Corporate Fund expenditures, a good indication of the fund's liquidity. The total fund balance for the General Corporate Fund had a decrease of $8,048,000 from 2016. The District's General Corporate Fund consists of the Corporate, Corporate Working Cash, and Reserve Claim Divisions, which are presented and explained in Note 1b on pages 64-70.

The General Corporate Fund ended the year with an unassigned fund balance deficit of $53,798,999 due to the required reserve claims restriction, non-spendable inventories and restricted working cash.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2017 and 2016 is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Revenue Schedule

	2017		2016			
	Amount	**% of Total**	**Amount**	**% of Total**	**Increase (Decrease)**	**Percent Increase (Decrease)**
Revenues:						
Property taxes	$ 212,679	64.4%	$ 243,847	68.6%	$ (31,168)	(12.8)%
Personal property replacement tax	28,715	8.7	23,436	6.6	5,279	22.5
Total tax revenue	241,394	73.1	267,283	75.2	(25,889)	(9.7)
Interest on investments	3,006	0.9	1,872	0.5	1,134	60.6
Land sales	50	—	1,233	0.3	(1,183)	(95.9)
Tax increment financing distributions	9,100	2.7	9,228	2.6	(128)	(1.4)
Claims and damage settlements	199	0.1	187	0.1	12	6.4
Miscellaneous	3,888	1.2	3,275	0.9	613	18.7
User charges	51,098	15.5	48,621	13.7	2,477	5.1
Land rentals	17,352	5.3	20,166	5.7	(2,814)	(14.0)
Fees, forfeits, and penalties	3,915	1.2	3,418	1.0	497	14.5
Total revenues	$ 330,002	100.0%	$ 355,283	100.0%	$ (25,281)	(15.6)%

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments, rental income and tax increment financing distributions. In 2017, General Corporate Fund revenues totaled $330,002,000, a decrease of $25,281,000, or 15.6%, from 2016. The major variances in revenues are explained under "Key Financial Comparisons" on pages 36-37.

A comparative analysis of the General Corporate Fund expenditures by object class for the years ended December 31, 2017 and 2016, is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Expenditures Schedule

	2017		2016			
	Amount	**% of Total**	**Amount**	**% of Total**	**Increase (Decrease)**	**Percent Increase (Decrease)**
Expenditures:						
Employee Cost	$ 230,646	67.1%	$ 228,479	66.7%	$ 2,167	0.9%
Energy Cost	39,173	11.4	38,136	11.1	1,037	2.7
Chemicals	9,137	2.7	9,756	2.9	(619)	(6.3)
Solids & waste disposal	13,885	4.0	13,007	3.8	878	6.8
Repairs to structures/equipment	13,164	3.8	15,962	4.7	(2,798)	(17.5)
Materials, parts, & supplies	11,152	3.2	11,372	3.3	(220)	(1.9)
Insurance	3,080	0.9	3,100	0.9	(20)	(0.6)
Professional services	4,150	1.2	5,140	1.5	(990)	(19.3)
Claims and judgments	6,905	2.0	4,786	1.4	2,119	44.3
All other expenditures	12,758	3.7	12,666	3.7	92	0.7
Total expenditures	$ 344,050	100.0%	$ 342,404	100.0%	$ 1,646	0.5%

In 2017, General Corporate Fund expenditures totaled $344,050,000, an increase of $1,646,000, or 0.5%, from 2016. Employee costs, energy costs, and solids and waste disposal were the three largest expenditure components of the General Corporate Fund in 2017, accounting for 82.5% of total expenditures versus 81.6% in 2016. The major variances in expenses are explained under “Key Financial Comparisons” on pages 36-37.

Other Major Funds. The District’s Debt Service Fund accounts for property tax revenues and interest earnings used for the payment of principal and interest on bonded debt. The Debt Service Fund’s fund balance at the end of the current fiscal year totaled $147,000,000. The fund balance represented 64.2% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Fund decreased by $16,508,000 in the current year, as a result of the decrease in property tax revenue and a slight increase in bond principal and interest payments.

The Capital Improvements Bond Fund is a capital projects fund used by the District for the construction and preservation of capital facilities. The Capital Improvements Bond Fund’s resources are bond proceeds, government grants, and state revolving fund loans. The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled $311,997,000. This amount will provide resources for the 2018 capital construction program. The fund balance represented 127.3% of the fund’s expenditures. The fund balance decrease of $62,038,000 in the current year was primarily due to continued construction of capital projects and no issuance of general obligation bonds in 2017.

The Retirement Fund is classified as a major fund because total liabilities in prior years have been greater than 10% of the total governmental funds and the fund is used for collection of the tax levy which is remitted to the Pension Board. This presentation remains for comparative purposes. There is no fund balance for the Retirement Fund at the end of the current fiscal year, as all funds are transferred, or due to, the District’s Pension Fund.

GENERAL CORPORATE FUND BUDGET ANALYSIS

The General Corporate Fund budget includes the budgetary accounts of the Corporate Fund and Reserve Claim divisions. A comparison of the 2017 original budget to the final amended budget and actual results for the General Corporate Fund is presented in the basic financial statements (Exhibit A-3). A comparison of the General Corporate Fund’s 2017 budget and actual results at the appropriation line item level is presented in Combining and Individual Fund Statements and Schedules (Exhibit C-1).

A condensed summary of the 2017 General Corporate Fund budget and actual amounts is presented in the following schedule (in thousands of dollars):

	Budget		Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property and personal property replacement taxes	$ 239,899	$ 239,899	$ 239,885	$ (14)
Adjustment for working cash borrowing	(4,272)	(4,272)	(4,272)	—
Adjustment for estimated tax collections	—	—	11,653	11,653
Tax revenue available for current operations	235,627	235,627	247,266	11,639
User charges	47,000	47,000	53,252	6,252
Interest on investments	800	800	1,823	1,023
Tax increment financing distributions	11,025	11,025	12,036	1,011
Land rentals	19,000	19,000	20,628	1,628
Land sales	—	—	50	50
Claims and damage settlements	—	—	223	223
Other	8,467	8,467	8,328	(139)
Equity transfer	6,000	6,000	6,000	—
Total revenues	327,919	327,919	349,606	21,687
Operating expenditures:				
Board of Commissioners	4,496	4,496	4,073	423
General Administration	17,387	17,387	15,729	1,658
Monitoring and Research	31,270	31,270	29,090	2,180
Procurement and Materials Management	9,567	9,567	8,726	841
Human Resources	60,905	60,905	54,171	6,733
Information Technology	17,359	17,359	14,557	2,802
Law	8,386	8,386	5,921	2,465
Finance	3,684	3,684	3,528	155
Engineering	28,835	28,835	26,061	2,774
Maintenance and Operations	187,035	187,035	176,568	10,469
Claims and judgments	30,617	30,617	6,905	23,712
Total expenditures	399,541	399,541	345,329	54,212
Revenues over (under) expenditures	(71,622)	(71,622)	4,277	75,899
Fund balance at beginning of year	160,721	160,721	166,348	5,627
Net assets available for future use	(89,099)	(89,099)	—	89,099
Fund balance at beginning of year	71,622	71,622	166,348	94,726
Fund balance at end of the year	$ —	$ —	$ 170,625	$ 170,625

Actual revenues on a budgetary basis for 2017 in the General Corporate Fund totaled \$349,606,000, or \$21,687,000 more than budgeted revenues, a 6.6% variance. Property taxes and personal property replacement taxes were \$11,639,000 more than the budget, mostly due to the collection of taxes greater than the allowance. User charge receipts were \$6,252,000 more than budgeted due to an additional \$5.6 million dollar unbudgeted payment from a new significant industrial user paying both 2016 and 2017 user charges in 2017. Interest on investments was \$1,023,000 over budget as of result of a switch to collateralized short term certificates of deposit because of an increase in the Federal fund rate. Land rentals were $1,628,000 more than the budget due to a continued effort to maximize the District's real estate portfolio.

The 2017 General Corporate Fund final appropriation of $399,541,000 remained equal to the original amount. Actual budgetary expenditures totaled $345,329,000, or 85.8%, of the total appropriation. The $54,212,000 excess of appropriations over actual expenditures was primarily due to claims and judgments costs being $23,712,000 less than appropriations, and positive variances in expenditures from all departments, most noticeably a $10,469,000 positive variance for Maintenance and Operations. Expenditures for the Maintenance and Operations Department were below appropriations, for reasons that include position vacancies throughout the year, lower than estimated use of chemicals due to refining the processes in phosphorous removal at Stickney, disinfection at Calumet, as well as lower than estimated distribution of biosolids to privately owned agricultural land.

The District's Reserve Claim fund actual payments were significantly lower than budgeted, resulting in a large variance between budget and actual, as it is the policy of the District to appropriate the entire Reserve Claim fund balance. This is consistent with the Board of Commissioners' policy to accumulate sufficient reserves for payment of future claims without exposing the District to financial risk that could curtail normal operations.

CAPITAL ASSETS AND MODIFIED APPROACH

Capital Assets. The District's reportable capital assets, net of accumulated depreciation, as of December 31, 2017, amounted to $7,594,442,000. Reportable capital assets, net of accumulated depreciation, for 2017 as compared to 2016 are as follows (in thousands of dollars):

	2017	2016	Increase (Decrease)	Percent Increase (Decrease)
Land	$ 144,204	$ 142,880	$ 1,324	0.9%
Permanent easements	1,463	1,463	—	—
Buildings	6,984	7,169	(185)	(2.6)
Machinery and equipment	24,180	25,239	(1,059)	(4.2)
Computer software	1,449	857	592	69.1
Depreciable infrastructure	1,651,454	1,662,767	(11,313)	(0.7)
Modified infrastructure	5,085,766	5,045,360	40,406	0.8
Construction in progress	678,942	541,199	137,743	25.5
Total	$ 7,594,442	$ 7,426,934	$ 167,508	2.3%

Significant capital asset changes during the current fiscal year included the following:

- Total capital asset additions exceeded retirements and depreciation by $167,508,000 in 2017.
- Construction in progress increased by $137,743,000 from 2016 to 2017 because several large projects continued through 2017 but were not completed, and therefore not moved to infrastructure. Major projects which remained in progress during 2017 include: additional construction related to Phase II of the McCook reservoir and surrounding tunnels, construction of primary settling tanks with an aerated grit facility, construction of the Addison Creek reservoir, continued construction of Stickney's Phosphorous Recovery system, and construction of Calumet TARP screens.
- Increase in the Modified Infrastructure is primarily due to the substantial completion of the distributed control system for solids processing at Stickney WRP, Mainstream Pumping Station and other remote stations. Completion of this project accounted for approximately $35 million of the increase to Infrastructure. The remainder of the increase is due to the residual costs of construction projects completed in the prior year being added directly to infrastructure.

In addition to the above, commitments totaling $290,252,000 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

Modified approach. The District's infrastructure assets include interceptor sewers, wastewater treatment basins, waterway assets (such as reservoirs and aeration stations) and deep tunnels, drop shafts and regulating elements making up a pollution and flood control program called TARP. The District is using the modified approach to report its infrastructure assets, with the exception of the TARP deep tunnels and drop shafts, which are depreciated. The District elected the modified approach to: a) clearly convey to the taxpayers the District's efforts to maintain infrastructure assets at or above an established condition level; b) provide and codify a process to coordinate construction projects between the Engineering and Maintenance and Operations departments; c) readily highlight infrastructure assets that need significant repair/rehabilitation/replacement under a construction project; and d) provide additional evaluative information to bond rating agencies to insure that the District's bond rating is maintained at the highest level.

The Kirie, Hanover, Egan, Central (Stickney), O'Brien, Calumet, Lemont, and Waterways network assets had their initial condition assessments completed between 2002 and 2006. Kirie, Central (Stickney) and Waterways each had its most recent condition assessment completed in 2017. The Egan and O'Brien networks each had its most recent condition assessment completed in 2016. The Hanover, Calumet and Lemont networks each had its most recent condition assessment completed in 2015. (See further discussion of the modified approach in the Required Supplementary Information Section).

As noted in the Required Supplementary Information, the condition ratings for eligible infrastructure assets compare favorably with the District's target level of acceptable or better. In addition, there are no significant differences between the estimated maintenance and preservation costs and the actual costs. Additional disclosure on the District's capital assets and modified approach can be found in the Notes 1.l. and 6 to the basic financial statements and in the Required Supplementary Information section.

DEBT ACTIVITY

Long-term Debt. The District's long-term liabilities as of December 31, 2017, totaled $4,359,376,000. The breakdown of this debt and changes from 2016 to 2017 are as follows (in thousands of dollars):

	2017	2016	Increase (Decrease)	Percent Increase (Decrease)
Bonds payable, net	$ 2,879,915	$ 2,965,282	$ (85,367)	(2.9)%
Bond anticipation notes	296,529	157,390	139,139	88.4
Claims payable	30,669	40,236	(9,567)	(23.8)
Compensated absences	22,811	24,486	(1,675)	(6.8)
Capital lease	38,574	41,047	(2,473)	(6.0)
Net Pension liability	1,079,566	1,073,113	6,453	0.6
Net OPEB obligation	11,312	17,993	(6,681)	(37.1)
Total	$ 4,359,376	$ 4,319,547	$ 39,829	0.9 %

Significant changes in long-term liabilities during the current fiscal year included the following:

- Bonds payable, net, decreased by $85,367,000 in 2017 as a result of payments on existing bonds with no additional issuances in the current year.
- Bond anticipation notes increased by $139,139,000 in 2017 as a result of the issuance of $228,781,000 in notes and the conversion of $39,281,000 from bond anticipation notes to bonds plus an approximate $50 million change in interest accrued.

- Claims payable decreased by $9,567,000 due to reductions in workers' compensation, general, health and dental, and environmental remediation claims.
- A number of items factor into the Net Pension Liability. The $6,453,000 increase is the net change of increases in interest, service cost, administrative costs, and expected v. actual experience with decreases in contributions and net investment income. See Note 7 for additional details.

The District's general obligation bonds have the following long-term credit ratings:

Standard & Poor's Financial Services. LLC	AA+
Fitch, Inc.	AAA
Moody's Investors Service	Aa2

In July 2015, Moody's Investor Service downgraded the District's bond rating from Aa1 to Aa2. In May 2016, Standard & Poor's Financial Services downgraded the District's bond rating from AAA to AA+. The primary reason for the downgrades is the pressure on the District's tax base due to the significant debt burden and pension liabilities for major governmental agencies in Cook County, reflecting the opinion on the affordability of possible tax increases by other agencies and how this could impact Cook County residents. Additional disclosure on debt can be found in Note 11 to the basic financial statements.

Debt Limits and Borrowing Authority. Various applicable sections of the Illinois Compiled Statutes establish the following limitations relative to the District's debt:

Effective October 1, 1997, the District may fund up to 100% of the aggregate total of the estimated amount of taxes levied or to be levied for corporate purposes, plus the General Corporate Fund portion of the personal property replacement tax, through borrowing from the Corporate Working Cash Fund and issuance of tax anticipation notes or warrants. The policy of the District currently is to fund up to 95%. The provisions also pertain to the Construction, Construction Working Cash, Stormwater Management, and Stormwater Working Cash Funds.

The amount of the District's debt may not exceed 5.75% of the last published equalized assessed valuation of taxable real estate within the District, which was $140,752,201,000 for the 2016 property tax levy. At December 31, 2017, the District's statutory debt limit of $8,093,251,000 exceeded the applicable net debt amount of $2,963,366,188 by $5,129,884,812.

The Illinois Compiled Statutes provide authorization for the funding of the District Capital Improvement Program by the issuance of non-referendum capital improvement bonds. Starting in 2003, bonds may be issued during any budget year in an amount not to exceed $150 million plus the amount of any bonds authorized and unissued during the three preceding budget years. The District has issued various series of bonds since the authorization. This limitation is not applicable to refunding bonds, money received from the Water Pollution Control Revolving Fund, and obligations issued as part of the American Recovery and Reinvestment Act of 2009, issued prior to January 1, 2011, commonly known as "Build America Bonds". Bonds authorized, unissued and carried forward were $450,000,000 for the budget year ended December 31, 2017.

The District has non-referendum bonding authority until the year 2024. When the Property Tax Extension Limitation Law was made applicable to Cook County, the legislature recognized that the completion of the Tunnel and Reservoir Plan (TARP) was such a high priority that it exempted TARP bonds from tax cap limits. In 2010, the Local Government Debt Reform Act was amended. The District's debt service extension base for the levy year 2017 is $166,066,470 (the "Debt Service Extension Base"), which can be increased each year by the lesser of 5% or the percentage increase in the Consumer Price Index (as defined in the Limitation Law). The Property Tax Extension Limitation Law has been amended so that the issuance of bonds by the District to construct TARP will not reduce the District's ability to issue limited bonds for other major capital projects. The amount of outstanding non-referendum Capital Improvement Bonds may not exceed 3.35% of the last known equalized assessed valuation of taxable property within the District. At

December 31, 2017, the District's outstanding capital improvement and refunding bonds (excluding State Revolving Fund bonds and alternate bonds) of $1,812,210,000 did not exceed the limitation of $4,751,198,739.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2017, are indicated in the following schedule (in millions of dollars):

Capital Improvement and Refunding Bonds
Outstanding and Remaining Authorization

Year of Issue	Total	Capital Improvement	Refunding
2007	$ 323	$ —	$ 323
2009	600	600	—
2011	320	320	—
2014	245	174	71
2016	376	54	322
Total bonds outstanding at December 31, 2017	1,864	$ 1,148	$ 716
Remaining bond authorization at December 31, 2017	2,501		
Total bond authorization at December 31, 2017	$ 4,365		

The amount of non-referendum Corporate Working Cash Fund bonds, when added to (a) proceeds from the sale of Working Cash Fund bonds previously issued, (b) any amounts collected from the Corporate Working Cash Fund levy, and (c) amounts transferred from the Construction Working Cash Fund, may not exceed 90% of the amount produced by multiplying the maximum general corporate tax rate permitted by the last known equalized assessed valuation of all property in the District at the time the bonds are issued, plus 90% of the District's last known entitlement of the Personal Property Replacement Tax.

Additional information on the District's debt can be found in Note 11 to the basic financial statements and Exhibits I-10 through I-12 of the Statistical Section.

ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT

The equalized assessed valuation of the District has experienced a 0.24% average growth rate over the last ten years although the 2016 equalized assessed valuation of $140,752,201 is 8% higher than the previous year. As in 2016, home sales seem slow, but area home prices continued to climb because there is insufficient inventory to meet the current demand. The median price of homes in the Chicago area was up 5.6% compared to the prior year. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels. The boundaries of the District encompass 91% of the land area of Cook County. The District is located in one of the strongest and most economically diverse geographical areas of Illinois. Unemployment for the Chicago-Naperville-Joliet Metropolitan Division decreased to a seasonally adjusted rate of 4.8% for 2017, down from 5.8% a year earlier. Employment, tourism, manufacturing, and the commercial and residential real estate markets have all been steadily improving in the past few years.

Corporate Fund. The Corporate Fund is the District's general operating fund and includes appropriation requests for all the day-to-day operational costs anticipated for 2018. The total appropriation for the Corporate Fund in 2018 is $370.2 million, an increase of $1.3 million, or .3% from the 2017 Adjusted Budget. The 2018 tax levy for the Corporate Fund is $223.9 million, an increase of $16.5 million or 7.4% compared to the 2017 Adjusted Budget.

Property taxes and user charges are the primary funding sources for the District's Corporate Fund. Illinois law limits the tax rate of this fund to 41 cents per $100 of equalized assessed valuation. The estimated tax rate for the Corporate Fund in 2018 is 16.11 cents, an increase of 0.66 cents from 2017 as adjusted. User charges are collected from industrial, commercial, and non-profit organizations to recover operations, maintenance, and replacement costs proportional to their sewage discharges, in excess of property taxes collected. The major categories of payers: chemical manufacturers, food processors, and government services, are generally expected to maintain their recent level of discharges.

Stormwater Management Fund. The Stormwater Management Fund was established by Public Act 93-1049 on January 1, 2005. This fund accounts for tax levies and other revenue to be used for stormwater management activities throughout all of Cook County, including areas that currently lie outside the District's boundaries. The fund consolidates the stormwater management activities of the Engineering and Maintenance & Operations Departments.

The Stormwater Management Fund appropriation for 2018 totals $65.6 million, an increase of $19.8 million or 43.2% from the 2017 Adjusted Budget. Property taxes are the primary funding source for the District's Stormwater Management Fund. Illinois law limits the tax rate of this fund to 5 cents per $100 of equalized assessed valuation. The estimated tax rate for the Stormwater Management Fund in 2018 is 3.2 cents, which is an increase of 0.4 cents from 2017 as adjusted.

Although the primary funding source for the Fund is the Stormwater Property Tax Levy, the District also issued Alternate Revenue Bonds funded from the Stormwater Levy in both the 2015 and 2016 bond offerings. The "green" projects financed by the bonds involves the development, design, planning and construction of regional and local stormwater facilities provided for in the countywide stormwater management plan and the acquisition of real property.

By means of this program, the District has completed Detailed Watershed Plans (DWP) for all six watersheds in Cook County, initiated a Stormwater Management Capital Improvement program, initiated a Small Streams Maintenance Program (SSMP), and adopted and implemented the Watershed Management Ordinance.

Two categories have been established for DWP projects. The first category is streambank stabilization, which involves addressing critical active streambank erosion threatening public safety, structures, and/or infrastructure. The second category of projects addresses regional overbank flooding. The selected projects constitute the Stormwater Capital Improvement Program, and will be scheduled according to funding availability.

Through the management of the SSMP, the M&O Department works to reduce flooding in urbanized areas. The streams that flow through the neighborhoods of Cook County are more than just a scenic part of the landscape but also serve the vital function of draining stormwater and preventing flooding. In order to function, the streams must be maintained, which includes removing blockages and preventing future blockages by removing dead and unhealthy trees and invasive species.

The District's statutory authority for Stormwater Management in Cook County (70 ILCS 2605/7h) was amended in 2014 to allow for the acquisition of flood-prone properties. Subsequent to amending the Cook County Stormwater Management Plan to be consistent with Public Act 98-0652, the District's Board of Commissioners adopted a policy on selection and prioritization of projects for acquiring flood-prone property, which is comprised of three distinct components, as follows:

- Local Sponsorship Assistance Program: The District's top priority will be to facilitate the Illinois Emergency Management Agency's federally funded program by assisting local sponsor communities in providing their share of the cost for property acquisition;
- District Initiated Program: The cost of a property acquisition alternative will be estimated for any approved project and compared to the estimated cost of the structural project determined through a preliminary engineering analysis. Should the cost of the property acquisition alternative be less than the structural project, and the benefits at least equivalent, the acquisition alternative will be pursued in lieu of the structural project;
- Local Government Application Program: The District will consider applications directly from local governments requesting property acquisition of specific flood-prone structures.

Capital Improvement Program: Construction Fund and Capital Improvements Bond Fund. The District's overall Capital Program includes 2018 project awards, land acquisition, support, future projects, and projects under construction, with a total cost of approximately $1.2 billion. Capital projects involve the acquisition, improvement, replacement, remodeling, completing, altering, constructing, and enlarging of District facilities. Included are all fixtures which are permanently attached to and made a part of such structures and non–structural improvements, and which cannot be removed without, in some way, impairing the facility or structure.

Projects under construction have been presented and authorized in previous Budgets and are recognized in the Annual Budget as both outstanding liabilities in the Capital Improvements Bond Fund, and as re-appropriations in the Construction Fund. Future projects, not yet appropriated, are included in the Annual Budget to present a comprehensive picture of the District's Capital program. These future projects will be requested for appropriation subject to their priority, design, and available funding.

The District utilizes two funds for its Capital program, the Construction Fund and the Capital Improvements Bond Fund. The Construction Fund is utilized as a "pay as you go" capital rehabilitation and modernization program. Capital projects are financed by a tax levy sufficient to pay for project costs as they are constructed. As the District replaces, rehabilitates, and modernizes aged and less effective infrastructure, capital projects are assigned to the Corporate, Construction, or Capital Improvements Bond Fund based on the nature of the project, dollar magnitude, and useful life of the improvement. The Construction Fund is used for operations-related projects, where the useful life of the improvement is less than 20 years.

The Capital Improvements Bond Fund, the District's other capital fund, includes major capital infrastructure projects whose useful lives extend beyond 20 years, and which will be financed by long-term debt, Federal and State grants, and State Revolving Fund loans.

The 1995 Tax Extension Limitation Law (Tax Cap), and subsequent amendments to the bill, dramatically impacted the methods of financing the Capital Improvements Bond Fund. The original legislation required, in general, that all new debt be approved by referendum. However, an exemption for projects initiated before October 1, 1991 was granted to the District to enable completion of the Tunnel and Reservoir Plan (TARP). The bill was later amended to establish a "debt extension base," which allowed local governments, with non-referendum authority, to continue to issue non-referendum debt in terms of "limited bonds" as long as their annual debt service levies did not exceed 1994 levels. This law was further amended in 1997 to exclude TARP project debt from this debt service extension base. The passage of legislation in 1997 allowing for expanded authority to issue "limited bonds" by excluding pre-existing TARP projects provides additional financing flexibility to proceed with our Capital program.

The USEPA implemented the State Revolving Fund (SRF) to ensure that each state's program is designed and operated to continue to provide capital funding assistance for water pollution control activities in perpetuity, but preserves a high degree of flexibility for operating revolving funds in accordance with each state's unique needs and circumstances. Funds in the SRF are not used to provide grants, but must be available to provide loans for the construction of publicly owned wastewater treatment works. Low interest SRF loans are an integral part of the District's capital improvements financing. SRF revenues are based on the award and construction schedule of specific projects. In 2017, the District received $228,781,500 in cash receipts for SRF projects.

Construction Fund. The Construction fund appropriation for 2018 totals $26,080,600, a decrease of $8,369,800 or 24.3% from the 2017 Adjusted Budget.

Capital projects in the Construction Fund are primarily supported by property taxes and thus subject to the Tax Cap. The 2018 tax levy planned for the Construction Fund is $11,700,000, a decrease of $4.6 million or 28.1% from the 2017 Adjusted Levy.

Capital Improvements Bond Fund. The 2018 appropriation for the Capital Improvements Bond Fund is $312,982,900, a decrease of $41,642,700 or 11.7% from the 2017 Adjusted Budget. Capital projects pursued by the District are: mission critical, improve environmental quality, preservation/rehabilitation of existing infrastructure or commitment to the community through process optimization. The appropriation is based on the scheduled award of $275,206,000 in projects. Capital Improvements Bond Fund projects scheduled for award in 2018 with estimated award values include one TARP modification project of $2.5 million; eleven plant expansion and improvement projects at $38.6 million; and fourteen facilities replacement projects at $89.1 million.

The decrease in appropriation for the Capital Improvements Bond Fund of $41,642,700 reflects the pattern in the award of major projects. An appropriation for the open value of existing contracts is also carried forward from the prior year.

The remaining $37,776,900 million appropriation for this fund will provide for studies, services, and supplies to support District design and administration of proposed and ongoing construction activity, including the TARP reservoirs. A comprehensive narrative, and exhibits detailing our entire Capital program, is provided in the Capital Budget (Section V) of the 2018 budget document.

A listing and description of proposed projects, and projects under construction, scheduled for 2018, can be found in the Capital Budget (Section V) of the 2018 Budget document.

Other Post-Employment Benefits (OPEB) Trust. The District provides subsidized health care benefits for its retirees. The Governmental Accounting Standards Board (GASB) Pronouncement 45 requires reporting of the future liability for maintaining these benefits in the Comprehensive Annual Financial Report (CAFR).

In 2006, the District proposed state legislation to give authority to establish an OPEB trust. Public Act 95-394 became effective on August 23, 2007. Since inception, the District has budgeted and transferred a total of $127,400,000 million into the OPEB Trust Fund. The District has continued to contribute $5.0 million per year until the Trust is fully funded. Total net position was $195,200,000 as of December 31, 2017. The accumulated unfunded OPEB obligation was estimated at approximately $113,547,457 at December 31, 2017. On December 19, 2013, the Board of Commissioners adopted a revised investment policy statement for the Metropolitan Water Reclamation District Retiree Health Care Trust.

In 2007, the Board 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 Board 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 contribution 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% for all future years. There is currently no legal requirement for the District to partially or fully fund the OPEB Trust Fund and any funding is on a voluntary basis.

The policy adopted by the District is cautious by design, and will provide ample opportunity for adjustment as experience is gained. Future direction may also be changed significantly by national health care policies and programs.

Pension and OPEB Reporting Changes. The District implemented GASB 68, Accounting and Financial Reporting for Pensions, beginning with the year ended December 31, 2015. The implementation of this standard resulted in a net pension liability recognized by the District of $947,300,000; however, net position remained positive. The OPEB Trust Fund implemented GASB 74 (for post-retirement plan) in 2017 and the District will be implementing GASB 75 (for employer) in 2018.

Organized Labor. The District has seven collective bargaining agreements that cover sixteen unions and include approximately 770 of the District's employees for the purposes of establishing wages and benefits. Three-year successor agreements were negotiated with all bargaining units in 2017 and will expire in 2020.

Retirement Fund. On August 3, 2012, Governor Quinn signed House Bill 4513, now Public Act 97-0894, into law. The tax multiple, which is limited by state statute, was increased in 2013 from 2.19 to the amount sufficient to meet the Fund's actuarially determined contribution requirement, but not to exceed an amount equal to 4.19 times the employee contributions two years prior. The employee contributions for tier 1 employees (those hired before January 1, 2011) increased 1% each year for 3 years beginning January 1, 2013, increasing the contribution rate from 9% to 12%. The employee contributions will remain at 12% until the funded ratio reaches 90% then the contribution rate will be reduced to 9%.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is intended to provide a general summary of the District's finances to interested parties, and to demonstrate the District's accountability over the resources it receives. Please feel free to contact the Clerk/Director of Finance or Comptroller at the Metropolitan Water Reclamation District of Greater Chicago, 100 E. Erie Street, Chicago, Illinois 60611-2803, (312) 751-6500, if additional information is needed.

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BASIC FINANCIAL STATEMENTS

Exhibit A-1
Governmental Funds Balance Sheets/Statements of Net Position

December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)	General Corporate Fund 2017	General Corporate Fund 2016	Debt Service Fund 2017	Debt Service Fund 2016	Capital Improvement Bond Funds 2017	Capital Improvement Bond Funds 2016
Assets and deferred outflows of resources						
Assets:						
Cash	$ 21,162	$ 19,388	$ 11,145	$ 3,478	$ 14,113	$ 7,514
Certificates of deposit	116,881	65,675	10,051	20,009	56,219	82,187
Investments (note 4)	99,282	146,736	88,768	92,185	255,468	233,557
Prepaid insurance	4,101	2,117	—	—	—	—
Taxes receivable, net (note 5)	221,802	223,793	224,578	219,040	—	—
Other receivables, net (note 5)	8,599	14,294	—	—	42,497	97,261
Due from other funds (note 12)	101	101	—	—	—	—
Restricted deposits	527	285	—	—	—	—
Inventories	34,787	35,502	—	—	—	—
Capital assets not being depreciated/amortized (note 6)	—	—	—	—	—	—
Capital assets being depreciated/amortized, net (note 6)	—	—	—	—	—	—
Total assets	507,242	507,891	334,542	334,712	368,297	420,519
Deferred outflows of resources:						
Loss on prior debt refunding	—	—	—	—	—	—
Deferred outflows for pension related amounts	—	—	—	—	—	—
Total deferred outflows of resources	—	—	—	—	—	—
Total assets and deferred outflows of resources	$ 507,242	$ 507,891	$ 334,542	$ 334,712	$ 368,297	$ 420,519
Liabilities, deferred inflows of resources, and fund balances/net position						
Liabilities:						
Accounts payable and other liabilities (note 5)	$ 21,924	$ 28,126	$ —	$ —	$ 55,356	$ 45,543
Due to Pension Trust Fund (note 12)	—	—	—	—	—	—
Due to other funds (note 12)	—	—	—	—	—	—
Accrued interest payable	—	—	—	—	—	—
Unearned Revenue (note 5)	8,139	4,855	—	—	—	—
Long-term liabilities: (note 11)						
Due within one year	—	—	—	—	—	—
Due in more than one year	—	—	—	—	—	—
Total liabilities	30,063	32,981	—	—	55,356	45,543
Deferred inflows of resources:						
Unavailable tax revenue (note 5)	185,236	174,919	187,542	171,204	—	—
Other unavailable revenue (note 5)	—	—	—	—	944	941
Deferred inflows for other pension amounts	—	—	—	—	—	—
Total deferred inflows of resources	185,236	174,919	187,542	171,204	944	941
Fund balances:						
Nonspendable:						
Prepaid insurance	4,101	2,117	—	—	—	—
Inventories	34,787	35,502	—	—	—	—
Restricted for:						
Deposits	527	285	—	—	—	—
Working cash	280,437	279,390	—	—	—	—
Reserve claims	25,890	27,125	—	—	—	—
Debt service	—	—	147,000	163,508	—	—
Capital projects	—	—	—	—	164,524	228,694
Construction	—	—	—	—	—	—
Assigned	—	—	—	—	147,473	145,341
Unassigned (Deficit)	(53,799)	(44,428)	—	—	—	—
Total fund balances	291,943	299,991	147,000	163,508	311,997	374,035
Total liabilities, deferred inflows, and fund balances	$ 507,242	$ 507,891	$ 334,542	$ 334,712	$ 368,297	$ 420,519
Net position:						
Net investment in capital assets						
Restricted for corporate working cash						
Restricted for reserve claim						
Restricted for debt service						
Restricted for capital projects						
Restricted for construction working cash						
Restricted for stormwater working cash						
Unrestricted (Deficit)						
Total net position						

See accompanying notes to the basic financial statements.

	Retirement Fund		Other Governmental / Nonmajor Funds		Total Governmental Funds		Adjustments (Note 2a)		Statements of Net Position	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	$ —	$ —	$ 2,590	$ 5,081	$ 49,010	$ 35,461	$ —	$ —	$ 49,010	$ 35,461
	—	—	29,069	5,003	212,220	172,874	—	—	212,220	172,874
	—	—	32,958	31,360	476,476	503,838	—	—	476,476	503,838
	—	—	79	1	4,180	2,118	—	—	4,180	2,118
	75,042	69,200	55,128	45,865	576,550	557,898	—	—	576,550	557,898
	—	—	746	—	51,842	111,555	—	—	51,842	111,555
	—	—	—	—	101	101	(101)	(101)	—	—
	—	—	—	—	527	285	—	—	527	285
	—	—	—	—	34,787	35,502	—	—	34,787	35,502
	—	—	—	—	—	—	5,910,375	5,730,902	5,910,375	5,730,902
	—	—	—	—	—	—	1,684,067	1,696,032	1,684,067	1,696,032
	75,042	69,200	120,570	87,310	1,405,693	1,419,632	7,594,341	7,426,833	9,000,034	8,846,465
	—	—	—	—	—	—	4,899	5,426	4,899	5,426
	—	—	—	—	—	—	182,036	187,959	182,036	187,959
	—	—	—	—	—	—	186,935	193,385	186,935	193,385
	$ 75,042	$ 69,200	$ 120,570	$ 87,310	$ 1,405,693	$ 1,419,632	$ 7,781,276	$ 7,620,218	$ 9,186,969	$ 9,039,850
	$ —	$ —	$ 4,886	$ 5,430	$ 82,166	$ 79,099	$ —	$ —	$ 82,166	$ 79,099
	15,868	20,051	—	—	15,868	20,051	73,990	60,208	89,858	80,259
	—	—	101	101	101	101	(101)	(101)	—	—
	—	—	—	—	—	—	15,899	16,145	15,899	16,145
	—	—	—	—	8,139	4,855	—	—	8,139	4,855
	—	—	—	—	—	—	167,351	140,400	167,351	140,400
	—	—	—	—	—	—	4,192,025	4,179,147	4,192,025	4,179,147
	15,868	20,051	4,987	5,531	106,274	104,106	4,449,164	4,395,799	4,555,438	4,499,905
	59,174	49,149	46,028	35,849	477,980	431,121	(477,980)	(431,121)	—	—
	—	—	—	—	944	941	(944)	(941)	—	—
	—	—	—	—	—	—	15,102	—	15,102	—
	59,174	49,149	46,028	35,849	478,924	432,062	(463,822)	(432,062)	15,102	—
	—	—	79	1	4,180	2,118	(4,180)	(2,118)		
	—	—	—	—	34,787	35,502	(34,787)	(35,502)		
	—	—	—	—	527	285	(527)	(285)		
	—	—	59,713	59,454	340,150	338,844	(340,150)	(338,844)		
	—	—	—	—	25,890	27,125	(25,890)	(27,125)		
	—	—	—	—	147,000	163,508	(147,000)	(163,509)		
	—	—	4,146	—	168,670	228,694	(168,670)	(228,694)		
	—	—	5,696	—	5,696	—	(5,696)	—		
	—	—	—	—	147,473	145,341	(147,473)	(145,341)		
	—	—	(79)	(13,525)	(53,878)	(57,953)	53,878	57,954		
	—	—	69,555	45,930	820,495	883,464	(820,495)	(883,464)		
	$ 75,042	$ 69,200	$ 120,570	$ 87,310	$ 1,405,693	$ 1,419,632				
Net position:										
Net investment in capital assets							4,710,123	4,591,899	4,710,123	4,591,899
Restricted for corporate working cash							280,437	279,390	280,437	279,390
Restricted for reserve claim							9,976	2,128	9,976	2,128
Restricted for debt service							318,646	318,575	318,646	318,575
Restricted for capital projects							32,067	75,762	32,067	75,762
Restricted for construction working cash							22,204	22,070	22,204	22,070
Restricted for stormwater working cash							37,509	37,384	37,509	37,384
Unrestricted (Deficit)							(794,533)	(787,263)	(794,533)	(787,263)
Total net position							$ 4,616,429	$ 4,539,945	$ 4,616,429	$ 4,539,945

Exhibit A-2
Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statements of Activities

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)	General Corporate Fund		Debt Service Fund		Capital Improvement Bond Funds	
	2017	2016	2017	2016	2017	2016
Revenues						
General revenues:						
Property taxes	$ 212,679	$ 243,847	$ 207,606	$ 235,341	$ —	$ —
Personal property replacement tax	28,715	23,436	—	—	—	—
Interest on investments	3,006	1,872	1,433	1,065	3,659	2,689
Land sales	50	1,233	—	—	—	—
Tax increment financing distributions	9,100	9,228	—	—	—	—
Claims and damage settlements	199	187	—	—	574	22
Miscellaneous	3,888	3,275	10	4	1,958	2,217
Gain on sale of capital assets	—	—	—	—	—	—
Program revenues:						
Charges for services:						
User charges	51,098	48,621	—	—	—	—
Land rentals	17,352	20,166	—	—	—	—
Fees, forfeits, and penalties	3,915	3,418	—	—	—	—
Capital grants and contributions:						
Federal and state grants	—	—	—	—	14,555	12,817
Total revenues	330,002	355,283	209,049	236,410	20,746	17,745
Expenditures/Expenses						
Board of Commissioners	4,075	4,158	—	—	—	—
General Administration	15,766	15,490	—	—	—	—
Monitoring and Research	29,696	28,490	—	—	—	—
Procurement and Materials Management	5,954	6,611	—	—	—	—
Human Resources	54,225	54,606	—	—	—	—
Information Technology	12,728	14,213	—	—	—	—
Law	5,922	6,707	—	—	—	—
Finance	3,530	3,597	—	—	—	—
Engineering	26,068	26,051	—	—	—	—
Maintenance and Operations	179,181	177,695	—	—	—	—
Pension costs	—	—	—	—	—	—
OPEB costs	—	—	—	—	—	—
Claims and judgments	6,905	4,786	—	—	—	—
Construction costs	—	—	—	—	240,640	249,294
Loss on disposal of capital assets	—	—	—	—	—	—
Depreciation and amortization (unallocated)	—	—	—	—	—	—
Debt service:						
Redemption of bonds and capital lease	—	—	111,222	100,312	2,473	2,358
Interest and bond issuance costs	—	—	117,604	115,159	1,916	2,315
Total expenditures/expenses	344,050	342,404	228,826	215,471	245,029	253,967
Revenues over (under) expenditures	(14,048)	12,879	(19,777)	20,939	(224,283)	(236,222)
Other financing sources (uses)						
Payment to escrow agent for refunded bonds	—	—	—	(399,432)	—	—
Bond anticipation notes issued	—	—	—	—	175,245	179,224
Bond anticipation notes converted	—	—	—	—	39,281	185,685
Bond anticipation notes refunded	—	—	—	—	(39,281)	(185,685)
Refunding bonds issued	—	—	—	322,260	—	—
General obligation bonds issued	—	—	—	—	—	104,000
Premium on bonds issued	—	—	—	78,041	—	21,004
Transfers	6,000	—	3,269	894	(13,000)	2,379
Total other financing sources (uses)	6,000	—	3,269	1,763	162,245	306,607
Revenues and other financing sources (uses) over (under) expenditures	(8,048)	12,879	(16,508)	22,702	(62,038)	70,385
Change in net position	—	—	—	—	—	—
Fund balances/net position:						
Beginning of the year	299,991	287,112	163,508	140,806	374,035	303,650
End of the year	$ 291,943	$ 299,991	$ 147,000	$ 163,508	$ 311,997	$ 374,035

See accompanying notes to the basic financial statements.

Retirement Fund		Other Governmental / Nonmajor Funds		Total Governmental Funds		Adjustments (Note 2b)		Statements of Net Position	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
$ 61,097	$ 62,186	$ 45,550	$ 42,501	$ 526,932	$ 583,875	$ 36,832	$ (27,227)	$ 563,764	$ 556,648
14,479	15,525	—	—	43,194	38,961	—	—	43,194	38,961
—	—	686	555	8,784	6,181	—	—	8,784	6,181
—	—	—	—	50	1,233	(50)	(1,233)	—	—
—	—	—	—	9,100	9,228	—	—	9,100	9,228
—	—	10	—	783	209	—	—	783	209
3	1	19	43	5,878	5,540	(59)	(13)	5,819	5,527
—	—	—	—	—	—	50	1,210	50	1,210
—	—	—	—	51,098	48,621	—	—	51,098	48,621
—	—	—	—	17,352	20,166	—	—	17,352	20,166
—	—	1,486	746	5,401	4,164	—	—	5,401	4,164
—	—	—	—	14,555	12,817	3	8	14,558	12,825
75,579	77,712	47,751	43,845	683,127	730,995	36,776	(27,255)	719,903	703,740
—	—	—	—	4,075	4,158	19	8	4,094	4,166
—	—	—	—	15,766	15,490	25	200	15,791	15,690
—	—	—	—	29,696	28,490	(105)	263	29,591	28,753
—	—	—	—	5,954	6,611	(7)	(9)	5,947	6,602
—	—	—	—	54,225	54,606	42	(159)	54,267	54,447
—	—	—	—	12,728	14,213	6	489	12,734	14,702
—	—	—	—	5,922	6,707	(92)	2	5,830	6,709
—	—	—	—	3,530	3,597	(10)	(27)	3,520	3,570
—	—	—	—	26,068	26,051	1,762	1,951	27,830	28,002
—	—	—	—	179,181	177,695	(187)	134	178,994	177,829
75,579	77,712	—	—	75,579	77,712	31,235	30,894	106,814	108,606
—	—	—	—	—	—	(6,681)	(7,008)	(6,681)	(7,008)
—	—	—	—	6,905	4,786	(9,567)	(13,334)	(2,662)	(8,548)
—	—	27,857	47,474	268,497	296,768	(182,962)	(160,565)	85,535	136,203
—	—	—	—	—	—	202	13	202	13
—	—	—	—	—	—	12,063	12,083	12,063	12,083
—	—	—	—	113,695	102,670	(113,695)	(102,670)	—	—
—	—	—	—	119,520	117,474	(9,970)	(6,292)	109,550	111,182
75,579	77,712	27,857	47,474	921,341	937,028	(277,922)	(244,027)	643,419	693,001
—	—	19,894	(3,629)	(238,214)	(206,033)	314,698	216,772		
—	—	—	—	—	(399,432)	—	399,432	—	—
—	—	—	—	175,245	179,224	(175,245)	(179,224)	—	—
—	—	—	—	39,281	185,685	(39,281)	(185,685)	—	—
—	—	—	—	(39,281)	(185,685)	39,281	185,685	—	—
—	—	—	—	—	322,260	—	(322,260)	—	—
—	—	—	—	—	104,000	—	(104,000)	—	—
—	—	—	—	—	99,045	—	(99,045)	—	—
—	—	3,731	(3,273)	—	—	—	—	—	—
—	—	3,731	(3,273)	175,245	305,097	(175,245)	(305,097)	—	—
—	—	23,625	(6,902)	(62,969)	99,064	62,969	(99,064)	—	—
—	—	—	—	—	—	76,484	10,739	76,484	10,739
—	—	45,930	52,832	883,464	784,400	—	—	4,539,945	4,529,206
$ —	$ —	$ 69,555	$ 45,930	$ 820,495	$ 883,464	$ —	$ —	$ 4,616,429	$ 4,539,945

Exhibit A-3
General Corporate Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

	Budget			Actual Variance With Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Property taxes:				
Gross levy	$ 223,946	$ 223,946	$ 223,946	$ —
Allowance for uncollectible taxes	(7,838)	(7,838)	(7,838)	—
Net property tax levy	216,108	216,108	216,108	—
Property tax collections	5,627	5,627	5,613	(14)
Personal property replacement tax:				
Entitlement	18,164	18,164	18,164	—
Total tax revenue	239,899	239,899	239,885	(14)
Adjustment for working cash borrowing	(4,272)	(4,272)	(4,272)	—
Adjustment for estimated tax collections	—	—	11,653	11,653
Tax revenue available for current operation	235,627	235,627	247,266	11,639
Interest on investments	800	800	1,823	1,023
Land sales	—	—	50	50
Tax increment financing distributions	11,025	11,025	12,036	1,011
Miscellaneous	8,116	8,116	6,314	(1,802)
User charges	47,000	47,000	53,252	6,252
Land rentals	19,000	19,000	20,628	1,628
Claims and damage settlements	—	—	223	223
Equity transfer from capital improvement bond fund	6,000	6,000	6,000	—
Fees, forfeits, and penalties	351	351	2,014	1,663
Total revenues	327,919	327,919	349,606	21,687
Expenditures:				
Board of Commissioners	4,496	4,496	4,073	423
General Administration	17,387	17,387	15,729	1,658
Monitoring and Research	31,270	31,270	29,090	2,180
Procurement and Materials Management	9,567	9,567	8,726	841
Human Resources	60,905	60,905	54,172	6,733
Information Technology	17,359	17,359	14,557	2,802
Law	8,386	8,386	5,921	2,465
Finance	3,684	3,684	3,529	155
Engineering	28,835	28,835	26,061	2,774
Maintenance and Operations	187,035	187,035	176,566	10,469
Claims and judgments	30,617	30,617	6,905	23,712
Total expenditures	399,541	399,541	345,329	54,212
Revenues over (under) expenditures	(71,622)	(71,622)	4,277	75,899
Fund balances at beginning of year	160,721	160,721	166,348	5,627
Net assets available for future use	(89,099)	(89,099)	—	89,099
Fund balances at beginning of the year	71,622	71,622	166,348	94,726
Fund balances at end of year	$ —	$ —	$ 170,625	$ 170,625

See accompanying notes to the basic financial statements

Exhibit A-4
Retirement Fund
Statements of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual on Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Retirement Fund	**Final Budget**	**Actual on Budgetary Basis**	**Actual Variance with Final Budget - Positive (Negative)**
Revenues:			
Property taxes	$ 62,880	$ 61,097	$ (1,783)
Personal property replacement tax	16,625	14,479	(2,146)
Miscellaneous	—	3	3
Total tax revenue	79,505	75,579	(3,926)
Operating expenditures:			
Pension costs	79,505	75,579	3,926
Total expenditures	79,505	75,579	3,926
Revenues over (under) expenditures	—	—	—
Fund balances at beginning of the year	—	—	—
Fund balances at end of the year	$ —	$ —	$ —

See accompanying notes to the basic financial statements

Exhibit A-5
Pension and Other Post Employment Benefits Trust Funds
Statements of Fiduciary Net Position

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)

	2017	2016
Assets		
Cash	$ 1,990	$ 3,670
Receivables		
Employer contributions-taxes (net of allowance for uncollectible $3,883 in 2017; $3,753 in 2016)	89,604	79,505
Securities sold	42,172	7,563
Forward foreign exchange contracts	123,333	116,576
Accrued interest and dividends	3,733	3,237
Accounts receivable	43	45
Total receivables	258,885	206,926
Investments at fair value		
Corporate and governmental bonds and notes	249,812	234,275
Money market funds	16,994	5,590
Pooled funds - fixed income	247,005	256,464
Pooled funds - equities	97,893	81,809
Balanced funds	17,449	16,013
Common and preferred stocks	576,588	524,405
Mutual and commingled Equity funds	342,484	285,515
Short-term investments	30,689	32,493
Total investments	1,578,914	1,436,564
Securities lending capital	27,448	42,118
Total assets	1,867,237	1,689,278
Liabilities		
Accounts payable	1,374	1,274
Securities lending collateral	27,448	42,118
Forward foreign exchange contracts	124,384	116,937
Securities purchased	17,037	11,507
Total liabilities	170,243	171,836
Net position restricted for pension and OPEB benefits	$ 1,696,994	$ 1,517,442

See accompanying notes to the basic financial statements

Exhibit A-6
Pension and Other Post Employment Benefits Trust Funds
Statements of Changes in Fiduciary Net Position

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)

	2017	2016
Additions:		
Contributions:		
Employer contributions	$ 108,289	$ 100,177
Employee contributions	20,840	20,831
Retiree contributions	—	7,917
Total contributions	129,129	128,925
Investment income:		
Net appreciation (depreciation) in fair value of investments	198,551	99,340
Interest and dividend income	25,979	29,016
Total investment income (loss)	224,530	128,356
Less investment expenses	(4,663)	(4,656)
Investment income (loss) net of expenses	219,867	123,700
Security lending activities:		
Security lending income	448	265
Borrower rebates	(13)	295
Bank fees	(89)	(126)
Net income from securities lending activities	346	434
Other	3	107
Total additions	349,345	253,166
Deductions:		
Annuities and benefits		
Employee annuitants	127,099	121,730
Retiree health care benefits	13,431	22,835
Surviving spouse annuitants	24,203	22,919
Child annuitants	142	153
Ordinary disability benefits	631	413
Duty disability benefits	77	110
Total annuities and benefits	165,583	168,160
Refunds of employee contributions	2,560	2,011
Administrative expenses	1,651	1,535
Total deductions	169,794	171,706
Net increase (decrease)	179,551	81,460
Net position held in trust for pension and OPEB benefits		
Beginning of year	1,517,442	1,435,982
End of year	$ 1,696,994	$ 1,517,442

See accompanying notes to the basic financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

Index to Notes

1. Summary of Significant Accounting Policies

The significant accounting policies of the Metropolitan Water Reclamation District of Greater Chicago (District) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units and are described below.

a. Financial Reporting Entity - The District is a municipal corporation governed by an elected nine-member Board of Commissioners. As required by GAAP, these financial statements present the District (the primary government) and its component units, the Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund - Note 7) and the Metropolitan Water Reclamation District Retiree Health Care Trust Fund (OPEB Trust Fund - Note 8). The Board of Trustees for the Pension Trust Fund is composed of seven members. Two of these Trustees are Commissioners appointed by the Board of Commissioners of the District, four are District employees elected by members of the fund and one is a retired employee of the District. Although the Pension Trust Fund and OPEB Trust Fund are legally separate entities, for which the primary government is not financially accountable, they are included in the District's basic financial statements as fiduciary funds. The nature and significance of the Pension Trust Fund and OPEB Trust Fund's relationship with the primary government is such that exclusion would render the District's financial statements incomplete or misleading. Complete financial statements of the Pension Trust Fund can be obtained from their administrative office at 111 East Erie Street, Chicago, Illinois, 60611-2898 or on their website: mwrdrf.org. Complete financial statements of the OPEB Trust Fund can be obtained from the Treasurer of the Metropolitan Water Reclamation District at 100 East Erie Street, Chicago, Illinois 60611-5498 or on the District's website: mwrd.org.

b. Government-wide and Fund Financial Statements - The District's basic financial statements include government-wide financial statements and fund financial statements.

The government-wide financial statements include the Statements of Net Position and the Statements of Activities, and contain information for all the District's governmental activities but exclude the Pension Trust Fund and the OPEB Trust Fund, fiduciary funds whose resources are not available to finance the District's operations. The effect of interfund transactions has been removed from the government-wide statements. The Statements of Net Position report the financial condition of the District. This statement includes all existing resources and obligations, both current and non-current, with the difference between the two reported as net position. The Statements of Activities report the District's operating results for the year with the difference between expenses and revenues representing the changes in net position. Expenses are reported by department while revenues are segregated by program revenues and general revenues. Program revenues contain charges for services including user charges, land rentals, fees, forfeitures, penalties and capital grants. General revenues include taxes, interest on investments, and all other revenues not classified as program revenues.

In government, the basic accounting and reporting entity is a "fund." A fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts which record financial resources, together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives, in accordance with special regulations, restrictions or limitations. Separate fund financial statements are included in the basic financial statements for the major governmental funds. The emphasis of the governmental fund financial statements is on major funds, with each major fund displayed as a separate column. The governmental fund financial statements include a budgetary statement for the General Corporate Fund and the Retirement Fund.

As a special purpose government, the District has elected to make a combined presentation of the governmental fund statements and the government-wide statements; therefore, the basic financial statements include combined Governmental Funds Balance Sheets/Statements of Net Position (Exhibit A-1) and combined Statements of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statements of Activities (Exhibit A-2). Individual line items of the governmental fund financials are reconciled to government-wide financials in a separate column on the combined presentations, with in-depth explanations offered in Note 2.

The District reports the following major governmental funds:

General Corporate Fund

The fund was established to account for an annual property tax levy, and certain other revenues, which are to be used for the payments of general expenditures of the District not specifically chargeable to other funds. Included in this fund are accounts maintained by the District restricted to making temporary loans to the Corporate Fund. These accounts were established under Chapter 70, ILCS 2605/9b of the Illinois Compiled Statutes, which refers to these accounts as a "Working Cash Fund." Amounts borrowed from the Working Cash Fund in one year are generally repaid by the Corporate Fund from tax collections received during the subsequent year. Also included in this fund are accounts of the "Reserve Claim Fund," established under Chapter 70, ILCS 2605/12 of the Illinois Compiled Statutes, which is restricted for the payment of claims, awards, losses, judgments or liabilities which might be imposed against the District, and for the repair or replacement of certain property maintained by the District. The assets, liabilities, deferred inflows of resources and fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions at December 31, 2017 are as follows (in thousands of dollars):

	Total General Corporate Fund	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Assets				
Cash	$ 21,162	$ 18,374	$ 1,375	$ 1,413
Certificates of deposit	116,881	25,229	70,083	21,569
Investments	99,282	78,339	18,979	1,964
Prepaid insurance	4,101	4,101	—	—
Receivables:				
Property taxes receivable	234,532	228,515	—	6,017
Allowance for uncollectible taxes	(12,730)	(12,406)	—	(324)
Taxes receivable, net	221,802	216,109	—	5,693
User charges	2,782	2,782	—	—
Miscellaneous	5,817	5,537	—	280
Due from Stormwater Management Fund	101	101	—	—
Restricted deposits	527	527	—	—
Inventories	34,787	34,787	—	—
Total assets	$ 507,242	$ 385,886	$ 90,437	$ 30,919
Liabilities, Deferred Inflows and Fund Balances				
Liabilities:				
Accounts payable and other liabilities	$ 21,924	$ 21,650	$ —	$ 274
Unearned revenue	8,139	8,139	—	—
Due to corporate fund from corporate working cash	—	190,000	(190,000)	—
Total liabilities	30,063	219,789	(190,000)	274
Deferred inflows of resources:				
Unavailable tax revenue	185,236	180,481	—	4,755
Total deferred inflows of resources	185,236	180,481	—	4,755
Fund balances:				
Nonspendable:				
Prepaid insurance	4,101	4,101	—	—
Inventories	34,787	34,787	—	—
Restricted for:				
Deposits	527	527	—	—
Working cash	280,437	—	280,437	—
Reserve claims	25,890	—	—	25,890
Unassigned (Deficit)	(53,799)	(53,799)	—	—
Total fund balances	291,943	(14,384)	280,437	25,890
Total liabilities, deferred inflows and fund balances	$ 507,242	$ 385,886	$ 90,437	$ 30,919

The revenues, expenditures, and changes in fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions for the year ended December 31, 2017, are as follows (in thousands of dollars):

	Total General Corporate Fund	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Revenues:				
Property taxes	$ 212,679	$ 207,350	$ —	$ 5,329
Personal property replacement tax	28,715	28,715	—	—
Total tax revenue	241,394	236,065	—	5,329
Interest on investments	3,006	1,628	1,046	332
Land sales	50	50	—	—
Tax increment financing distributions	9,100	9,100	—	—
Claims and damage settlements	199	189	—	10
Miscellaneous	3,888	3,888	—	—
User charges	51,098	51,098	—	—
Land rentals	17,352	17,352	—	—
Fees, forfeits and penalties	3,915	3,915	—	—
Total revenues	330,002	323,285	1,046	5,671
Operations:				
Board of Commissioners	4,075	4,075	—	—
General Administration	15,766	15,766	—	—
Monitoring and Research	29,696	29,696	—	—
Procurement and Materials Management	5,954	5,954	—	—
Human Resources	54,225	54,225	—	—
Information Technology	12,728	12,728	—	—
Law	5,922	5,922	—	—
Finance	3,530	3,530	—	—
Engineering	26,068	26,068	—	—
Maintenance and Operations	179,181	179,181	—	—
Claims and judgments	6,905	—	—	6,905
Total expenditures	344,050	337,145	—	6,905
Revenues over (under) expenditures	(14,048)	(13,860)	1,046	(1,234)
Other financing sources/(uses):				
Equity transfer in/(out)	6,000	6,000		
Net Change in Fund balance	(8,048)	(7,860)	1,046	(1,234)
Fund balance at the beginning of year	299,991	(6,524)	279,391	27,124
Fund balance at the end of year	$ 291,943	$ (14,384)	$ 280,437	$ 25,890

Debt Service Fund
A sinking fund established to account for annual property tax levies and certain other revenues, principally interest on investments, which are restricted to be used for the payment of interest and redemption of principal on bonded debt.

Capital Improvements Bond Fund
A capital projects fund established to account for the proceeds of bonds authorized by the Illinois General Assembly, bond anticipation notes net of redemptions, government grants, and certain other revenues, which are all restricted to be used in connection with improvements, replacements, and additions to designated environmental improvement projects.

Retirement Fund
A special revenue fund established in accordance with statutory requirements to account for the annual property taxes and personal property replacement tax (PPRT), which are specifically levied to finance pension costs. These taxes are collected and paid to the Pension Trust Fund (see Note 7).

The District reports the following non-major governmental funds:

Construction Fund
A capital projects fund established to finance smaller construction projects on a pay-as-you-go basis. The Fund is primarily financed with an annual property tax levy and certain other revenues to be used to finance modernization and rehabilitation projects. Included in this fund are accounts maintained by the District restricted to making temporary loans to the Construction Fund. These accounts were established under Chapter 70, ILCS 2605/9(c) of the Illinois Compiled Statutes, which refers to these accounts as a "Construction Working Cash Fund." Amounts borrowed in one year are generally repaid by the Construction Fund from tax collections received during the subsequent year. The assets, liabilities, deferred inflows of resources and fund balances of the Construction Fund, detailed as to the Working Cash and Construction account divisions at December 31, 2017 are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Assets			
Cash	$ 1,175	$ 1,023	$ 152
Certificates of deposit	12,055	4,005	8,050
Investments	14,503	12,501	2,002
Receivables:			
Property taxes receivable	16,549	16,549	—
Allowance for uncollectible taxes	(847)	(847)	—
Taxes receivable, net	15,702	15,702	—
Miscellaneous	746	746	—
Total assets	$ 44,181	$ 33,977	$ 10,204
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable and other liabilities	$ 3,171	$ 3,171	$ —
Due to Construction Fund from Construction Working Cash	—	12,000	(12,000)
Total liabilities	3,171	15,171	(12,000)
Deferred inflows of resources:			
Unavailable tax revenue	13,110	13,110	—
Total deferred inflows of resources	13,110	13,110	—
Fund balances:			
Restricted for:			
Working cash	22,204	—	22,204
Unassigned	5,696	5,696	—
Total fund balances	27,900	5,696	22,204
Total liabilities, deferred inflows, and fund balances	$ 44,181	$ 33,977	$ 10,204

The revenues, expenditures, and changes in fund balances of the Construction Fund, detailed as to the Construction and Working Cash account divisions for the year ended December 31, 2017, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Revenues:			
Property taxes	$ 12,995	$ 12,995	$ —
Total tax revenue	12,995	12,995	—
Interest on investments	326	193	133
Miscellaneous	—	—	—
Fees, forfeits and penalties	1,486	1,486	—
Total revenues	14,807	14,674	133
Construction Costs:			
Contractual services	1,680	1,680	—
Machinery and equipment	3,000	3,000	—
Capital projects	9,112	9,112	—
Total expenditures	13,792	13,792	—
Revenues over (under) expenditures	1,015	882	133
Other financing sources (uses):			
Equity transfer in/(out)	7,000	7,000	—
Net Change in Fund balance	8,015	7,882	133
Fund balance at the beginning of year	19,885	(2,186)	22,071
Fund balance at the end of year	$ 27,900	$ 5,696	$ 22,204

Stormwater Management Fund
A capital projects fund established to account for the annual property taxes which are specifically levied to finance all activities associated with stormwater management, including construction projects. Included in this fund are accounts maintained by the District restricted to making temporary loans to the Stormwater Management Fund. These accounts were established under Chapter 70, ILCS 2605/9(e) of the Illinois Compiled Statutes, which refers to these accounts as a "Stormwater Working Cash Fund." Amounts borrowed in one year are generally repaid by the Stormwater Management Fund from tax collections received during the subsequent year.

The assets, liabilities, deferred inflows of resources and fund balances of the Stormwater Management Fund, detailed as to the Working Cash and Stormwater Management account divisions at December 31, 2017 are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Assets			
Cash	$ 1,415	$ 1,413	$ 2
Certificates of deposit	17,014	6,007	11,007
Investments	18,455	18,455	—
Prepaid Insurance	79	79	—
Receivables:			
Property taxes receivable	41,546	41,546	—
Allowance for uncollectible taxes	(2,120)	(2,120)	—
Taxes receivable, net	39,426	39,426	—
Total assets	$ 76,389	$ 65,380	$ 11,009
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities:			
Accounts payable and other liabilities	$ 1,715	$ 1,715	$ —
Due to Stormwater Management Fund from Stormwater Working Cash	101	26,601	(26,500)
Total liabilities	1,816	28,316	(26,500)
Deferred inflows of resources:			
Unavailable tax revenue	32,918	32,918	—
Total deferred inflows of resources	32,918	32,918	—
Fund balances:			
Nonspendable:			
Prepaid Insurance	79	79	—
Restricted for:			
Working Cash	37,509	—	37,509
Capital projects	4,146	4,146	—
Unassigned	(79)	(79)	—
Total fund balances	41,655	4,146	37,509
Total liabilities, deferred inflows, and fund balances	$ 76,389	$ 65,380	$ 11,009

The revenues, expenditures, and changes in fund balances of the Stormwater Management Fund, detailed as to the Stormwater Management and Working Cash account divisions for the year ended December 31, 2017, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Revenues:			
Property taxes	$ 32,555	$ 32,555	$ —
Total tax revenue	32,555	32,555	—
Interest on investments	360	235	125
Claim and damage settlements	10	10	—
Miscellaneous revenue	19	19	—
Total revenues	32,944	32,819	125
Construction Costs:			
Personal services	6,087	6,087	—
Contractual services	1,604	1,604	—
Material and supplies	462	462	—
Capital projects	5,912	5,912	—
Total expenditures	14,065	14,065	—
Revenues over expenditures	18,879	18,754	125
Other financing (uses):			
Equity transfer in/(out)	(3,269)	(3,269)	—
Net Change in Fund balance	15,610	15,485	125
Fund balance at the beginning of year	26,045	(11,339)	37,384
Fund balance at end of year	$ 41,655	$ 4,146	$ 37,509

In addition, the District reports the following fiduciary funds:

Pension Trust Fund
A fiduciary fund established to account for employer/employee contributions, investment earnings, and expenses for employee pensions. The balance reflected as employer contributions receivable represents amounts due to the plan pursuant to legal requirements.

OPEB Trust Fund
A fund established (pursuant to 70 ILCS 2605/9.6(d)) to administer the defined benefit, post-employment health care plan. The intention of the District is that the Fund 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.

c. Basis of Accounting and Measurement Focus

Government-wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the period of related cash flows. Property taxes are recognized in the year of levy and personal property replacement taxes are recognized in the year earned. Grants and similar items are recognized as revenue in the fiscal year that all eligibility requirements have been met.

Governmental Fund Financial Statements

The District's governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available to finance operations. Expenditures are recognized in the period in which the fund liability is incurred except for principal and interest on long-term debt, compensated absences, claims, judgments, and arbitrage, which are recognized when due and payable.

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. Since governmental funds are accounted for on the current financial resources measurement focus, only current assets and current liabilities are included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Property taxes, user charge revenue, interest, land rentals, and personal property replacement tax revenue are susceptible to accrual. In general, the revenue recognition period is limited to amounts collected during the period or within sixty days following year-end. Revenues that are unavailable are reported as deferred inflows of resources.

Grants from Federal and State agencies are recorded as revenues in the fund financial statements when reimbursable expenditures are incurred, or other eligibility requirements imposed by the provider are met, and the grant resources are measurable and available.

Property taxes attach as an enforceable lien on property as of January 1 of the levy year. They are levied and recorded as a receivable as of January 1 and are due in two installments in the following year. The annual ordinance for the levy of taxes contains a reserve for loss in collection of taxes. The District reviews the reserve annually.

d. Budgeting (appropriations) - The District's fiscal year begins January 1 and ends on December 31. The District's procedure for adopting the annual budget consists of the following stages:

(1) After the first half of the fiscal year, the Budget Office holds a meeting with departmental budget representatives to discuss policy and procedures for budget preparation that begins in July. Instructions are distributed to departments, together with guidelines from the Executive Director, which indicate the direction the Budget should follow for the coming fiscal year. The basic forms are returned to the Budget Office and a general summary is prepared for the Executive Director, who conducts departmental hearings in August.

(2) The public budget process begins with Board of Commissioners Study Sessions providing a budget overview in June.

(3) A revenue meeting is conducted by the Executive Director, Administrative Services Officer, and Budget Officer, along with those departments responsible for revenue items. Available resources used to finance the Budget are analyzed at this meeting.

(4) When departmental estimates are approved and final decisions are made, a Budget Message is prepared and the proposals of the Executive Director become the initial budget document. After departmental requests are finalized, the Executive Director's Budget Recommendations are published within 15 days. The Executive Director's Budget Recommendations are published and presented to the Board in October. At all times, the Budget figures are balanced between revenues and expenditures.

(5) The Board's Committee on Budget and Employment holds public meetings with the Executive Director and department heads regarding the Executive Director's proposals.

(6) At the conclusion of these hearings, the Committee on Budget and Employment recommends the preparation of a second document, a supplement to the Executive Director's Budget Recommendations called the "Tentative Budget," which incorporates changes approved at the hearings. Once printed, this is placed on public display, along with the Executive Director's Budget Recommendations, for a minimum of 10 days. An advertisement is published in a general circulation newspaper announcing the availability of the Tentative Budget for inspection at the main office of the District, and specifying the time and date of the public hearing.

(7) At least one public hearing is held between 10 and 20 days after the Budget has been made available for public inspection. All interested individuals and groups are invited to participate.

(8) After the public hearing, the Committee on Budget and Employment presents the Tentative Budget, which includes revisions and the approved Appropriation and Tax Levy Ordinances, to the Board for adoption. This action must take place before January 1.

(9) The Budget, as adopted by the Board, can be amended once at the next Regular Meeting of the Board. No amendment, however, can be requested before a minimum of five days after the Budget has been adopted. Amendments for contracts and/or services not received before December 31 must be re-appropriated in the new Budget and are included through this amendment process.

(10) The final budget document "As Adopted and Amended" is produced, and an abbreviated version, known as the "short form" is published in a newspaper of general circulation before January 20 of the fiscal year.

(11) Budget implementation begins on January 1. The Finance Department and Budget Office provide control of appropriations and ensure that all expenditures are made in accordance with budget specifications. The manual entitled "Budget Code Book" is published in conformance with the Adopted Budget and is used to administer, control, and account for the Budget.

(12) Supplemental appropriations can be made for the appropriation of revenues from federal or state grants, loans, bond issues, and emergencies. The Executive Director is authorized to transfer appropriations between line items within an object class of expenditure within a department. After March 1 of each fiscal year, transfers of appropriations between objects of expenditures or between departments must be presented for approval to the Board in accordance with applicable statutes.

(13) The Board can authorize, by a two-thirds majority, the transfer of accumulated investment income between funds and the transfer of assets among the Working Cash Funds.

e. **Deposits with escrow agent** in the amount of $280,000 are currently held with the District's workman's compensation third party provider, all others (if any) represent cash with the escrow agent for the subsequent payment of interest on debt.

f. **Certificates of deposit** are stated at cost plus accrued interest.

g. **Investments** of the Governmental Funds are reported at fair value plus accrued interest. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Changes in the carrying value of investments, resulting in realized and unrealized gains or losses, are reported as a component of investment income in the statement of revenues, expenses and changes in fund balances.

   Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term that could materially affect the amounts reported in the statement of net position and in the statement of revenues, expenses and changes in fund balances.

   The investment with the State Treasurer's Illinois Funds is measured at the net asset value per share provided by the pool. The Illinois Funds are not registered with the SEC. State statute requires the State Treasurer's Illinois Funds to comply with the Illinois Public Funds Investment Act (30 ILCS 235). Oversight is provided by the State Treasurer. Investments of the Pension and OPEB Trust Funds, other than short-term investments, are also stated at fair value.

h. **Inventory**, consisting mainly of materials, supplies, and repair parts which maintain and extend the life of the District's Treatment facilities, is reported on the Balance Sheet of the General Corporate Fund and the government-wide Statements of Net Position. The District maintains a perpetual record-keeping system and uses a moving-average method, based on cost, for pricing its storeroom inventories. Materials, supplies, and repair parts are recorded as expenditures/expenses when consumed.

i. **Prepaid assets** represent services the District has paid for but has not received the full benefit. Prepaids are recorded as expenditures/expenses when consumed.

   Inventory balances and prepaid insurance at year-end are reported as nonspendable fund balance in the governmental funds.

j. **Restricted assets** represent cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.

k. **Interfund transactions** represent governmental fund transactions for the following: a) loans between funds reported as due to /due from other funds; b) reimbursements between funds reported in the fund financials as expenditures in the reimbursing fund and a corresponding reduction in expenditures in the reimbursed fund; and c) transfers between funds. All interfund transactions are eliminated in the government-wide financial statements. See Note 12 for further disclosure of interfund transactions.

l. **Capital Assets** including land (and land improvements), buildings, equipment, computer software, infrastructure, acquired easements, and construction in progress are recorded at historical cost or estimated historical cost in the government-wide financial statements. Interest costs are not capitalized. Infrastructure assets include the District's sewers, water reclamation plants (WRP,) waterway assets, TARP deep tunnels, and drop shafts. The thresholds for reporting capital assets are as follows:

Land and buildings	$100,000 and over
Infrastructure	$500,000 and over
Equipment	$20,000 and over
Computer software	$100,000 and over

Depreciation and amortization of capital assets is provided on the straight-line method (using a ten percent salvage value for equipment) over the following estimated useful lives:

Buildings and land improvements	80 years
Infrastructure (TARP deep tunnels and drop shafts only)	200 years
Equipment	6-50 years
Computer software	5 years

The District is using the modified approach as an alternative to depreciation to report its eligible infrastructure assets, with the exception of the TARP deep tunnels and drop shafts, which are depreciated. The modified infrastructure assets are categorized into networks, systems, and subsystems. Each of the District's seven WRPs represents a separate network and the waterway assets are an eighth network. The systems within the networks are categorized by the process flow through the network (i.e., collection system, treatment processes system, solids processing system, flood & pollution control system, or drying solids/utilization system). The subsystems represent the major processes of each system (e.g., fine screens and grit chambers are subsystems of the treatment processes system). Condition assessments at each network are performed at the subsystem level and these assessments are compiled into a single assessment for each system. The rating scales used in the condition assessments are explained in the Required Supplementary Information immediately following the notes. Infrastructure assets reported under the modified approach are not depreciated, since the District manages these assets using an asset management system, and documents that the assets are being preserved at a level of acceptable or better, as evidenced by a condition assessment.

In compliance with Governmental Accounting Standards Board (GASB) Statement 34, existing infrastructure assets accounted for with the modified approach are not reported in the government-wide financial statements until an initial condition assessment is completed for the assets' network. Currently, all the District's WRPs infrastructure assets are reported as infrastructure under the modified approach in the government-wide financial statements. Condition assessments of eligible infrastructure assets must be completed at least every three years following the initial assessments. The Kirie, Central (Stickney), Hanover, O'Brien, Egan, Calumet, Lemont WRPs, and Waterways had their initial condition assessments completed between 2002 and 2006. The Kirie, Central (Stickney) and Waterways each had its most recent condition assessment completed in 2017. The Egan and O'Brien networks each had its most recent condition assessment completed in 2016. The Hanover, Calumet and Lemont networks each had its most recent condition assessment completed in 2015. (See further discussion of the modified approach in the Required Supplementary Information Section).

Modified infrastructure assets under construction are reported in the government-wide financial statements as construction in progress, and are reclassified to infrastructure assets when construction is substantially complete.

m. **Compensated Absences** for accumulated unpaid vacation, holiday, overtime, severance and sick leave are paid to employees upon retirement or termination. An employee is eligible to receive 100 percent of earned vacation, holiday and overtime pay. Depending upon the date of hire and/or collective bargaining agreements, employees may also be eligible to receive severance pay and 50% of accumulated sick pay up to a maximum of sixty days. Compensated absences are accrued as they are earned in the government-wide financial statements. Expenditures and liabilities for compensated absences are recorded in the fund financial statements when due and payable. Included in the long-term liabilities of the Statements of Net Position at December 31, 2017, are liabilities for compensated absences of $2,516,000, due within one year, and $22,811,000, due in more than one year.

n. **Deferred Outflows/Inflows of Resources** - Deferred inflow of resources is an acquisition of net position by the government that is applicable to a future period. Deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

o. **Long-Term Obligations –** Long-term debt and other long-term obligations are reported in the government-wide Statements of Net Position. Bond premiums are reported with bonds payable and amortized over the life of the bonds, which approximates the effective interest method, in the government-wide financial statements. In addition, the refunding transaction cost, representing the excess of the amount required to refund debt over the book value of the old debt, is reported as a deferred outflow of resources and amortized over the shorter of the life of the old debt or new debt in the government-wide financial statements.

The face amounts of the debt and bond premiums are recognized as other financing sources during the issuance period in the fund financial statements, while bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, and refunding costs are recognized as debt service expenditures in the fund financial statements.

p. **Fund Balances -** The Board of Commissioners on December 9, 2010, adopted a new fund balance classification policy in accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions: The policy categorizes the balances of governmental funds into the following categories: nonspendable, restricted, committed, assigned and unassigned fund balances. The categories are described as follows:

- Nonspendable Fund Balance – This consists of amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact.

- Restricted Fund Balance – Reported when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balance – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by a board motion. The District's commissioners shall establish, modify, or rescind a fund balance commitment by vote of a motion presented to the Board.

- Assigned Fund Balances – This consists of amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The District's Board of Commissioners approved a motion authorizing the Executive Director to assign amounts of fund balances to a specific purpose. The District has an assigned fund balance of $147,473,000 in the Capital Improvement Bond Fund, for future capital projects.

- Unassigned Fund Balances – This classification represents fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund.

- In the General Corporate Fund, the District considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which restricted fund balance is available, followed by committed amounts, and then assigned amounts. Unassigned amounts are used only after the other categories of fund balance have been fully utilized. In governmental funds other than the General Corporate Fund, the District considers restricted amounts to have been spent last. When an expenditure is incurred for purposes for which restricted fund balance is available, the District will first utilize assigned amounts, followed by committed amounts, and then restricted amounts.

q. Net Position – The government-wide Statements of Net Position display three components of net position, as follows:

- Net investment in capital assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any debt attributable to capital assets (net of unspent bond proceeds).
- Restricted Net Position - This consists of net position that is legally restricted by outside parties, or by law through constitutional provisions or enabling legislation. Net position restricted for working cash and reserve claims is based on legal restrictions, while net position restricted for debt service and capital projects is based on legal restrictions and/or outside parties. The government-wide statement of net position reports $700,839,000 of restricted net position.
- Unrestricted Net Position - This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

r. User Charge – The Environmental Protection Agency requires grant recipients to charge certain users of waste water treatment services a proportionate share of the cost of operations and maintenance. The District has utilized a User Charge System since January 1, 1980. The system was developed in accordance with 70 ILCS 2305/7.1.

s. Comparative Data and Reclassifications – The basic financial statements present comparative data for the prior year to provide an understanding of the changes in financial position and results of operations, but not at the level of detail required for presentation in accordance with accounting principles generally accepted in the United States of America.

t. Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and deferred inflows, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/ expenses during the reported period. Actual results could differ from those estimates.

u. New Accounting Pronouncement - The OPEB Trust implemented GASB 74, *Financial Reporting For Postemployement Benefit Plans Other Than Pension Plans*. The District will be implementing statement GASB 75, *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions*, in 2018.

2. Reconciliation of Fund and Government-wide Financial Statements

a. Reconciliation of Total Fund Balances to Total Net Position - The following explanations are provided for the reconciling adjustments shown in the Governmental Funds Balance Sheets/Statements of Net Position at December 31, 2017 (in thousands of dollars):

Total fund balances of governmental funds	$ 820,495
Amounts reported for governmental activities in the Statements of Net Position are different because:	
Capital assets are not current financial resources and therefore are not reported as assets in governmental funds. However, capital assets are reported in the Statements of Net Position. The cost of capital assets and accumulated depreciation is as follows:	
Capital assets	7,891,314
Accumulated depreciation/amortization	(296,872)
Capital assets, net	7,594,442
Long-term liabilities are not due and payable in the current period and accordingly are not reported as liabilities in governmental funds. However, long-term liabilities are reported in the Statements of Net Position. The long-term liabilities consist of:	
Compensated absences	(22,811)
Claims and judgments	(30,669)
Capital lease	(38,574)
Bond anticipation notes	(296,529)
General obligation debt	(2,697,667)
Net OPEB obligation	(11,312)
Net Pension liability	(1,079,566)
Due to Pension Trust Fund	(73,990)
Total long-term liabilities	(4,251,118)
Bond refunding transactions are recorded as deferred outflows of resources in the governmental funds while bond premiums and discounts are recorded as other financing sources and uses, respectively. Bond premiums are amortized over the life of the bonds for the Statements of Net Position. They consist of:	
Bond premium	(182,248)
Bond refunding transactions	4,899
Total bond premium and refunding transactions	(177,349)
Interest on debt is not accrued in governmental funds, but rather is recognized as a liability and an expenditure when due. Interest is recorded as a liability as it is incurred in the Statements of Net Position. The 2017 amount is:	
Accrued interest	(15,899)
Some assets reported in governmental funds do not increase fund balance because the assets are not "available" to pay for current-period expenditures. These assets are offset by deferred inflow of resources in the governmental funds. However, these assets increase net position in the Statements of Net Position. They consist of:	
Deferred property taxes and personal property replacement tax	477,980
Grants and rents	944
Deferred inflows for other pension amounts	(15,102)
Adjustment to deferred inflow of resources	463,822
Deferred outflows of resources represent items related to pension, which will be recognized as a pension expense in future reporting periods. Deferred outflows consist of employer contributions and "other" which includes differences between expected and actual experience, changes of assumptions, and net differences between projected and actual earnings on pension plan investments. However, these items are reported in the Statement of Net Position. They consist of:	
Deferred outflows for employer contributions subsequent to measurement date	89,858
Deferred outflows other pension related amounts	92,178
Adjustment to deferred outflows of resources	182,036
Interfund transactions are eliminated for Government-wide reporting. These transactions consist of:	
Due from other funds	101
Due to other funds	(101)
Total interfund	—
Total net position of governmental activities	$ 4,616,429

b. Reconciliation of the Change in Fund Balances to the Change in Net Position - The following explanations are provided for the adjustments shown in the Statements of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statements of Activities for the year ended December 31, 2017 (in thousands of dollars):

Net change in fund balances of governmental funds	$ (62,969)
Amounts reported for governmental activities in the Statements of Activities are different because:	
Construction costs for capital outlays are reported as expenditures in governmental funds. However, in the Statements of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense except for those assets under the modified approach. In the current period, these amounts are:	
Construction costs and other capital outlays	182,962
Depreciation expense-allocated to various departments	(3,128)
Depreciation/amortization expense-unallocated	(12,063)
Excess of construction and capital outlay costs over depreciation expense	167,771
Debt proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statements of Net Position. In the current period, debt proceeds and related items were:	
Bond anticipation notes proceeds	(175,245)
Repayment of long-term debt is reported as an expenditure in the governmental funds, or as an other financing use in the case of refunding, but the repayment reduces the long-term liabilities in the Statements of Net Position. In the current year, the repayments consist of:	
Debt service principal retirement	113,695
Some expenses reported in the Statements of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Change in compensated absences-allocated to various departments	1,675
Change in claims and judgments	9,567
Change in bond interest	246
Change in bond anticipation notes interest	(3,175)
Amortization of bond issuance/refunding costs	(527)
Amortization of bond premium	13,426
Change in net pension liability	(31,235)
Change in OPEB costs	6,681
Total additional expenses	(3,342)
The proceeds from the sale of land and equipment are reported as revenue in the governmental funds. However, the cost of the land and equipment is removed from the capital assets account in the Statements of Net Position and offset against sale proceeds resulting in gain or (loss) in the Statements of Activities. The net effect of miscellaneous transactions involving capital asset sales:	
Total land and equipment sales	(261)
Unavailable tax revenues and certain other revenues that are earned but "unavailable" for the current period are not recognized in governmental funds. These revenues consist of:	
Property tax - net	36,832
Grant and rent adjustment	3
Total adjustments	36,835
Change in net position of governmental activities	$ 76,484

3. Reconciliation of Budgetary Basis Accounting to GAAP Basis Accounting

The District prepares its budget in conformity with practices prescribed or permitted by the applicable statutes of the State of Illinois, which differ from GAAP. To reconcile the budgetary cash basis financials to the GAAP fund basis financials, the following schedule was prepared (in thousands of dollars):

	General Corporate Fund
Revenues and other sources (uses) over (under) expenditures on a budgetary basis	$ 4,277
Adjustment from Budget to GAAP for:	
Tax revenues	(5,872)
Cash basis other revenues	(7,732)
GAAP versus budgetary expenditure differences	1,279
Revenues and other sources (uses) over (under) expenditures on GAAP basis	$ (8,048)

4. Deposits and Investments

Deposits
As of December 31, 2017, the District, the Pension Trust Fund and OPEB Trust Fund deposits were fully insured and collateralized.

Investments (excluding Trust Funds)
The investments which the District may purchase are limited by Illinois law to the following: (1) securities which are fully guaranteed by the U.S. Government as to principal and interest; (2) certain U.S. Government Agency securities; (3) certificates of deposit or time deposits of banks and savings and loan associations which are insured by a Federal corporation; (4) short-term discount obligations of the Federal National Mortgage Association; (5) certain short-term obligations of corporations (commercial paper) rated in the highest classifications by at least two of the major rating services; (6) fully collateralized repurchase agreements; (7) the State Treasurer's Illinois funds; (8) money market mutual funds and certain other instruments; and (9) municipal bonds of the State of Illinois, or of any other state, or of any political subdivisions thereof, whether interest is taxable or tax-exempt under federal law, rated within the four highest classifications by a major rating service. District policies require that repurchase agreements be collateralized only with direct U.S. Treasury securities that are maintained at a value of at least 102% of the investment amount (at market).

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the District's investments at December 31, 2017 (in thousands of dollars):

		Investment Maturities	
Investment Type	**Fair Value**	**Less Than 1 Year**	**1- 5 Years**
U.S. Agencies	$ 192,689	$ 123,098	$ 69,591
Municipal Bonds	93,407	77,699	15,708
Commercial Paper	189,623	189,623	—
State Treasurer's Illinois Funds	10	10	—
Total Investments	$ 475,729	$ 390,430	$ 85,299

The Illinois Funds invests a minimum of 75% of its assets in authorized investments of less than one year and no investment shall exceed two years maturity. The above fair value amount excludes accrued interest receivable of $747,000.

Interest Rate Risk
The District's investment policy protects against fair value losses resulting from rising interest rates by structuring its investments so that sufficient securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity, except when such a sale is required by state statute. In addition, the District's policy limits direct investments to securities maturing in five (5) years or less. Written notification is required to be made to the Board of Commissioners of the intent to invest in securities maturing more than five (5) years from the date of purchase.

Credit Risk
The District's investment policy applies the "prudent person" standard in managing its investment portfolio. As such, investments are made with such judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy limits investments in commercial paper to the highest rating classifications, as established by at least two of the four major rating services, and which mature not later than 270 days from the purchase date. Such purchases may not exceed 10% of the issuer corporation's outstanding obligations.

Credit ratings for the District's investments in debt securities as described by Standard & Poor's, Moody's and Fitch at December 31, 2017 (excluding investments in U.S. Treasuries, if any, which are not considered to have credit risk), are as follows:

Investment Type	Credit Ratings at 12/31/2017 S&P/Moody's/Fitch	% of Investment Type	% of Total Investments in Debt Securities
U.S. Agencies			
Federal Home Loan Banks (FHLB)	AA+/Aaa/NR	48.4%	
Federal Home Loan Mortgage Corporation (FHLMC)	AA+/Aaa/AAA	46.4%	
Federal National Mortgage Association (FNMA)	AA+/Aaa/AAA	5.2%	
Total U.S. Agencies		100.0%	40.5%
Commercial Paper	A-1/P-1/F1	100.0%	40.0%
State Treasurer's Illinois Funds	AAAm/NR/NR	100.0%	0.0%
Illinois State Regional Transportation Authority *	AA/NR/AA	26.8%	5.2%
Illinois State Sales Tax *	AA-/NR/AA+	12.8%	2.5%
New York State Environmental Facilities Corporation *	AAA/Aaa/AAA	9.5%	1.9%
State of Illinois *	BBB-/Baa3/BBB	7.5%	1.5%
State of Ohio *	AA+/Aa1/AA+	6.9%	1.4%
Maryland State Housing and Community Development *	NR/Aa2/AA	5.8%	1.1%
California State Taxable High Speed Passenger Trains *	AA-/Aa3/AA-	5.3%	1.1%
Mississippi Development Bank, Jackson Public School District *	A/NR/NR	4.5%	0.9%
Cook County, Illinois *	AA-/A2/A+	4.3%	0.8%
Atlanta Urban Residential Finance Authority *	NR/Aa1/AA+	3.8%	0.7%
Marin California Community College District 1 *	AAA/Aaa/NR	2.7%	0.5%
Waukegan, Illinois *	NR/A2/NR	2.5%	0.5%
Honolulu Hawaii City and County *	NR/Aa1/AA+	2.0%	0.4%
New York State Urban Development Corporate *	AAA/Aa1/AA+	1.6%	0.3%
Chicago Illinois Wastewater Transmission *	A/NR/AA-	1.2%	0.2%
Rosemont, Illinois *	AA/Baa1/NR	1.1%	0.2%
University of Illinois *	A-/A1/NR	0.7%	0.1%
Houston Texas Utility System *	AA/Aa2/AA	0.6%	0.1%
Holland, Michigan *	AA/NR/NR	0.4%	0.1%
			100.0%

* Municipal Bond
NR - Not Rated

Concentration of Credit Risk
The District's goal is to limit the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than 20% of the amount invested in commercial paper can be invested in any one entity. In 2017, the fair value of commercial paper represented 27.6% of the District's total investments, including certificates of deposit. None of the District's commercial paper in any one entity exceeded the 20% goal.

As of December 31, 2017, the following investments were greater than 5% of total investments (in thousands of dollars):

Investment	Fair Value
Federal Home Loan Bank (FHLB)	$ 93,230
Federal Home Loan Mortgage Corporation (FHLMC)	89,473
Illinois State Regional Transportation Authority	24,968
	$ 207,671

There are no investments that represent 5% or more of the Pension Trust Fund's net position restricted for pension benefits identified.

There are no individual investments held by the OPEB Trust that represent 5% or more of the Trust's fiduciary net position or the investment portfolio at year-end.

Custodial Credit Risk
The District's investments are not exposed to custodial credit risk since its investment policy requires all investments and investment collateral to be held in safekeeping by a third party custodial institution, as designated by the Treasurer, in the District's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities which are in the possession of the outside party.

As of December 31, 2017, the Pension Trust Fund had minimal exposure to custodial credit risk since all investments were insured, registered, and/or held in the Fund's name.

The OPEB 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. 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, 2017, the Trust had no exposure to custodial credit risk since all investments were registered or held in the Trust's name.

Trust Fund Investments
The Pension Trust Fund uses the "prudent person rule" as the Fund's investment authority as set forth in the Illinois Compiled Statutes. The Fund's asset allocation policy allows investments in domestic equities, international equities and fixed income securities.

The OPEB Trust Fund is authorized under State Statute 70 ILCS 2605/9.6(d). In accordance with the Statute, the Trust Fund 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, and revised it on December 19, 2013. Investments shall be limited to publicly traded securities and mutual funds, adequately diversified among various market segments and sectors as well as other developed countries and emerging markets.

At December 31, 2017, the OPEB Trust's assets were invested in 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.

Interest Rate Risk

Interest rate risk is defined as the risk that the fair value of an investment will be adversely affected by changes in market interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates becomes. One strategy to manage exposure to interest rate risk is to purchase a combination of short-term and long-term investments, while considering cash flow needs of the Pension Trust Fund. The Pension Trust Fund does not maintain an investment policy relative to interest rate risk; however, the Board of Trustees recognizes that its investments are subject to short-term volatility and their goal is to maximize total return within prudent risk parameters.

The following table categorizes the Pension Trust Fund's interest bearing investments and presents the fair value and segmented time distribution of debt securities held by the Pension Trust Fund as of December 31, 2017 (in thousands of dollars):

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less than 1 Year**	**1-5 Years**	**6-10 Years**	**10+ Years**
Fixed Income:					
Pooled Funds - Long Term investments	$ 184,200	$ —	$ —	$ 184,200	$ —
Pooled Funds - Short Term investments	30,689	30,689	—	—	—
Corporate bonds and notes	66,134	474	33,518	18,511	13,631
Municipal bonds	3,494	3,494	—	—	—
Common collective trust	8,875	226	2,888	5,048	713
U.S. Governmental and government agency obligations	93,190	9,710	14,524	7,484	61,472
Non-U.S. Government obligations	50,015	1,071	21,514	12,022	15,408
Mortgage backed	6,506	75	—	—	6,431
Asset backed	21,598	63	11,139	1,397	8,999
Total Fixed Income	464,701				
Equities:					
Common Stock	576,588				
Mutual and Co-mingled Equity	342,484				
Total Equities	919,072				
Total Investments	$ 1,383,773				

The Fund's benefit liabilities extend many years into the future; therefore, the Pension Trust Fund's policy is to maintain a long-term focus on its investment decision-making process. The Fund's fixed income performance objective is the Barclays Capital Aggregate Bond Index.

The OPEB 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.

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities for the OPEB Trust Fund's investments at December 31, 2017 (in thousands of dollars):

Investment Type	Fair Value	Percentage	Weighted Average Maturities (Years)
Domestic Fixed Income Funds			
Dodge & Cox Income Fund	$ 27,665	44.0%	7.5
Payden Core Bond Fund	7,609	12.1%	8.3
Western Asset Core Plus Institutional	27,531	43.9%	12.7
Total Domestic Fixed Income Funds	62,805		
Domestic Equity Funds			
Fidelity 500 Index Institutional Class	17,760		
Fidelity Contrafund	17,671		
Fidelity Mid Cap Index Institutional	7,680		
LSV Value Equity Institutional	17,639		
Vanguard Small Cap Index Institutional	8,076		
Total Domestic Equity Funds	68,826		
International Equity Funds			
Fidelity International Index Institutional	29,067		
Total International Equity Funds	29,067		
Global Balanced Funds			
PIMCO All Asset Institutional Class	17,449		
Money Market Funds	16,994		
Total Fair Value	$ 195,141		

Credit Risk

Credit risk is defined as the risk that the issuer of a debt security will not pay its par value upon maturity. The Illinois Statutes prescribe the "prudent person rule" as the Pension Trust Fund's investment authority and within the "prudent person" framework, the Board of Trustees adopts investment guidelines that consider credit risk for the Pension Trust Fund's investment managers which are included within their respective investment Management Agreements.

The following table presents a summarization of the Pension Trust Fund's credit quality ratings of the holdings within the investments at December 31, 2017 (in thousands of dollars):

Disclosure Ratings for Debt Securities (1)
(As a percentage of total fair value for debt securities)

Credit Rating	Investment Type	Fair Value		%
Aaa	U.S. Governmental and Government Agency	$ 93,190		20.1%
Not Rated	Municipal	3,494		0.8
A1-A3	Non-U.S. Governmental	1,538		0.3
Aa1-Aa3	Non-U.S. Governmental	2,836		0.6
Aaa	Non-U.S. Governmental	2,053		0.4
Ba1-Ba3	Non-U.S. Governmental	239		0.1
Baa1-Baa3	Non-U.S. Governmental	671		0.1
Not Rated	Non-U.S. Governmental	42,678		9.2
		50,015	(2)	10.7
A1-A3	Mortgage backed	58		0.0
Aa1-Aa3	Mortgage backed	337		0.1
Aaa	Mortgage backed	4,212		0.9
Not Rated	Mortgage backed	1,899		0.4
		6,506		1.4
A1-A3	Asset backed	2,391		0.5
Aa1-Aa3	Asset backed	2,931		0.6
Aaa	Asset backed	2,906		0.6
B1-B3	Asset backed	429		0.1
Ba1-Ba3	Asset backed	1,026		0.2
Baa1-Baa3	Asset backed	1,784		0.4
Caa1-Caa3	Asset backed	528		0.1
Not Rated	Asset backed	9,603		2.1
		21,598		4.6
A1-A3	Corporate Bonds and Notes	12,539		2.7
Aa1-Aa3	Corporate Bonds and Notes	2,919		0.6
Aaa	Corporate Bonds and Notes	6,054		1.3
B1-B3	Corporate Bonds and Notes	7,568		1.6
Ba1-Ba3	Corporate Bonds and Notes	2,288		0.5
Baa1-Baa3	Corporate Bonds and Notes	9,310		2.0
Caa1-Caa3	Corporate Bonds and Notes	922		0.2
Not Rated	Corporate Bonds and Notes	24,534		5.3
		66,134		14.2
BB-	Common collective trust-fixed income (3)	8,875		1.9
A	Pooled funds - long term investments	20,870		4.5
Aa	Pooled funds - long term investments	6,926		1.5
Aaa	Pooled funds - long term investments	131,298		28.3
Baa	Pooled funds - long term investments	25,069		5.4
Not Rated	Pooled funds - long term investments	37		0.0
		184,200		39.7
Not Rated	Pooled funds - short term investments	30,689		6.6
		$ 464,701		100.0%

(1) Report details the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Moody's credit rating agency.
(2) Includes foreign currency-denominated investments.
(3) Average credit quality rating is provided by Bank of America Merrill Lynch.

The OPEB 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 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.

The following are the percentages of fixed income investment portfolio securities within each credit-quality rating as of December 31, 2017:

Disclosure Ratings for Debt Securities
(As a percentage of total fair value for debt securities)

Credit Rating	Dodge & Cox Income Fund	Payden Core Bond Fund	Western Asset Core Plus Fund
AAA	57.4%	52.0%	54.9%
AA	3.7	1.0	2.9
A	3.9	8.0	14.5
BBB	28.1	35.0	11.8
BB	5.5	0.0	7.9
B	0.0	0.0	3.4
Below B	1.4	1.0	3.6
Not Rated	0.0	3.0	1.0
Total	100.0%	100.0%	100.0%

Morningstar Inc. provided 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.

The Trust's investment in a money market fund was not individually rated by a nationally recognized statistical rating organization.

Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in currency exchange rates. All foreign currency denominated investments are in equities, fixed income and foreign cash. The Pension Trust Fund's exposure to foreign currency risk at December 31, 2017 was as follows:

Common Stock	Fair Value	%
Australian Dollar	$ 9,791,274	6.9
Canadian Dollar	5,020,142	3.5
Swiss Franc	8,574,716	6.0
Danish Krone	2,701,260	1.9
Euro	35,713,200	25.3
Pound Sterling	25,152,695	17.7
Hong Kong Dollar	3,435,414	2.4
Israeli Shekel	613,478	0.4
Japanese Yen	38,118,324	27.0
Norwegian Krone	2,055,159	1.4
New Zealand Dollar	1,707,061	1.2
Swedish Krona	5,490,183	3.9
Singapore Dollar	3,424,500	2.4
Total	$ 141,797,406	100.0 %

Corporate Bonds and Notes	Fair Value	%
Argentina Peso	$ 1,936,511	3.9
Australian Dollar	1,342,096	2.7
Canadian Dollar	2,635,529	5.3
Chilean Peso	490,187	1.0
Euro	9,243,317	18.6
Pound Sterling	2,847,927	5.7
Israeli Shekel	127,978	0.3
Indian Rupee	159,325	0.3
Japanese Yen	19,403,995	39.2
Mexican Peso	1,287,871	2.7
Norwegian Krone	4,259	—
New Zealand Dollar	3,881,744	7.8
Russian Ruble	1,014,336	2.0
Swedish Krona	1,115,479	2.2
Thailand Baht	240,052	0.5
Turkish Lira	875,180	1.8
Uruguayan Peso	512,334	1.0
South African Rand	2,468,892	5.0
Total	$ 49,587,012	100.0 %

Foreign Cash	Fair Value	%
Argentina Peso	$ 32,768	1.8
Australian Dollar	185,970	10.2
Canadian Dollar	149,912	8.2
Swiss Franc	77,457	4.3
Danish Krone	84,421	4.6
Euro	270,584	15.0
Pound Sterling	91,844	5.0
Hong Kong Dollar	188,059	10.3
Israeli Shekel	129,921	7.1
Japanese Yen	263,174	14.5
Mexican New Peso	50,908	2.8
Norwegian Krone	57,450	3.2
New Zealand Dollar	28,875	1.6
Polish Zloty	29,930	1.6
Russian Ruble	37,797	2.1
Swedish Krona	37,317	2.1
Singapore Dollar	27,180	1.5
Thailand Baht	2,602	0.1
Turkish Lira	9,764	0.5
South African Rand	64,017	3.5
Total	$ 1,819,950	100.0 %

The OPEB Trust Fund's policy is to disclose any investment denomination 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.

As of December 31, 2017, the OPEB Trust investments in international equity mutual funds stated at fair market value are as follows (in thousands of dollars):

Fund Name	Fair Value
Fidelity International Index Institutional	$ 29,067

Securities Lending
The Pension Trust Fund lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank of New York Mellon, the Fund's master custodian, lends for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities' market value, and international securities for collateral worth at least 105%. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan.

All securities loans can be terminated on demand by either the Pension Trust Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 3 days.

The relationship between the maturities of the investment pool and the Pension Trust Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Pension Trust Fund cannot pledge or sell collateral securities without borrower default; as such, the collateral security or non-cash collateral is not reported in the financial statements.

Although the Fund's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities or the collateral. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower. The contract with the lending agent requires it to indemnify the Fund if borrowers fail to return the securities or fail to pay the Fund for income distributions by the issuers of securities while the securities are on loan.

A summary of securities loaned at fair value as of December 31, 2017 is as follows:

Fair value of securities loaned for cash collateral	$ 26,675,638
Fair value of securities loaned for non-cash collateral	32,031,506
Total fair value of securities loaned	$ 58,707,144
Fair value of cash collateral from borrowers	$ 27,447,849
Fair value of non-cash collateral from borrowers	32,788,709
Total fair value of collateral	$ 60,236,558

The value of the cash collateral held and a corresponding liability to return the collateral have been reported in the accompanying statement of fiduciary net position.

The fund also participates in the securities lending programs offered by State Street Global Advisors (SSGA) with regards to their commingled index funds. Securities lending income earned by SSGA serves as a credit to quarterly management fees, and any remainder is used for purchasing additional units in the bond index fund.

Fair Market Value Measurements

The District, the Pension Trust Fund and the OPEB Trust Fund have adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The District and its fiduciary funds categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation input used to measure the fair value of the asset.

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets. Includes common stock, mutual and commingled equity funds, and U.S. Government and government agency obligations and Non-U.S. Government obligations that are traded in active markets and are valued at closing prices on the measurement date.

Level 2 Quoted prices for similar assets or liabilities in active markets, inactive markets, or using other significant inputs which are observable either directly or indirectly. Includes U.S. Government and government agency obligations, non-U.S. Government obligations, mortgage backed securities, asset backed securities, and corporate bonds and notes that are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. To the extent that quoted prices are not available, fair value is determined based on a valuation model that includes inputs such as interest rates and yield curves at commonly quoted intervals, implied volatilities and credit spreads, or market corroborated inputs.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable. Includes corporate bonds and notes that are valued using a discounted cash flow technique or consensus pricing.

The carrying amount of investments and fair value hierarchy at December 31, 2017 is shown in the following schedule (in thousands of dollars):

The District		**Fair Value Measurements Using**		
Investments Measured at Fair Value	**12/31/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Debt Securities				
U.S. Agencies	$ 192,689	$ —	$ 192,689	$ —
Municipal Bonds	93,407	—	93,407	—
Commercial Paper	189,623	—	189,623	—
Total Investments at Fair Value	$ 475,719	$ —	$ 475,719	$ —
Investments Not Measured at Fair Value				
State Treasurer's Illinois Funds	10			
Total Investments	$ 475,729			

The District does not have Level 1 investments. Debt securities classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The District does not have Level 3 investments.

The Retirement fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following table sets forth, by level, within the fair value hierarchy, the investments at fair value as of December 31, 2017:

Retirement Fund		**Fair Value Measurements Using**		
Investments Measured at Fair Value	**12/31/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Debt Securities				
U.S. govt and govt agency obligations	$ 93,190	$ 30,408	$ 62,782	$ —
Municipal bonds	3,494	—	3,494	—
Non-U.S. government obligations	50,015	—	50,015	—
Mortgage-backed	6,506	—	6,506	—
Asset-backed	21,598	—	21,598	—
Corporate bonds and notes	66,134	—	66,134	—
Total debt securities	240,937	30,408	210,529	—
Equity Securities				
Common stock	576,588	576,588	—	—
Mutual/commingled equity funds	260,976	260,976	—	—
Total equity securities	837,564	837,564	—	—
Fixed Income - Pooled Funds				
Short term	30,689	—	30,689	—
Long term	184,200	—	184,200	—
Total fixed income - pooled funds	214,889	—	214,889	—
Total investments at fair value	$ 1,293,390	$ 867,972	$ 425,418	$ —
Investments measured at NAV	90,383			
Total investments at fair value	$ 1,383,773			
Investment derivative instruments				
Foreign currency options (liabilities)	$ (28)	$ —	$ (28)	$ —
Futures contracts (liabilities)	(37)	(37)	—	—
Total investment derivative instruments	$ (65)	$ (37)	$ (28)	$ —

Investments measured at NAV	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Fixed income				
Common Collective Trust (1)	$ 8,875	—	Monthly	N/A
Mutual & commingled equity funds				
Commingled funds non-US equity (2)	81,508	—	2 times monthly	N/A
Total investments measured at NAV	$ 90,383			

(1) Common Collective Trust - The fund's investment objective is to achieve an attractive total return of income and capital appreciation by investing primarily in high yield fixed income securities and bank loan interests, including secured and unsecured bank loans. The fair value of the investment in the fund has been determined using the NAV per share of the investment.

(2) Commingled Funds non-U.S. Equity - The fund's investment objective is to approximate as closely as practicable the performance of the MSCI ACWI ex USA Index over the long term by investing in other collective investment funds which have characteristics consistent with the fund's overall investment objective. The fair value of the investment in the fund has been determined using the NAV per share of the investment.

The carrying amount of investments and fair value hierarchy of the OPEB Trust is shown in the following schedule as of December 31, 2017:

OPEB Trust		Fair Value Measurements Using		
Fair Value of Investments	**12/31/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Domestic Equity Funds	$ 68,826	$ 68,826	$ —	$ —
International Equity Funds	29,067	29,067	—	—
Domestic Fixed Income Funds	62,805	62,805	—	—
Global Balanced Funds	17,449	17,449	—	—
Money Market Funds	16,994	16,994	—	—
Total Fair Value of Investments	$ 195,141	$ 195,141	$ —	$ —

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. The Trust does not have Level 2 or Level 3 investments.

5. Receivables, Deferred Inflows of Resources and Payables

Certain receivables and payables reported in the financial statements represent aggregations of different components, such as balances due from/to taxpayers, users, other governments, vendors, and employees. The following information is provided to detail significant balances which make up the components.

Receivables

Receivables as of December 31, 2017 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improve-ments Bond	Retirement	Other Govern-mental	Total Govern-mental	Statement of Net Position
Receivables at December 31, 2017:							
Property taxes:	$ 234,532	$ 237,272	$ —	$ 74,752	$ 58,095	$ 604,651	$ 604,651
Allowance for uncollectible taxes	(12,730)	(12,694)	—	(3,883)	(2,967)	(32,274)	(32,274)
Net property taxes	221,802	224,578	—	70,869	55,128	572,377	572,377
Personal property replacement tax	—	—	—	4,173	—	4,173	4,173
Total taxes receivable, net	221,802	224,578	—	75,042	55,128	576,550	576,550
Other receivables:							
User charges	2,782	—	—	—	—	2,782	2,782
State revolving fund loans	—	—	41,619	—	—	41,619	41,619
Miscellaneous	5,817	—	878	—	746	7,441	7,441
Total other receivables, net	8,599	—	42,497	—	746	51,842	51,842
Total net receivables at December 31, 2017	$ 230,401	$ 224,578	$ 42,497	$ 75,042	$ 55,874	$ 628,392	$ 628,392

The property tax receivable includes a nominal amount that is not expected to be collected within one year of the financial statement date.

Deferred Inflows of Resources

Unavailable tax revenue is reported in the Governmental Funds Balance Sheets in connection with receivables for property taxes that are not considered to be available to liquidate liabilities of the current period. Other unavailable revenue is reported in the Governmental Funds Balance Sheets and the government-wide Statements of Net Position for rental resources that have been received, but not earned. Other unavailable revenue is reported in the Governmental Funds Balance Sheets for the federal subsidy accrual relating to the direct reimbursement for the District's Build America Bonds. A summary of unavailable revenue as of December 31, 2017 is as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improve-ments Bond	Retirement	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Position
Deferred inflows of resources at December 31, 2017:								
Property tax revenue	$ 185,236	$ 187,542	$ —	$ 59,174	$ 46,028	$ 477,980	$ (477,980)	$ —
Other amounts:								
Grant revenue	—	—	944	—	—	944	(944)	—
Total deferred revenue at December 31, 2017	$ 185,236	$ 187,542	$ 944	$ 59,174	$ 46,028	$ 478,924	$ (463,822)	$ 15,102

Payables

Payables reported as "Accounts payable and other liabilities" at December 31, 2017 in the District's governmental funds and government-wide financial statements are detailed as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improve ments Bond	Retirement	Other Govern mental	Total Govern mental	Statement of Net Position
Accounts payable and other liabilities at December 31, 2017:							
Vouchers payable and other liabilities	$ 17,222	$ —	$ 55,356	$ —	$ 4,886	$ 77,464	$ 77,464
Accrued payroll and withholdings	3,964	—	—	—	—	3,964	3,964
Bid deposits	738	—	—	—	—	738	738
Unearned revenue	8,139	—	—	—	—	8,139	8,139
Total accounts payable and other liabilities as of December 31, 2017	$ 30,063	$ —	$ 55,356	$ —	$ 4,886	$ 90,305	$ 90,305

6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2017, are as follows (in thousands of dollars):

	Balances January 1, 2017	Additions	Retirements	Balances December 31, 2017
Governmental activities:				
Capital assets not depreciated/amortized:				
Land	$ 142,880	$ 1,324	$ —	$ 144,204
Permanent easements	1,463	—	—	1,463
Construction in progress	541,199	190,907	53,164	678,942
Infrastructure under modified approach	5,045,360	41,873	1,467	5,085,766
Total capital assets not depreciated/amortized	5,730,902	234,104	54,631	5,910,375
Capital assets depreciated/amortized:				
Buildings	13,226	—	—	13,226
Equipment	60,886	2,147	1,376	61,657
Computer software	6,141	1,342	—	7,483
Infrastructure and easements	1,898,573	—	—	1,898,573
Total capital assets being depreciated/amortized	1,978,826	3,489	1,376	1,980,939
Less accumulated depreciation/amortization:				
Buildings	6,057	185	—	6,242
Equipment	35,647	2,943	1,113	37,477
Computer software	5,284	750	—	6,034
Infrastructure and easements	235,806	11,313	—	247,119
Total accumulated depreciation/amortization	282,794	15,191	1,113	296,872
Total capital assets depreciated/amortized, net	1,696,032	(11,702)	263	1,684,067
Governmental activities capital assets, net	$ 7,426,934	$ 222,402	$ 54,894	$ 7,594,442

Depreciation and amortization expense in the government-wide Statements of Activities, for the year ended December 31, 2017, was charged to the District's governmental functions as follows (in thousands of dollars):

Department	Amount
Board of Commissioners	$ 12
General Administration	119
Monitoring and Research	270
Procurement and Materials Management	13
Human Resources	21
Information Technology	95
Law	12
Finance	9
Engineering	1,824
Maintenance and Operations	753
Total allocated depreciation	3,128
Unallocated infrastructure depreciation	12,063
Total depreciation	$ 15,191

7. Pension Plan

Plan Description

The Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund) is the administrator of a single employer defined benefit pension plan (Plan) in accordance with 40 ILCS 5 of the Illinois Compiled Statutes. Article 13 of the Illinois Pension code grants the authority to establish the defined benefits of the Plan, as well as the employer and employee contribution levels of the Plan and may be amended only by the Illinois Legislature. The District contribution is currently calculated in accordance with state statute as to the amount sufficient to meet the Fund's actuarially determined contribution requirement, but not to exceed an amount equal to 4.19 times the employee contributions two years prior. For the year ended December 31, 2017, the District's average contribution rate was 40% of annual payroll. The District's actual contribution to the Retirement Fund was $89,858,000.

The Pension Trust Fund issues a financial report that includes financial statements and required supplementary information establishing the financial position of the Plan. That report may be obtained by writing to the Metropolitan Water Reclamation District Retirement Fund, 111 E. Erie, Chicago, IL, 60611-2898 or electronically on their website: www. mwrdrf.org.

The Pension Trust Fund provides retirement, death, and disability benefits to plan members and beneficiaries. Pension legislation (Public Act 96-0889) was approved in 2010 and established two tiers of members with different eligibility conditions and benefit provisions:

Tier 1 – Employees hired before January 1, 2011 are required to contribute 12% of their salary to the Fund.
Tier 2 – Employees hired on or after January 1, 2011 are required to contribute 9% of their salary to the Fund.

The District is required to contribute the remaining amounts necessary to finance the requirements of the Plan on an actuarially funded basis.

Retirement Eligibility and Benefits

All full time employees of the District are eligible to participate in the retirement plan.

Tier 1 employees must have at least five years of service at age 60 and include service of 120 days or more per year to receive an undiscounted retirement benefit. Employees in this tier who reach age 55 (or 50 if hired on or before June 13, 1997) with at least ten years of service are entitled to receive a minimum retirement benefit; however, if the employee is less than age 60 or service less than 30 years, the normal retirement benefit is reduced by .5% for each full month the member is less than age 60 or service is less than 30 years, whichever is less. Upon withdrawal from service a Tier 1 employee age 55 or under (50 if hired on or before June 13, 1997) and less than age 60 with less than 20 years of service, or age 60 or over with less than 5 years of service, is eligible for a refund of accumulated employee contributions, without interest, upon request. The retirement benefit is calculated as 2.2% of the final average salary for each of the first 20 years of service and 2.4% for each year of service in excess of 20 years. The benefit shall not exceed 80% of final average salary. Tier 1 employees receive a 3% cost of living adjustment annually.

Tier 2 employees must have at least 10 years of service at age 67 to be eligible to receive an undiscounted retirement benefit. Employees in this tier who reach age 62 with at least ten years of service are entitled to receive a minimum retirement benefit; however, if the employee is less than age 67, the normal retirement benefit is reduced by .5% for each full month the member is less than age 67. A Tier 2 employee is eligible for a refund of accumulated employee contributions without interest if under age 62 regardless of service, or if less than 10 years of service regardless of age on withdrawal. The retirement benefit is calculated as 2.2% of the final average salary for each of the first 20 years of service and 2.4% for each year of service in excess of 20 years. The benefit shall not exceed 80% of final average salary. Pensionable salary is limited to $112,408 in 2017 for Tier 2 employees. Tier 2 employees receive a cost of living adjustment as the lesser of 3% and half of the CPI-u for the 12 months ending the September 30th prior to the increase date.

If a covered employee leaves employment before the age of 55, accumulated employee contributions are refundable without interest. Upon receipt of a refund, the employee forfeits rights to benefits from the fund.

There are two other types of annuities available to family members of the plan: Surviving Spouse Annuity and Children's Annuity. The spouses of employees hired before June 13, 1997 are immediately eligible to receive a surviving spouse annuity; spouses of employees hired on or after June 13, 1997 are eligible after three years of member's service. For all Tier 1 employees hired before January 1, 2011, the surviving spouse annuity is equal to 60% of the employee's retirement benefit at the time of death plus 1% for each year of total service to a maximum of 85%. For Tier 2 employees, an eligible surviving spouse will be entitled to an annuity equal to 66 2/3% of the employee's retirement benefit at time of death. Each unmarried child, until the age of 18 (23 if full time student) of an employee that dies in service or of a former member that dies with at least ten years of service, is eligible for a monthly annuity of $500 per month (if one parent is living) and $1,000 per month (if neither parent is living) to a maximum total benefit of $5,000 per month.

Employees covered
At December 31, 2017, the following employees were covered by the benefit terms:

Inactive Employees	
Employees or beneficiaries currently receiving benefits	2,408
Entitled but not yet receiving benefits	137
Active Employees	1,835
Total Members	4,380

Basis of Accounting
The Pension Plan's financial statements are prepared using the accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position the Pension Plan and additions to/ deductions from the Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about the pension plan's fiduciary net position is available in the separately issued Retirement Fund financial report. Page 95 has the information for obtaining those statements.

Net Pension Liability and the Changes in the Net Pension Liability

The District's measurement date for GASB 68 is December 31, 2016. The Pension Plan has a measurement date of December 31, 2017. A copy of the Pension Plan CAFR for 2017 may be obtained by accessing the Metropolitan Water Reclamation District Retirement Fund's website at www.mwrdrf.org. The net pension liability at December 31, 2017 is $1,079,566,000, which is an increase from the December 31, 2016 balance of $1,073,113,000.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at beginning of year	$ (2,359,766)	$ 1,286,653	$ (1,073,113)
Service Cost	(32,058)	—	(32,058)
Interest	(173,861)	—	(173,861)
Difference between expected and actual experiences	(13,814)	—	(13,814)
Benefit payments	147,336	(147,336)	—
Contributions-employer	—	80,259	80,259
Contributions-employee	—	20,831	20,831
Net investment income	—	113,586	113,586
Administrative expenses	—	(1,503)	(1,503)
Other	—	107	107
Balances at end of year	$ (2,432,163)	$ 1,352,597	$ (1,079,566)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions. Employer contributions made subsequent to the measurement date in the amount of $89,858,000, will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Differences between expected and actual experience, changes in assumptions and net differences between projected and actual experiences amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands of dollars):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance as of December 31, 2016	$ 187,959	$ —
Changes in Employer contribution subsequent to measurement date	9,599	—
Differences between expected and actual experience	7,298	(3,775)
Changes in assumptions	—	—
Net difference between projected and actual earnings on pension plan investments	(22,820)	18,877
	$ 182,036	$ 15,102

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands of dollars):

Year ended December 31:	
2018	$ 115,419
2019	25,561
2020	22,720
2021	931
2022	2,303
	$ 166,934

Actuarial Methods and Assumptions
The District's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The District chose to use a measurement date one year in arrears. The total pension liability in the December 31, 2016 actuarial valuation was determined using the Entry Age Normal actuarial cost method and using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary Increases	Varies by service
Investment Rate of Return	7.50%, net of investment expense, including inflation
Cost of living adjustment	Tier 1: 3%
	Tier 2: the lesser of 3% and half of the CPI-u for the 12 months ending the September 30th prior to the increase date
	Surviving spouse annuitants: 1.25%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables with generational mortality improvements based on Scale AA. Pre-retirement mortality rates are the same as post-retirement rates.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for a five year period ending December 31, 2013.

Investment Allocation and Rate of Return
The long-term expected rate of return on pension plan investments was determined using a building-block method which best estimates ranges of expected future real rates of return. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The Pension Board's adopted target asset allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Domestic Equity	42%	5%
International Equity	23%	5.1%
Bonds	35%	0.4%

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members; therefore, the long term expected rate of return of 7.5% was applied to all periods of projected benefit payments to determine the pension liability.

A sensitivity analysis is also completed to show the effect on the net pension liability if the discount rate was plus or minus one percentage point from the current rate (in thousands of dollars):

	1% Decrease 6.5%	Current Discount Rate of 7.5%	1% Increase 8.5%
Net Pension Liability	$ 1,361,929	$ 1,079,566	$ 841,925

Payable to the Pension Plan and Pension Expense
At December 31, 2017, the District reported a payable of $89,858,000 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017. The pension expense for the year ended December 31, 2017 was $117,336,000.

8. OPEB - Other Post-Employment Benefits

Plan Description
The Metropolitan Water Reclamation District Retiree Health Care Trust (OPEB Trust) administers the financing and payment of other post employment benefits for the Metropolitan Water Reclamation District of Greater Chicago. Pursuant to Illinois Statute 70 ILCS 2605/9.6(d), the District adopted the Metropolitan Water Reclamation District Retiree Health Care Plan (Plan) effective December 6, 2007. The purpose of the Plan is to provide postretirement medical and prescription drug coverage benefits to retirees as well as spouses and dependents of retirees that fulfill certain eligibility requirements. Retirees and annuitants receiving a pension through the Pension Trust Fund are eligible for District sponsored health insurance. As of December 31, 2017, there are 2,797 retirees and beneficiaries currently receiving health care coverage.

The OPEB Trust Fund issues a financial report that includes financial statements and required supplementary information establishing the financial position of the Plan. That report may be obtained by writing to the Metropolitan Water Reclamation District Retiree Health Care Trust Fund, 100 E. Erie, Chicago, IL, 60611-2898 or electronically on the District's website: www.mwrd.org.

Basis of Accounting
The financial statements of the Trust 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.

Contributions
The District has not entered into any long-term contracts for contributions to the plan as of the date of this report. State Statute 70 ILCS 2605/9.6d is the legislation establishing the Trust and gives the District Board of Commissioners discretionary authority to determine contribution amounts to be paid by the District. The OPEB Funding Policy includes a target funded ratio of 100% with an expected funding period of 12 years (beginning in 2015). In 2017, $5,000,000 was contributed by the District to the OPEB Trust Fund bringing the total contributed through December 31, 2017 to $127,400,000. In succeeding fiscal years, the Trust will receive the District (employer) contribution as determined by the Board of Commissioners. There is currently no requirement for the District to partially or fully fund the Trust, and any funding is on a voluntary basis. Plan participants do not contribute to the plan other than providing premium contributions as discussed below.

The District allows employees who retire and meet certain eligibility requirements to continue medical coverage as participants in the Metropolitan Water Reclamation District Retiree Health Care Plan. The plan allows for subsidized health care benefits for its retirees. Retirees contribute 39.0% of the premium and the District pays the remaining 61.0%. Each year for the next five years, retiree contributions will rise by 2.5% until the premium reaches 50%. Annually, the Board approves an appropriation to fund retiree medical costs as part of the Human Resources Department, General Corporate Fund budget. The amount of OPEB expenditure recognized during 2017 by the District was $18,430,657, all claims paid (net of participant contributions).

Annual OPEB Cost and Net OPEB Obligation

The following OPEB cost and net OPEB obligation was determined for the year ended December 31, 2017 (in thousands of dollars).

Annual Required Contribution for 2017	$ 11,507
Interest on Net OPEB Obligation	1,170
Adjustment to Annual Required Contribution	(927)
Annual OPEB Cost	11,750
Contributions Made	(18,431)
Decrease in Net OPEB Obligation	(6,681)
Net OPEB Obligation Beginning of Year	17,993
Net OPEB Obligation End of Year	$ 11,312

Funding Status and Progress

The funding status of the plan as of the most recent actuarial valuation date is as follows (in thousands of dollars):

Period Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2017	12/31/2017	$ 195,200	$ 308,747	$ 113,547	63.22%	$ 184,807	61.44%

Actuarial Methods and Assumptions

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, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts actually 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, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. 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.

The annual required contribution for the current year actuarial valuation uses the entry age normal actuarial cost method and the level percentage of payroll amortization method. Additional assumptions are summarized in the following table:

Valuation date	December 31, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
	Open
Amortization period	30 Years
Asset valuation method	Fair Value
Actuarial assumptions:	
Discount Rate	6.50%
Inflation Rate	3.0%
Health Care Cost Trend Rate	8.0% Initial
	4.5% Ultimate (Year 2023)
Annual Payroll Growth Rate	3.6%

Trend Information

The OPEB annual required contribution, percentage of annual required contributions contributed and net OPEB obligation for the year ending December 31, 2017, are presented below (in thousands of dollars):

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Annual Contributions to Trust	Percentage Contributed
2017	$ 11,507	$ 18,431	160.2%
2016	12,472	19,917	159.7
2015	12,472	18,317	146.9

9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund has existing purchase order encumbrances of $1,049,694 at December 31, 2017. Construction, Stormwater Management, and Capital Improvements Bond Funds' contract commitments (encumbrances) were $290,252,000 at December 31, 2017. State Revolving Fund Loan commitments of $104,982,000 at December 31, 2017, are also collectible as contract expenditures are incurred.

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. The Internal Revenue Code offers certain "safe harbors" permitting qualified governments to keep extra earnings that result from arbitrage. The District has made a determination of their probable liability for amounts potentially due to the United States government. As of December 31, 2017, the District has no arbitrage rebate liability.

National Pollutant Discharge Elimination System

NPDES Permits. The District operates its water reclamation plants (the "WRPs") in accordance with National Pollutant Discharge Elimination System ("NPDES") permits issued by the IEPA. After several years and substantial litigation, the IEPA reissued the District's NPDES permits for the Stickney, Calumet and O'Brien WRPs. These permits include three special conditions agreed upon by the District and several non-governmental organizations to settle the ongoing litigation on these three NPDES permits. Under these additional conditions, the District will fund a super-gauge to monitor nutrients in the lower Des Plaines River (estimated to be approximately $270,000 over the next four years), hire a consultant to prepare an implementation plan to address phosphorous in area waterways, and potentially implement that plan. The District will also have to conduct a feasibility study to determine the cost of reducing phosphorous in the WRPs' effluent to certain levels. If required to reduce the phosphorous in the District's effluent to very low levels, the costs could be substantial.

The District's NPDES permits for the Kirie, Hanover Park, Lemont, and Egan WRPs have not yet been reissued.

NPDES Consent Decree. The District's NPDES permits, in addition to controlling discharges from the WRPs, also impose conditions upon combined sewer system overflows (the "CSOs"). In compliance with the NPDES permits, the District's TARP was developed as a long term control plan to control CSOs. The USEPA alleged that discharges from the District's CSOs have and continue to violate certain permit requirements, including the prohibition on discharging pollutants into waters that cause or contribute to violations of applicable water quality standards for dissolved oxygen, solids, and floatables. IEPA joined the USEPA in alleging the stated water quality violations. Entities with combined sewer systems that allegedly are in violation of applicable water quality standards are subject to an enforceable schedule for the implementation of a long term control plan, with "enforceable" requiring a judgment or a consent decree entered in a federal district court.

In December 2011, the USEPA and IEPA filed a lawsuit against the District for the alleged violations, and lodged a consent decree negotiated between the USEPA, IEPA and the District. The case is captioned United States of America and State of Illinois v. Metropolitan Water Reclamation District of Greater Chicago, 11 CV 08859. Without an admission of liability, the consent decree resolved the federal and state claims associated with the District's CSOs. The consent decree, among other things: (a) establishes a construction schedule with interim milestones for completion and operation of portions of the District's TARP plan; (b) obligates the District to advance funds to the U.S. Army Corps of Engineers (the "Corps") for portions of the District's TARP for which the Corps is responsible should federal funds be unavailable to the Corps by the stated deadlines; (c) establishes performance criteria and develops post-construction monitoring for portions of the TARP system; (d) requires the District to continue seasonal operation of debris boats and pontoon boats to control floatables in the CAWS; (e) requires the District to submit annual reports on its compliance with the terms of the consent decree; (f) imposes stipulated penalties for violations of the decree; (g) imposes a total civil penalty of $675,000, which the District has already paid; (h) requires the District to implement one or more green infrastructure projects within one year for a minimum of $325,000, which the District has done; and (i) to implement additional green infrastructure projects staggered over the next 15 years that provide a minimum of 10 million gallons of design retention capacity in an individual storm, which the District continues to do.

NPDES Citizen Suit. In May 2011, the Natural Resources Defense Council, Sierra Cub, and Prairie Rivers Network (the "NGOs") filed a Clean Water Act ("CWA") citizen suit against the District in the District Court alleging violations of CWA-based water quality standards. The District vigorously defended against this lawsuit, and ultimately reached a settlement at the same time as it reached a settlement in the NPDES permit appeal pending before the IPCB. As part of this settlement, in addition to agreeing to recommend that the IEPA add three more special conditions into its NPDES permits for Stickney, Calumet, and O'Brien WRPs, the District agreed to pay approximately $1.8 million to plaintiffs' attorneys in fees and costs. Upon the IPEA's reissuance of the Stickney, Calumet, and O'Brien WRP's NPDES permits, in October 2017, the District paid the plaintiffs' fees and costs. This litigation has now concluded.

Class Action Flooding Claims. The District has previously been and is presently a party to several proposed class action lawsuits pending in the Circuit Court of Cook County arising out of local sewer back-ups and overland flooding resulting in basement flooding. The District is also in receipt of flooding claims in which lawsuits have not yet been filed. These lawsuits and claims are generally brought in tort, or for constitutional or statutory violations. As of the date of this CAFR, the Circuit Court of Cook County and the Illinois Appellate Court for the First District have ruled in the District's favor in every fully-adjudicated matter. A constitutional question was appealed to the Illinois Supreme Court, was answered, and remanded back to the Circuit Court for further proceedings. Other cases are currently on appeal to the Illinois Appellate Court for the First District.

10. Risk Management and Claims

The District is primarily self-insured for the "working layer" of losses and purchases excess insurance to assist in the response to catastrophic claims. Under the Reserve Claim Fund the District may levy an annual property tax not to exceed .005% of the equalized assessed valuation of taxable property within the District's territorial limits. The Reserve Claim Fund can be used for the payment of claims, awards, losses, judgments, liabilities, settlements, or demands and associated attorney's fees and costs that might be imposed on or incurred by such sanitary district in matters including, but not limited to, the Workers' Compensation Act or the Workers' Occupational Diseases Act, any claim in tort, any claim of deprivation of any constitutional or statutory right or protection, for all expenses, fees, and costs, both direct and in support of any property owned by such sanitary district which is damaged by fire, flood, explosion, vandalism or any other peril, natural or manmade. The aggregate amount that may accumulate in the Reserve Claim Fund cannot exceed .05% of the equalized assessed valuation. The Reserve Claim Fund accounts are included in the General Corporate Fund as described in Note 1.b to the financial statements.

From time to time, the District may be involved in various litigation relating to claims arising from general liability, property damage, automobile liability, personal injury, employment practices, marine liability, and public officials liability. The majority of these claims and judgments would be covered by insurance or paid from the Reserve Claim Fund accounts.

The District may be involved in various litigation relating to claims arising from construction contracts. Construction related liability claims can typically be tendered to the Contractor for defense and indemnification. Most other claims and judgments involving disputed construction contracts would be paid by the Capital Improvements Bond or Construction Funds.

The District may also be involved in various litigation for claims relating to environmental regulations. Under current environmental protection laws, the District may be ultimately responsible for the environmental remediation of some of its leased-out properties. The District has developed a preliminary estimate of environmental remediation costs for major lease sites. The range of such estimated costs at December 31, 2017, is between $26.5 million and $39.4 million. The District is of the opinion that the tenants (except for those who are bankrupt, out of business, or otherwise financially unable to perform) would ultimately be liable for the bulk, if not all, of these site clean-up costs. Negotiations are ongoing between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. The current estimated cost was determined to be $31,575,000 with an estimated cost recoverable amount of $22,150,000 resulting in $9,425,000 being recognized at December 31, 2017 in the liabilities of the government-wide financial statements. Of this amount, none of the current liability is classified as short-term and $9,425,000 is considered a long-term liability. These estimates are subject to changes as a result of price increases, changes in technology and new laws and regulations. These estimates were generated using the expected cash flows technique. GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset.

The District provides health insurance benefits to employees through a fully insured health maintenance organization and a self-insured comprehensive indemnity/PPO plan. The District provides dental insurance benefits through a fully insured dental maintenance organization and a self-insured dental indemnity plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The District provides life insurance benefits for active employees through an insured life insurance program.

Additional insurance policies in effect at December 31, 2017, are listed below. There were no reductions in insurance coverage from the prior year. Settled claims have not exceeded this coverage in any of the past three fiscal years. The current insurance coverage and risk retention related to these policies is as follows:

Marine Liability	
Aggregate	$10,000,000
Deductible	$10,000
Excess Liability	
Aggregate	$50,000,000
Deductible	$1,250,000
Deductible - Flood Class Action	$5,000,000
Deductible - Employers Liability	$1,250,000
Government Crime	
Forgery or Alteration	
Per Occurrence	$750,000
Deductible	$50,000
Employee Theft (including Faithful Performance)	
Per Occurrence	$6,000,000
Deductible	$100,000
Computer Fraud	
Per Occurrence	$6,000,000
Deductible	$100,000
Funds Transfer Fraud	
Per Occurrence	$6,000,000
Deductible	$100,000
Property Insurance	
Per Occurrence	$1,500,000,000
Deductible	$1,000,000
Earth Movement	
Per Occurrence	$250,000,000
Deductible	$1,000,000
Flood and Water Damage	
Per Occurrence	$250,000,000
Deductible	$1,000,000
Flood and Water Damage - Lockport Powerhouse	
Per Occurrence	$200,000,000
Deductible	$1,000,000
Group Travel Accident	
Aggregate Limit	$10,000,000
Accidental Death	
Per Employee (5 times salary up to this maximum)	$500,000
Accidental Dismemberment, Paralysis and other Coverages	
Per Loss	% per Schedule

Pension & Welfare Fiduciary Liability	
Aggregate	$5,000,000
Self-Insured Retention	$10,000
Group Term Life (basic)	
Per Employee	$20,000

The following changes in claims liabilities for the past two years have been calculated and include claims reported but not settled as well as those incurred but not reported in the government-wide financial statements (in thousands of dollars):

	2017	2016
Claims Payable at January 1	$ 40,236	$ 53,570
Claims incurred	6,905	4,786
Changes in prior years' claims estimate	(9,567)	(13,334)
Claim payments	(6,905)	(4,786)
Claims Payable at December 31	$ 30,669	$ 40,236

11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2017 (in thousands of dollars):

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017	Due Within One Year
Governmental long-term liabilities:					
Bonds and notes payable:					
General obligation debt	$ 1,963,045	$ —	$ (52,690)	$ 1,910,355	$ 55,450
Converted bond anticipation notes	806,563	39,281	(58,532)	787,312	86,251
Bond anticipation notes	157,390	178,420	(39,281)	296,529	—
Total bonds & notes payable	2,926,998	217,701	(150,503)	2,994,196	141,701
Other Bond Cost:					
Premium	195,674	—	(13,426)	182,248	13,426
Net bonds and notes payable	3,122,672	217,701	(163,929)	3,176,444	155,127
Other liabilities:					
Claims and judgments	40,236	—	(9,567)	30,669	7,113
Compensated absences	24,486	27	(1,702)	22,811	2,516
Capital lease (note 14)	41,047	—	(2,473)	38,574	2,595
OPEB obligation (note 8)	17,993	—	(6,681)	11,312	—
Net pension liability, (note 7)	1,073,113	368,572	(362,119)	1,079,566	—
Total governmental long-term liabilities	$ 4,319,547	$ 586,300	$ (546,471)	$ 4,359,376	$ 167,351

Liabilities for the Bonds and Bond Anticipation Notes are paid from the Debt Service Fund. Liabilities for Compensated Absences are primarily paid from the General Corporate and Stormwater Management Funds. Most claims resulting from construction projects are paid from either the Capital Improvements Bond or the Construction Funds, while all other claims are paid from the Reserve Claim Fund accounts in the General Corporate Fund.

As of December 31, 2017, the annual debt service requirements for general obligation bonds are shown below (in thousands of dollars):

Bonds Payable Maturity Table

Maturing	Capital Improvement & Alternate Revenue Bond Series (2.000-5.720%) (Issued 08/09 to 7/16)	Refunding (2.00-5.00%) (Issued 03/07 to 7/16)	State Revolving Funds Series (0.0-2.905%) (Issued 06/96 to 07/16)	Total Principal	Total Interest
2018	$ 29,450	$ 26,000	$ 86,251	$ 141,701	$ 114,603
2019	22,410	33,070	57,107	112,587	110,450
2020	13,740	35,530	54,979	104,249	106,580
2021	15,065	35,500	55,419	105,984	103,048
2022	11,605	40,350	55,336	107,291	99,504
2023-2027	110,575	167,065	253,847	531,487	441,924
2028-2032	224,080	208,845	178,875	611,800	340,887
2033-2037	499,680	140,055	45,498	685,233	189,505
2038-2042	214,755	—	—	214,755	43,165
2043-2046	82,580	—	—	82,580	8,457
	$ 1,223,940	$ 686,415	$ 787,312	$ 2,697,667	$ 1,558,123

Expenditures for principal and interest made on January 1, 2018 approximated $57,057,000 and $7,563,000, respectively.

Alternate Revenue Bonds

Bond proceeds of $50.0 million 2016 Tax Series E bonds and $50.0 million 2014 Tax Series B bonds are used to fund a portion of the Stormwater Management Program projects. The pledge of the Stormwater Management Fund tax levy will remain until their final maturities in December 2045. The District has covenanted in the Series 2016E and 2014B Bond Ordinances to provide for, collect, and apply such Stormwater Management Tax Receipts to the payment of the 2016E and 2014B Bonds, and the provision of not less than an additional .25 times the annual debt service on the 2016E and 2014B bonds. The amount of pledges remaining at December 31, 2017 is $185,265,000 as shown below (in thousands of dollars).

Issue	Pledged Revenue Collected	Debt Service Principal	Expenditures Interest	Total
2016 Tax Series E	$ —	$ 50,000	$ 46,962	$ 96,962
2014 Tax Series B	8,666	48,145	40,158	88,303
Total	$ 8,666	$ 98,145	$ 87,120	$ 185,265

2016 Bond Issues

In June 2016, the District issued $280,930,000 in General Obligation Refunding Bonds, Unlimited Tax Series A, with maturity dates from 2023 to 2031. The bonds were issued at a premium of $68,206,452. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1. The bonds were issued to refund $346,600,000 of outstanding principal amount, plus accrued interest, of May 2006 Unlimited Tax Series.

In June 2016, the District issued $41,330,000 in General Obligation Refunding Bonds, Limited Tax Series B, with maturity dates from 2023 to 2031. The bonds were issued at a premium of $9,835,301. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1. The bonds were issued to refund $50,790,000 of outstanding principal amount, plus accrued interest, of May 2006 Limited Tax Series.

In June 2016, the District issued $30,000,000 of Taxable General Obligation Capital Improvement Bonds, Unlimited Tax Series C (Green Bonds), with maturity dates from 2044 to 2045. The bonds were issued at a premium of $5,739,300. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1.

In June 2016, the District issued $20,000,000 of Taxable General Obligation Capital Improvement Bonds, Limited Tax Series D (Green Bonds), with maturity dates from 2022 to 2030. The bonds were issued at a premium of $4,718,891. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1.

In June 2016, the District issued $50,000,000 of Taxable General Obligation Bonds, (Alternate Revenue Source), Unlimited Tax Series E (Green Bonds), with maturity dates from 2022 to 2045. The bonds were issued at a premium of $10,545,322. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1.

In June 2016, the District issued $4,000,000 of Taxable General Obligation Capital Improvement Bonds, Limited Tax Series F (Qualified Energy Conservation Green Bonds), with a maturity date of December 1, 2036. Interest accrues on the bonds at a rate of 4.0%, payable on December 1 and June 1.

2015 Bond Issues
In January 2015, the District issued $100,000,000 of Taxable General Obligation Capital Improvement Bonds, Unlimited Tax Series A (Green Bonds), with maturity dates from 2039 to 2044. The bonds were issued at a premium of $14,440,000. Interest accrues on the bonds at a rate of 5.0%, payable on December 1 and June 1.

In January 2015, the District issued $50,000,000 of Taxable General Obligation Bonds, (Alternate Revenue Source), Unlimited Tax Series B (Green Bonds), with maturity dates from 2016 to 2044. The bonds were issued at a premium of $7,720,129. Interest accrues on the bonds at rates ranging from 2.0% to 5.0%, payable on December 1 and June 1.

In January 2015, the District issued $75,000,000 of Taxable General Obligation Capital Improvement Bonds, Limited Tax Series C (Green Bonds), with maturity dates from 2016 to 2028. The bonds were issued at a premium of $14,022,875. Interest accrues on the bonds at rates ranging from 2.0% to 5.0%, payable on December 1 and June 1.

In January 2015, the District issued $70,805,000 in General Obligation Refunding Bonds, Limited Tax Series D, with maturity dates from 2016 to 2022. The bonds were issued at a premium of $12,346,220. Interest accrues on the bonds at rates ranging from 2.0% to 5.0%, payable on December 1 and June 1. The bonds were issued to refund $76,050,000 of outstanding principal amount, plus accrued interest, of July 2006 Limited Tax Series.

2011 Bond Issues
In July 2011, the District issued $30,000,000 of Taxable General Obligation Capital Improvement Bonds, Limited Tax Series A, with maturity dates from 2013 to 2016. Interest accrues on the bonds at rates ranging from 0.891% to 2.229%, payable December 1 and June 1.

In July 2011, the District issued $270,000,000 of General Obligation Capital Improvement Bonds, Limited Tax Series B, with maturity dates from 2017 to 2032. The bonds were issued at a premium of $27,686,556. Interest accrues on the bonds at rates ranging from 3.0% to 5.0%, payable December 1 and June 1.

In July 2011, the District issued $100,000,000 of General Obligation Capital Improvement Bonds, Unlimited Tax Series C, with maturity dates from 2013 to 2031. The bonds were issued at a premium of $9,657,071. Interest accrues on the bonds at rates ranging from 3.0% to 5.0%, payable December 1 and June 1.

2009 Bond Issues
In August 2009, the District issued $600,000,000 in taxable General Obligation Capital Improvement Bonds, Limited Tax Series of August 2009 (Build America Bonds – Direct Payment). The bonds have an interest rate of 5.72%, payable on December 1 and June 1, and mature on December 1, 2038. The bonds are subject to mandatory sinking fund redemption on December 1 in years 2033 through 2038. The Build America Bonds (BAB) program was authorized as part of the American Recovery and Reinvestment Act of 2009 and includes a subsidy of 35% of interest cost to be paid to the District by the U.S. Treasury for the life of the bonds. The federal subsidy reduces the effective interest rate on the bonds to 3.72%. Sequestration may reduce the subsidy received from the U.S. Treasury in future years.

2007 Bond Issues
In March 2007, the District issued $188,315,000 in fixed rate General Obligation Refunding Bonds, Unlimited Tax Series A, at a premium of $16,775,789. The bonds have interest rates from 4.00 to 5.00%, payable on December 1 and June 1, and maturity dates from 2014 to 2022.

In March 2007, the District issued $91,845,000 in General Obligation Refunding Bonds, Unlimited Tax Series B, at a premium of $17,462,417 and $101,860,000 in General Obligation Refunding Bonds, Limited Tax Series C, at a premium of $18,859,718. Both series have an interest rate of 5.25%, payable on December 1 and June 1, and maturity dates from 2025 to 2035.

The 2007 Unlimited Tax Series A Bonds were issued to refund $146,000,000 of outstanding principal amount, plus accrued interest, of 2002 Limited Tax Series E and $57,900,000 of outstanding principal amount, plus accrued interest, of 2002 Unlimited Tax Series C.

The 2007 Unlimited Tax Series B Bonds were issued to refund $100,000,000 of outstanding principal, plus accrued interest, of 2006 Unlimited Tax Series. The 2008 Limited Tax Series C Bonds were issued to refund $110,435,000 of outstanding principal, plus accrued interest, of 2006 Limited Tax Series.

Capital Improvement Bonds, IEPA Series
The District has adopted bond ordinances authorizing issuance of its general obligation bonds to the Illinois Environmental Protection Agency (IEPA). The most recent such authorization was pursuant to a bond ordinance adopted in calendar year 2016 in the amount of $500,000,000 for Capital Improvement Bonds, 2016 IEPA Series. The IEPA approves various capital improvements related to sewage treatment works and flood control facilities for funding from the State Water Pollution Control Revolving Loan Fund (SRF). Once a project has been approved, the State offers the District a loan from the State's Revolving Loan Fund, which the District incorporates into the form of the bond which is issued to the IEPA (the Loan/Bond). When work on the project begins, the District pays the contractor. The District receives a corresponding amount of advance on the Loan/Bond from the IEPA. This form of loan is commonly referred to as a drawdown loan. The advances continue on the Loan/Bond until the project is completed or the amount of the loan fully advances, whichever occurs first. In general, within two years of the first advance on a Loan/Bond, the IEPA promulgates a repayment schedule on such Loan/Bond. The repayment schedules call for level payments of principal and interest, collectively, over a 20 year period beginning within six months of the date the repayment schedule is promulgated. Under this authority, the IEPA has approved the following loan amount:

2017	$ 16,700,000
2016	$ 155,900,000

In 2014, the District authorized the issuance of $425,000,000 of Capital Improvement Bonds, 2014 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The terms and conditions are similar to the 2016 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

2017	$	4,300,000
2016	$	151,200,000
2015	$	54,600,000
2014	$	83,600,000
2012	$	17,400,000

In 2012, the District authorized the issuance of $300,000,000 of Capital Improvement Bonds, 2012 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The terms and conditions are similar to the 2014 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

2015	$	13,700,000
2014	$	66,100,000
2013	$	198,300,000
2012	$	15,000,000

State Revolving Fund (SRF) Loan proceeds of $175,245,000 are recognized as “other financing sources” in the Capital Improvements Bond Fund. The amount recognized is based upon reimbursable expenditures incurred during the fiscal year. The amount recognized as SRF proceeds is also recognized as a long-term liability in the government-wide Statements of Net Position.

The District refinances bond anticipation notes through the issuance of its Capital Improvement Bonds in the amount of the bond anticipation notes, plus accrued interest. As a result, there is no debt service required until these notes are converted into bonds. The District has accrued principal of $175,245,000 and interest of $3,175,000 through the balance sheet date on bond anticipation notes resulting in the total increase to long-term debt of $178,420,000.

The converted bond anticipation notes, a reduction of long-term debt, of $39,281,000 in 2017 represented the sum of converted bond anticipation note principal of $38,708,000 and interest in the amount of $573,000.

2017 Bond Issues and adjustments to existing issues under the IEPA 2012 and 2014 authority included:

- July 2017 – The District issued $2,233,000 of Capital Improvement Bonds - IEPA Series 12C, through the conversion of the sum of bond anticipation note principal of $2,206,000 and interest of $27,000 with maturity dates from January 1, 2018 to January 1, 2036. Interest on the bonds accrues at a rate of 1.995%, payable January 1 and July 1.

- July 2017 – The District issued $970,000 of Capital Improvement Bonds - IEPA Series 12D, through the conversion of the sum of bond anticipation note principal of $964,000 and interest of $6,000 with maturity dates from January 1, 2018 to January 1, 2032. Interest on the bonds accrues at a rate of 1.93%, payable January 1 and July 1.

- July 2017 – The District issued $5,812,000 of Capital Improvement Bonds - IEPA Series 12F, through the conversion of the sum of bond anticipation note principal of $5,748,000 and interest of $64,000 with maturity dates from January 1, 2017 to July 1, 2032. Interest on the bonds accrues at a rate of 1.93%, payable January 1 and July 1.

- July 2017 – The District issued $1,608,000 of Capital Improvement Bonds- IEPA Series 12H, through the conversion of the sum of bond anticipation note principal of $1,587,000 and interest of $21,000 with maturity dates from January 1, 2018 to January 1, 2032. Interest on the bonds accrues at a rate of 1.93%, payable January 1 and July 1.

- July 2017 – The District issued $1,256,000 of Capital Improvement Bonds - IEPA Series 12I, through the conversion of the sum of bond anticipation note principal of $1,237,000 and interest of $19,000 with maturity dates from January 1, 2018 to July 1, 2036. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

- July 2017 –The District issued $952,000 of Capital Improvement Bonds - IEPA Series 12K, through the conversion of the sum of bond anticipation note principal of $939,000 and interest of $13,000 with maturity dates from January 1, 2018 to July 1, 2035. Interest on the bonds accrues at a rate of 1.995%, payable January 1 and July 1.

- July 2017 – The District issued $447,000 of Capital Improvement Bonds - IEPA Series 12L, through the conversion of the sum of bond anticipation note principal of $438,000 and interest of $9,000 with maturity dates from January 1, 2018 to July 1, 2036. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

- July 2017 – The District issued $10,034,000 of Capital Improvement Bonds - IEPA Series 12M, through the conversion of the sum of bond anticipation note principal of $9,854,000 and interest of $180,000 with maturity dates from January 1, 2018 to July 1, 2037. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

- July 2017 – The District issued $254,000 of Capital Improvement Bonds - IEPA Series 12N, through the conversion of the sum of bond anticipation note principal of $250,000 and interest of $4,000 with maturity dates from January 1, 2018 to January 1, 2036. Interest on the bonds accrues at a rate of 1.995%, payable January 1 and July 1.

- July 2017 – The District issued $133,000 of Capital Improvement Bonds - IEPA Series 12O, through the conversion of the sum of bond anticipation note principal of $132,000 and interest of $1,000 with maturity dates from January 1, 2018 to July 1, 2035. Interest on the bonds accrues at a rate of 1.995%, payable January 1 and July 1.

- July 2017 – The District issued $8,476,000 of Capital Improvement Bonds - IEPA Series 14A, through the conversion of the sum of bond anticipation note principal of $8,321,000 and interest of $155,000 with maturity dates from January 1, 2018 to July 1, 2036. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

- July 2017 – The District issued $447,000 of Capital Improvement Bonds - IEPA Series 14B, through the conversion of the sum of bond anticipation note principal of $440,000 and interest of $7,000 with maturity dates from January 1, 2018 to January 1, 2036. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

- July 2017 – The District issued $3,841,000 of Capital Improvement Bonds - IEPA Series 14C, through the conversion of the sum of bond anticipation note principal of $3,806,000 and interest of $35,000 with maturity dates from January 1, 2018 to July 1, 2036. Interest on the bonds accrues at a rate of 2.295%, payable January 1 and July 1.

- July 2017 – The District issued $1,164,000 of Capital Improvement Bonds - IEPA Series 14H, through the conversion of the sum of bond anticipation note principal of $1,150,000 and interest of $14,000 with maturity dates from January 1, 2018 to July 1, 2036. Interest on the bonds accrues at a rate of 1.86%, payable January 1 and July 1.

- July 2017 – The District issued $1,654,000 of Capital Improvement Bonds - IEPA Series 14J, through the conversion of the sum of bond anticipation note principal of $1,636,000 and interest of $18,000 with maturity dates from January 1, 2018 to January 1, 2036. Interest on the bonds accrues at a rate of 2.21%, payable January 1 and July 1.

Beginning in 1991, the District's Board of Commissioners adopted ordinances providing for the issuance of bond anticipation notes. The bond anticipation notes are issued exclusively to cover interim project loan advances from the Illinois Environmental Protection Agency. Principal and interest liabilities related to the bond anticipation notes were $296,529,000 at December 31, 2017. Of the bond anticipation notes outstanding at December 31, 2017, $37,073,000 will be financed through IEPA Series 2012 bonds, $132,506,000 will be financed through IEPA Series 2014 bonds, and the remaining $126,950,000 will be financed through IEPA series 2016 bonds. None of these outstanding bond anticipation notes are expected to be repaid within the next calendar year; therefore, the notes are reported as part of long-term debt.

Refunding Transactions
The District had no outstanding defeased obligations at December 31, 2017.

12. Interfund Transactions

The interfund receivable and payable balances at the end of the year are reported as "due from/to other funds" in the Governmental Funds Balance Sheets and are eliminated in the government-wide Statements of Net Position. The balances represent payroll transactions paid from the General Corporate Fund that are later reimbursed by other funds. Also, any temporary cash overdrafts are reclassified as interfund receivable/payable balances at the end of the year in the fund balance sheet. Interfund balances are generally repaid within a year of the fiscal year end.

Individual interfund receivable and payable balances at December 31, 2017 are as follows (in thousands of dollars):

	Interfund	
	Receivables	**Payables**
General Corporate Fund	$ 101	$ —
Capital Projects Funds:		
Stormwater Management Fund (Nonmajor Fund)	—	101
	$ 101	$ 101

In addition to the previous table, amounts were due from the Primary Government to the Pension Trust Fund of $15,868,000 at December 31, 2017 that represented earned but uncollected property taxes in the Retirement Fund and the government-wide Statements of Net Position.

Transfers between funds as authorized in the budget are recorded as "other financing sources (uses)" in the fund operating statements. In 2017, the Treasurer of the District transferred $3,269,000 for principal and interest payments on the 2014 Alternate Bond Debt service from the Stormwater Management Fund to the Debt Service Fund. There was also a transfer of $13,000,000 made from the Capital Improvement Bond fund to the General Corporate Fund in the amount of $6,000,000 and the Construction Fund in the amount of $7,000,000 for accumulated Build America Bond interest credit. The transfer of funds into the Construction Fund and out of the Stormwater Fund resulted in a net transfer of $3,731,000 as presented on Exhibit A-2 in the Other Governmental / Nonmajor funds. Transfers are eliminated in the government-wide Statements of Activities.

13. Property Tax Extension Limitation Law

Effective March 1, 1995, the Property Tax Extension Limitation Law limits the amount of property taxes the District can extend for years subsequent to 1993. The law limits the District's increase in aggregate tax levy extension to 5% of the previous year or to the percentage increase in the consumer price index, whichever is less. The aggregate limitation does not apply to the District's Debt Service and Stormwater Management Fund levies.

As part of the District's Property Tax Levy subject to the Illinois Property Tax Extension Limitation Law, the Construction fund Property Tax Levy is adjusted downward if the estimated increase in the aggregate is more than the allowable extension under the law.

In Section 18-195 of the Law, the County Clerk is instructed to proportionally reduce all the levies subject to the limitation unless the taxing district requests otherwise. Through the Levy ordinances, MWRD requests the County Clerk to reduce the entire reduction to the aggregate levy by reducing the Construction Fund as required by Section 18-195 of the law. In Ordinance O16-013, the 2017 Construction Fund Property Tax Levy, Section 3 specifically states that "entire reduction in the aggregate of all tax levies for said District for the year 2017 required by said Law shall be taken against the Construction Fund levy as set forth in this Ordinance."

In addition, the individual tax levies of the Corporate, Construction, Reserve Claim, Stormwater Management, Corporate Working Cash, and Construction Working Cash Funds have statutory limitations. The Corporate levy cannot exceed .41% of the equalized assessed valuation, while the Construction levy cannot exceed .10% of the equalized assessed valuation and the Corporate Working Cash and Construction Working Cash levies individually cannot exceed .005% of the equalized assessed valuation. The Reserve Claim levy cannot exceed .005% of the equalized assessed valuation and the aggregate amount which may accumulate in the Reserve Claim Fund shall not exceed .05% of the equalized assessed valuation. The Stormwater Management Fund levy cannot exceed .05% of the equalized assessed valuation as a result of statutory changes. The Debt Service Fund is limited through debt service extension limitations under the Property Tax Extension Limitation Law.

14. Leases

Capital Lease

In December 2000, the Board of Commissioners authorized the District to enter into a long-term contract with an engineering firm to design, build, finance, own, operate, and maintain a 150 dry ton per day biosolids processing facility at the District's Central (Stickney) Water Reclamation Plant, and beneficially use the final product for a period of twenty years.

The cost of the biosolids processing facility is considered a capital lease since it will become the property of the District at the end of the contract. The District also has an option to purchase the facility at the end of the fifth, tenth, and fifteenth year of operation for the remaining principal portion of the debt. Total payments for the capital lease are estimated at $83,123,000 for the full term of the contract, which will be paid from the Capital Improvements Bond Fund. The gross amount of assets acquired under the capital lease is $54,535,000. During 2017, the District incurred expenses of approximately $2,473,000 for principal and $1,916,000 for interest. The contract expires twenty years from the date of commercial operation, which was declared in July 2010.

As of December 31, 2017, the future minimum lease payments for the biosolids facility are shown below (in thousands of dollars):

Capital Lease Payable Maturity Table

Maturing	Total Principal	Total Interest	Total Payments
2018	$ 2,595	$ 1,795	$ 4,390
2019	2,722	1,668	4,390
2020	2,856	1,534	4,390
2021	2,996	1,394	4,390
2022	3,143	1,247	4,390
2023-2027	18,184	3,764	21,948
2028-2029	6,078	224	6,302
Total Minimum Lease Payments	$ 38,574	$ 11,626	$ 50,200

Lease Rentals

The District leases land to governmental and commercial tenants under operating lease agreements for periods of up to 99 years. There were no contingent lease rentals for the period. The commercial leases are considered non-cancellable and the following is a summary of the minimum future rentals for these leases at December 31, 2017 (in thousands of dollars):

2018	$ 16,392
2019	16,222
2020	16,222
2021	16,222
2022	16,105
Later Years	386,208
Total Minimum Future Rental Income	$ 467,371

The cost of the land associated with the commercial leases is $5,836,600. The District does not lease any depreciable assets.

15. Tax Abatements

The District has one tax abatement agreement with the Boeing Company with regard to the Corporate Headquarters Relocation Act in which property taxes are being abated. The agreement was entered into at the authority of the Metropolitan Water Reclamation District (as a taxing district) and the District's Board authorization. Eligibility began with the Boeing Project whereby Boeing moved its corporate headquarters to the City of Chicago and qualified as an eligible business under the Relocation Act. This includes $25,000,000 annual world-wide revenues, satisfaction of the MBE/WBE requirements, compliance with the resident hiring and prevailing wage requirements, and employing at least 500 full time employees within the City of Chicago, and lease and occupy not less than 150,000 rentable square feet in the 100 North Riverside building.

The District's taxes are reduced by way of a reimbursement to Boeing in an amount equal to the allocable share of the real estate taxes, or 6.203%. The District is entitled to terminate the agreement or recover all payments if Boeing defaults on their commitments. The 2017 taxes abated totaled $118,906.

Cook County granted special assessments for the development or redevelopment of commercial and industrial properties. The properties receive a real estate tax incentive as a reduction in the assessment rate. The total estimated impact of these incentives to the District is approximately $9,100,000 in reduced property taxes.

REQUIRED SUPPLEMENTARY INFORMATION (RSI) OTHER THAN MD&A - Unaudited

Modified Approach for Eligible Infrastructure Assets

The District has elected to use the modified approach to report eligible infrastructure and ancillary assets at its seven water reclamation plants (WRP) and its waterway assets. Each of the seven plants represents a separate network, while the waterway assets represent an eighth network. The eight networks are as follows:

1. Central (Stickney) WRP Basin	All systems, subsystems, and components associated with the Central (Stickney) WRP service area (excluding Waterways Network assets).
2. O'Brien WRP Basin	All systems, subsystems, and components associated with the O'Brien WRP service area (excluding Waterways Network assets).
3. Calumet WRP Basin	All systems, subsystems, and components associated with the Calumet WRP service area (excluding Waterways Network assets and Lemont Network).
4. Egan WRP Basin	All systems, subsystems, and components associated with the Egan WRP service area (excluding Waterways Network assets).
5. Kirie WRP Basin	All systems, subsystems, and components associated with the Kirie WRP service area (excluding Waterways Network assets).
6. Hanover Park WRP Basin	All systems, sub-systems, and components associated with the Hanover Park WRP service area (excluding Waterways Network assets).
7. Lemont WRP Basin	All systems, subsystems, and components associated with the Lemont WRP service area (excluding Waterways Network assets).
8. Waterways	All waterways under the jurisdiction of the District including the Waterways Control System, Lockport Powerhouse and Controlling Works, Chicago River Controlling Works, Wilmette Pumping Station, all District flood control reservoirs and pump stations, sidestream elevated pool aeration stations, instream aeration stations, Melas Park, and Centennial Fountain.

Each of the above networks is further segregated into systems, subsystems, and components. The network systems are classified by the process flow through the network (i.e., collection processes, treatment processes, solids processing, flood and pollution control, and solids drying/utilization). The subsystems of each system represent the major processes (e.g., the treatment processes system includes fine screens, grit tanks, and aeration tanks as subsystems). Components of subsystems comprise the working unit or assembly (e.g., the fine screens subsystem includes conveyors, rakes, and gates as components). Ratings are determined by District civil, mechanical, and electrical engineers, who review the subsystem/component maintenance records and physically inspect the assets.

Ratings are assessed at the subsystem level and are compiled for reporting purposes into one rating for each system of a network. The assessment scale used to rate the networks' systems is as follows:

Asset Condition	Assessment Description
(1) Excellent	Relatively new asset or recently rehabilitated or otherwise restored to a like-new asset condition.
(2) Very Good	Performance successful, operation reliable, no significant maintenance required beyond routine preventative maintenance or minor repair in foreseeable future.
(3) Good	Performance successful, operation reliable, significant maintenance required in foreseeable future.
(4) Acceptable	Performance successful, operation reliable, significant rehabilitation/ replacement planned in near future.
(5) Fair	Performance marginal, operation not reliable without immediate repair/ replacement.
(6) Poor	Inoperable or operation significantly impaired.

It is the District's policy to maintain eligible infrastructure assets reported under the modified approach at a level of acceptable or better.

Initial condition assessments of the Kirie, Hanover, Egan, O'Brien, Central (Stickney), Calumet, Lemont and Waterways WRP networks were completed between 2002 and 2006.

Condition assessments of each network will continue at least every three years following the initial assessment. The Kirie, Central (Stickney), and Waterways networks were re-assessed in 2017, the Hanover, Calumet, and Lemont networks were re-assessed in 2015 and the Egan and O'Brien networks were re-assessed in 2016.

The condition assessment ratings and the estimated and actual maintenance and preservation costs for the Kirie, Hanover, Egan, O'Brien, Central (Stickney), Calumet, Lemont, and Waterways WRP networks are as follows:

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Condition Assessment Ratings					
Kirie WRP Network					
Subsequent assessment - 2011	3	3	3	NA	NA
Subsequent assessment - 2014	3	3	3	NA	NA
Subsequent assessment - 2017	3	3	3	NA	NA
Hanover WRP Network					
Subsequent assessment - 2009	3	2	2	NA	2
Subsequent assessment - 2012	3	2	3	NA	2
Subsequent assessment - 2015	2	3	3	NA	3
Egan WRP Network					
Subsequent assessment - 2010	3	3	3	NA	NA
Subsequent assessment - 2013	3	3	3	NA	NA
Subsequent assessment - 2016	3	3	2	NA	NA
O'Brien WRP Network					
Subsequent assessment - 2010	3	3	3	NA	NA
Subsequent assessment - 2013	3	2	2	NA	NA
Subsequent assessment - 2016	3	3	3	NA	NA
Central (Stickney) WRP Network					
Subsequent assessment - 2011	3	3	3	NA	2
Subsequent assessment - 2014	3	3	3	NA	3
Subsequent assessment - 2017	3	3	3	NA	3
Waterways WRP Network					
Subsequent assessment - 2011	NA	NA	NA	3	NA
Subsequent assessment - 2014	NA	NA	NA	3	NA
Subsequent assessment - 2017	NA	NA	NA	3	NA
Calumet WRP Network					
Subsequent assessment - 2009	3	3	3	NA	2
Subsequent assessment - 2012	3	2	2	NA	2
Subsequent assessment - 2015	3	2	3	NA	2
Lemont WRP Network					
Subsequent assessment - 2009	3	3	3	NA	NA
Subsequent assessment - 2012	3	3	3	NA	NA
Subsequent assessment - 2015	3	3	3	NA	NA
Maintenance/Preservation Costs					
Kirie WRP Network					
Estimated 2017	$ 3,304,900	$ 1,065,433	$ 1,139	$ 517,500	$ —
Actual 2017	540,658	1,014,160	11,007	12,066	—
Estimated 2016	5,176,151	4,410,046	465	786,000	—
Actual 2016	2,015,494	4,454,223	12,067	267,794	—
Estimated 2015	1,073,222	670,865	533,408	—	528,008
Actual 2015	2,405,430	3,475,534	763,968	223,105	—
Estimated 2014	6,929,813	3,360,179	40,621	—	402,000
Actual 2014	8,799,253	3,344,290	35,258	—	142,921
Estimated 2013	1,535,713	4,244,436	108,696	—	1,167,000
Actual 2013	680,616	2,800,304	82,684	—	866,076

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Hanover WRP Network					
Estimated 2017	$ 123,300	$ 647,312	$ 221,947	$ —	$ 33,200
Actual 2017	162,368	684,767	210,660	—	33,476
Estimated 2016	484,028	3,119,591	676,096	200,000	214,300
Actual 2016	646,796	2,424,545	720,040	—	377,701
Estimated 2015	1,054,822	696,765	519,408	—	517,408
Actual 2015	1,703,347	2,534,283	1,213,150	—	33,479
Estimated 2014	142,317	732,151	674,596	—	65,800
Actual 2014	243,960	855,994	543,204	—	—
Estimated 2013	155,517	778,851	1,808,221	—	72,400
Actual 2013	231,153	1,014,670	1,581,782	—	29,223
Egan WRP Network					
Estimated 2017	$ 568,170	$ 2,457,544	$ 1,612,479	$ 28,150	$ —
Actual 2017	547,567	1,602,807	991,795	15,584	—
Estimated 2016	1,831,349	6,066,015	5,202,317	77,905	14,400
Actual 2016	1,889,009	8,092,469	7,057,944	87,156	253,655
Estimated 2015	1,513,197	4,403,940	3,821,483	610,475	—
Actual 2015	2,261,452	3,590,430	4,257,420	14,735	—
Estimated 2014	626,241	2,885,084	8,833,464	—	—
Actual 2014	862,655	3,026,570	5,957,431	—	—
Estimated 2013	653,741	4,350,679	2,045,064	—	—
Actual 2013	865,065	3,744,215	1,758,866	—	—
O'Brien WRP Network					
Estimated 2017	$ 4,005,365	$ 5,503,337	$ 371,200	$ 2,621,400	$ —
Actual 2017	2,494,728	5,309,118	389,566	2,136,685	—
Estimated 2016	9,572,949	13,372,590	690,100	1,383,300	41,100
Actual 2016	10,162,949	14,791,414	891,486	792,719	42,768
Estimated 2015	2,771,072	6,201,615	1,501,758	2,740,624	—
Actual 2015	6,890,505	8,135,664	1,260,479	3,840,355	—
Estimated 2014	5,355,115	7,256,184	537,919	3,061,000	—
Actual 2014	5,618,267	8,380,776	432,517	2,732,851	—
Estimated 2013	10,460,115	7,787,840	1,267,919	2,097,000	—
Actual 2013	12,046,926	9,530,828	475,148	3,038,583	—
Central (Stickney) WRP Network					
Estimated 2017	$ 9,704,500	$ 11,806,700	$ 7,004,600	$ 742,000	$ 1,521,700
Actual 2017	23,677,548	18,501,753	6,361,137	1,237,008	1,705,427
Estimated 2016	22,316,620	48,806,200	24,028,680	412,700	7,274,800
Actual 2016	72,698,955	32,685,410	33,364,380	6,012,677	21,228,946
Estimated 2015	51,338,722	19,534,565	8,059,908	4,725,000	4,528,808
Actual 2015	14,497,119	11,535,580	3,029,722	781,105	964,557
Estimated 2014	15,875,228	17,334,819	10,565,977	—	1,377,507
Actual 2014	10,557,770	20,427,807	10,398,973	121,615	2,444,671
Estimated 2013	16,102,533	16,765,601	9,453,922	—	2,027,507
Actual 2013	9,431,129	16,923,785	10,563,927	—	1,555,668

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Waterways WRP Network					
Estimated 2017	$ 246,100	$ —	$ —	$ 11,957,187	$ —
Actual 2017	10,953,571	10,240	—	1,151,151	—
Estimated 2016	115,525	—	—	27,544,100	—
Actual 2016	1,149,455	—	—	3,178,612	—
Estimated 2015	—	—	—	9,534,574	—
Actual 2015	—	—	—	6,365,775	—
Estimated 2014	—	—	—	1,314,200	—
Actual 2014	1,437	—	—	831,265	—
Estimated 2013	—	—	—	1,319,000	—
Actual 2013	11,323	—	—	1,047,698	—
Calumet WRP Network					
Estimated 2017	$ 3,244,935	$ 8,423,738	$ 1,737,410	$ 172,787	$ 558,800
Actual 2017	3,330,986	8,956,454	1,848,660	173,529	509,922
Estimated 2016	24,346,293	16,082,140	5,211,367	1,392,200	744,800
Actual 2016	12,644,323	18,205,026	5,457,023	294,111	675,730
Estimated 2015	15,532,197	3,612,840	1,904,283	21,221,249	14,000
Actual 2015	5,004,441	7,014,378	3,798,937	5,119,450	780,400
Estimated 2014	5,891,856	6,156,523	2,241,157	1,949,900	—
Actual 2014	4,295,832	6,741,305	2,366,667	590,908	—
Estimated 2013	6,229,856	6,288,023	2,330,057	915,100	—
Actual 2013	3,505,024	5,932,302	2,416,419	734,104	—
Lemont WRP Network					
Estimated 2017	$ —	$ 8,800	$ —	$ —	$ —
Actual 2017	—	4,739	—	—	—
Estimated 2016	70,200	126,100	—	—	—
Actual 2016	115,903	348,026	262,007	—	—
Estimated 2015	837,722	443,665	—	—	—
Actual 2015	1,415,229	1,321,857	23,898	—	—
Estimated 2014	47,000	34,200	—	—	—
Actual 2014	17,475	417	—	—	—
Estimated 2013	47,000	34,200	—	—	—
Actual 2013	(4,607)	8,294	—	—	—

Schedule of Changes in the District's Net Pension Liability and Related Ratios
Last Three Fiscal Years (1)
(in thousands of dollars)

	2017	2016	2015
Total pension liability:			
Service cost	$ 32,058	$ 32,228	$ 31,602
Interest	173,861	168,530	163,338
Changes of benefit terms	—	—	—
Differences between expected and actual experience	13,814	14,422	10,861
Changes of assumptions	—	—	—
Benefit payments, including refunds of employee contributions	(147,336)	(140,509)	(133,898)
Net change in total pension liability	72,397	74,671	71,903
Total pension liability - beginning	2,359,766	2,285,095	2,213,192
Total pension liability - ending	2,432,163	2,359,766	2,285,095
Plan fiduciary net position:			
Contributions - employer	80,259	71,041	73,906
Contributions - employee	20,831	21,385	18,975
Net investment income	113,586	(1,428)	81,601
Benefit payments, including refunds of employee contributions	(147,336)	(140,509)	(133,898)
Administrative expense	(1,503)	(1,660)	(1,407)
Other	107	29	4
Net change in plan fiduciary net position	65,944	(51,142)	39,181
Plan fiduciary net position - beginning	1,286,653	1,337,795	1,298,614
Plan fiduciary net position - ending	1,352,597	1,286,653	1,337,795
Net pension liability - ending	$ 1,079,566	$ 1,073,113	$ 947,300
Plan fiduciary net position as a percentage of the total pension liability	55.61%	54.52%	58.54%
Covered-employee payroll	$ 182,640	$ 177,792	$ 176.184
Net pension liability as a percentage of covered-employee payroll	591.09%	603.58%	537.68%

(1) The District implemented the provisions of GASB 68 in Fiscal Year 2015. The District has presented as many years as are available and will show information for ten years as the additional years' information become available.

Schedule of District Contributions
Last 10 Years
(in thousands of dollars)

Year	Actuarially Determined Contributions	Actual Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency/ (Excess)	Covered-employee Payroll	Contribution as a Percentage of Covered-employee Payroll
2017	$ 64,596	$ 80,259	$ (15,664)	$ 182,640	43.94%
2016	62,603	71,041	(8,438)	177,792	39.96%
2015	64,478	73,906	(9,428)	176,184	41.95%
2014	68,414	92,944	(24,530)	169,376	54.87%
2013	74,829	65,098	9,731	163,817	39.74%
2012	69,393	37,379	32,014	164,275	22.75%
2011	61,873	29,918	31,955	174,486	17.15%
2010	54,790	32,154	22,636	176,915	18.17%
2009	49,758	33,407	16,351	167,865	19.90%
2008	47,090	27,947	19,143	158,831	17.60%

Notes to the Schedule of District Contributions

Valuation Date: The District's actuarially determined contribution (ADC) is calculated as of December 31, 2016.

Methods and Assumptions used to determine the ADC:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay. Prior to 2013, 30 year open amortization. From the 2013 ADC calculation, closed to 2050.
Remaining amortization period	34 years remaining as of 1/1/17
Asset valuation method	5 years smoothed value
Investment rate of return	7.50%, net of investment expense, including inflation
Inflation	2.5%
Salary increases	Varies by service
Payroll growth	3.70%
Termination rates	Termination rates vary by age and gender.
Mortality rates	Healthy Members: RP-2000 Combined Healthy Mortality Table with Generational Mortality Improvements (Scale AA). Disabled Members: RP-2000 Disabled Retiree Mortality Table.
Retirement rates	Retirement rates are based on the most recent experience analysis and vary by age and service of member. Rates were reduced by 20% as of the 2011 ADC calculation to reflect actual experience.
Disability rates	Disability rates vary by age.

A copy of the Pension Plan CAFR may be obtained by accessing the Metropolitan Water Reclamation District Retirement Fund's website at www.mwrdrf.org.

Progress in Funding Other Post Employment Trust Fund

The following schedule presents the progress in funding the OPEB Trust Fund over the last three years:
(in thousands of dollars)

Period Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2017	12/31/2017	$ 195,200	$ 308,747	$ 113,547	63.22%	$ 184,807	61.44%
12/31/2016	12/31/2015	149,329	286,646	137,317	52.10%	176,757	77.69%
12/31/2015	12/31/2015	149,329	286,646	137,317	52.10%	176,757	77.69%

Actuarial valuations are required to be completed every two years. The most recent actuarial valuation was completed as of December 31, 2017.

A copy of the OPEB Trust Fund CAFR may be obtained by accessing the District's website at www.mwrd.org

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OTHER SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

CONSTRUCTION FUND

Fund established to account for proceeds of annual property tax levies and certain other revenues used for the acquisition of long-term assets used in principal functions of the District.

STORMWATER MANAGEMENT FUND

Fund established to account for the annual property taxes which are specifically levied to finance all activities associated with stormwater management, including construction projects.

Exhibit B-1
Combining Balance Sheets - Nonmajor Governmental Funds

December 31, 2017

(in thousands of dollars)

	Construction Fund		Stormwater Management Fund		Total Nonmajor Governmental Funds	
	2017	2016	2017	2016	2017	2016
Assets						
Cash	$ 1,175	$ 2,927	$ 1,415	$ 2,154	$ 2,590	$ 5,081
Certificates of deposit	12,055	5,003	17,014	—	29,069	5,003
Investments	14,503	12,524	18,455	18,836	32,958	31,360
Prepaid insurance	—	—	79	1	79	1
Taxes receivable, net	15,702	12,814	39,426	33,051	55,128	45,865
Other receivable	746	—	—	—	746	—
Total assets	$ 44,181	$ 33,268	$ 76,389	$ 54,042	$ 120,570	$ 87,310
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities:						
Accounts payable and other liabilities	$ 3,171	$ 3,368	$ 1,715	$ 2,062	$ 4,886	$ 5,430
Due to other funds	—	—	101	101	101	101
Total liabilities	3,171	3,368	1,816	2,163	4,987	5,531
Deferred inflows of resources:						
Unavailable tax revenue	13,110	10,015	32,918	25,834	46,028	35,849
Total deferred inflows of resources	13,110	10,015	32,918	25,834	46,028	35,849
Fund balances:						
Nonspendable:						
Prepaid insurance	$ —	$ —	$ 79	$ 1	$ 79	$ 1
Restricted for:						
Working Cash	22,204	22,071	37,509	—	59,713	22,071
Capital projects	5,696	—	4,146	37,384	9,842	37,384
Unassigned	—	(2,186)	(79)	(11,339)	(79)	(13,525)
Total fund balances	27,900	19,885	41,655	26,045	69,555	45,930
Total liabilities, deferred inflows, and fund balances	$ 44,181	$ 33,268	$ 76,389	$ 54,042	$ 120,570	$ 87,310

Exhibit B-2
Combining Statements of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)

	Construction Fund		Stormwater Management Fund		Total Nonmajor Governmental Funds	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Revenues						
Revenues:						
Property taxes	$ 12,995	$ 15,193	$ 32,555	$ 27,308	$ 45,550	$ 42,501
Interest on investments	326	285	360	270	686	555
Fees, forfeits and penalties	1,486	746	—	—	1,486	746
User charge	—	—	—	—	—	—
Claims and damage settlements	—	—	10	—	10	—
Miscellaneous	—	43	19	—	19	43
Total revenues	14,807	16,267	32,944	27,578	47,751	43,845
Expenditures						
Current Operations:						
Construction costs	13,792	21,088	14,065	26,386	27,857	47,474
Total expenditures	13,792	21,088	14,065	26,386	27,857	47,474
Revenues over (under) expenditures	1,015	(4,821)	18,879	1,192	19,894	(3,629)
Other financing sources (uses):						
Transfer out to Debt Service Fund	7,000	—	(3,269)	(3,273)	3,731	(3,273)
Total other financing sources (uses)	7,000	—	(3,269)	(3,273)	3,731	(3,273)
Revenues over (under) expenditures and other financing uses	8,015	(4,821)	15,610	(2,081)	23,625	(6,902)
Fund balances						
Beginning of the year	19,885	24,706	26,045	28,126	45,930	52,832
End of the year	$ 27,900	$ 19,885	$ 41,655	$ 26,045	$ 69,555	$ 45,930

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GENERAL CORPORATE FUND

A fund used to account for an annual property tax levy and certain other revenues, which are to be used for the operations and payments of general expenditures of the District not specifically chargeable to other funds.

Exhibit C-1
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Corporate Division	Budget Amounts: Original	Budget Amounts: Net Transfer	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Board of Commissioners:					
Personal services					
Salaries of regular employees	$ 3,621	$ —	$ 3,621	$ 3,422	$ 199
Compensation plan adjustments	34	—	34	11	23
Social security and medicare contributions	85	—	85	77	8
Tuition and training payments	20	—	20	16	4
Personal services not otherwise classified	428	—	428	309	119
Total personal services	4,188	—	4,188	3,835	353
Contractual services					
Travel	10	—	10	8	2
Meals and lodging	20	(10)	10	10	—
Subscriptions and membership dues	36	—	36	35	1
Payment for professional services	231	10	241	179	62
Contractual services not otherwise classified	1	—	1	—	1
Total contractual services	298	—	298	232	66
Materials and supplies					
Office, printing, and photographic supplies	10	—	10	6	4
Total materials and supplies	10	—	10	6	4
Board of Commissioners total	4,496	—	4,496	4,073	423
General Administration:					
Personal services					
Salaries of regular employees	10,855	(14)	10,841	10,215	626
Compensation plan adjustments	951	—	951	782	169
Social security and medicare contributions	150	13	163	154	9
Salaries of non-budgeted employees	—	1	1	1	—
Tuition and training payments	97	—	97	81	16
Total personal services	12,053	—	12,053	11,233	820
Contractual services					
Travel	10	—	10	8	2
Meals and lodging	17	—	17	12	5
Postage, freight, and delivery charges	95	2	97	97	—
Compensation for personally owned autos	4	—	4	2	2
Motor vehicle operating services	84	—	84	68	16
Reprographic services	121	—	121	116	5
Electrical energy	365	(14)	351	318	33
Natural gas	35	—	35	26	9
Water and water services	6	—	6	5	1
Communication services	3	—	3	3	—
Subscriptions and membership dues	778	—	778	686	92
Rental charges	18	—	18	14	4
Advertising	13	—	13	12	1

(in thousands of dollars)

Corporate Division	**Budget Amounts** Original	Net Transfer	Final	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
General Administration (continued):					
Administration building operation	$ 1,119	$ 10	$ 1,129	$ 1,015	$ 114
Administration building operation annex	738	104	842	737	105
Payment for professional services	570	(102)	468	408	60
Contractual services not otherwise classified	340	—	340	235	105
Repairs to buildings	65	—	65	22	43
Repairs to office furniture and equipment	110	—	110	90	20
Communication equipment maintenance	18	—	18	18	—
Repairs to vehicle equipment	538	—	538	384	154
Total contractual services	5,047	—	5,047	4,276	771
Materials and supplies					
Electrical parts and supplies	17	—	17	9	8
Plumbing accessories and supplies	30	(10)	20	12	8
Hardware	17	—	17	17	—
Office, printing, and photographic supplies	132	10	142	112	30
Cleaning supplies	2	—	2	1	1
Wearing apparel	30	—	30	24	6
Materials and supplies not otherwise classified	59	—	59	45	14
Total materials and supplies	287	—	287	220	67
General Administration total	17,387	—	17,387	15,729	1,658
Monitoring and Research:					
Personal services					
Salaries of regular employees	27,752	(200)	27,552	26,104	1,448
Compensation plan adjustments	688	128	816	804	12
Social security and medicare contributions	377	—	377	368	9
Salaries of non-budgeted employees	5	54	59	57	2
Tuition and training payments	55	18	73	66	7
Total personal services	28,877	—	28,877	27,399	1,478
Contractual services					
Travel	15	—	15	10	5
Meals and lodging	29	3	32	27	5
Postage, freight, and delivery charges	5	1	6	5	1
Compensation for personally owned autos	25	1	26	26	—
Reprographic services	1	—	1	—	1
Rental charges	4	—	4	1	3
Governmental services charges	17	—	17	17	—
Payment for professional services	330	(1)	329	93	236
Contractual services not otherwise classified	515	(4)	511	234	277
Repairs to marine equipment	51	—	51	27	24
Repairs to testing and laboratory equipment	421	—	421	352	69
Total contractual services	1,413	—	1,413	792	621

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Corporate Division	Budget Amounts				Actual Variance with Final Budget - Positive (Negative)
	Original	Net Transfer	Final	Actual Amounts	
Monitoring and Research (continued):					
Materials and supplies					
Office, printing, and photographic supplies	$ 25	$ (1)	$ 24	$ 24	$ —
Farming supplies	34	—	34	34	—
Laboratory testing supplies and small equipment	406	—	406	348	58
Wearing apparel	16	—	16	15	1
Books, maps, and charts	1	2	3	2	1
Computer supplies	2	(1)	1	—	1
Fuel	15	—	15	12	3
Materials and supplies not otherwise classified	58	—	58	45	13
Total materials and supplies	557	—	557	480	77
Machinery and equipment					
Testing and laboratory equipment	423	—	423	419	4
Total machinery and equipment	423	—	423	419	4
Monitoring and Research total	31,270	—	31,270	29,090	2,180
Procurement and Materials Management:					
Personal services					
Salaries of regular employees	5,555	—	5,555	5,119	436
Compensation plan adjustments	141	—	141	63	78
Social security and medicare contributions	79	—	79	72	7
Tuition and training payments	5	—	5	1	4
Total personal services	5,780	—	5,780	5,255	525
Contractual services					
Travel	3	—	3	—	3
Meals and lodging	3	—	3	—	3
Compensation for personally owned autos	2	—	2	1	1
Advertising	131	(6)	125	82	43
Repairs to buildings	4	2	6	3	3
Repairs to office furniture and equipment	2	—	2	2	—
Repairs to vehicle equipment	8	4	12	9	3
Total contractual services	153	—	153	97	56
Materials and supplies					
Metals	150	(21)	129	123	6
Electrical parts and supplies	350	(12)	338	301	37
Plumbing accessories and supplies	382	(31)	351	305	46
Hardware	85	—	85	78	7
Buildings, grounds, paving materials, and supplies	350	(2)	348	303	45
Fiber, paper and insulation materials	45	2	47	46	1
Paints, solvents, and related materials	55	—	55	51	4
Vehicle parts and supplies	10	—	10	9	1

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfer	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Procurement and Materials Management (continued):					
Mechanical and repair parts	$ 160	$ 40	$ 200	$ 195	$ 5
Office, printing, and photographic supplies	17	—	17	14	3
Laboratory testing supplies and small equipment	590	31	621	621	—
Cleaning supplies	300	—	300	293	7
Tools and supplies	80	20	100	99	1
Wearing apparel	173	—	173	172	1
Safety and medical supplies	90	—	90	88	2
Computer supplies	77	—	77	67	10
Fuel	270	(50)	220	181	39
Gas (in containers)	65	21	86	76	10
Communications supplies	8	—	8	8	—
Lubricants	260	—	260	227	33
Materials and supplies not otherwise classified	117	2	119	117	2
Total materials and supplies	3,634	—	3,634	3,374	260
Procurement and Materials Management total	9,567	—	9,567	8,726	841
Human Resources:					
Personal services					
Salaries of regular employees	7,492	(20)	7,472	5,591	1,881
Compensation plan adjustments	238	—	238	200	38
Social security and medicare contributions	101	20	121	115	6
Employee claims	60	—	60	22	38
Tuition and training payments	742	(232)	510	492	18
Health and life insurance premiums	46,705	(24)	46,681	42,902	3,779
Personal services not otherwise classified	251	256	507	359	148
Total personal services	55,589	—	55,589	49,681	5,908
Contractual services					
Travel	5	—	5	2	3
Meals and lodging	12	—	12	8	4
Postage, freight, and delivery charges	—	—	—	—	—
Compensation for personally owned autos	4	—	4	1	3
Court reporting services	14	—	14	7	7
Medical services	124	—	124	90	34
Insurance premiums	3,500	—	3,500	3,058	442
Rental charges	24	—	24	8	16
Payment for professional services	1,139	45	1,184	1,041	143
Contractual services not otherwise classified	63	—	63	55	8
Safety repairs services	172	(40)	132	60	72
Computer software maintenance	20	(5)	15	—	15
Total contractual services	5,077	—	5,077	4,330	747

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfer	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Human Resources (continued):					
Materials and supplies					
Office, printing, and photographic supplies	$ 59	$ 9	$ 68	$ 61	$ 7
Books, maps, and charts	3	—	3	2	1
Safety medical supplies	173	(9)	164	95	69
Materials and supplies not otherwise classified	4	—	4	3	1
Total materials and supplies	239	—	239	161	78
Human Resources total	60,905	—	60,905	54,172	6,733
Information Technology:					
Personal services					
Salaries of regular employees	8,588	(4)	8,584	7,504	1,080
Compensation plan adjustments	236	—	236	185	51
Social security and medicare contributions	107	4	111	106	5
Tuition and training payments	87	—	87	32	55
Total personal services	9,018	—	9,018	7,827	1,191
Contractual services					
Meals and lodging	2	—	2	1	1
Postage, freight, and delivery charges	—	1	1	1	—
Compensation for personally owned autos	5	—	5	1	4
Communication services	1,422	—	1,422	948	474
Rental charges	326	—	326	294	32
Payment for professional services	357	—	357	100	257
Contractual services not otherwise classified	20	—	20	—	20
Computer equipment maintenance	376	—	376	237	139
Computer software maintenance	4,058	—	4,058	3,840	218
Communication equipment maintenance	796	(1)	795	684	111
Total contractual services	7,362	—	7,362	6,106	1,256
Materials and supplies					
Office, printing, and photographic supplies	17	—	17	10	7
Computer software	332	—	332	77	255
Computer supplies	423	—	423	410	13
Communication supplies	132	—	132	90	42
Total materials and supplies	904	—	904	587	317
Machinery and equipment					
Computer equipment	45	—	45	37	8
Computer software	30	—	30	—	30
Total machinery and equipment	75	—	75	37	38
Information Technology total	17,359	—	17,359	14,557	2,802

(in thousands of dollars)

Corporate Division	Budget Amounts: Original	Budget Amounts: Net Transfer	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Law:					
Personal services					
Salaries of regular employees	$ 5,045	$ (4)	$ 5,041	$ 4,683	$ 358
Compensation plan adjustments	143	—	143	112	31
Social security and medicare contributions	66	4	70	67	3
Tuition and training payments	14	—	14	11	3
Total personal services	5,268	—	5,268	4,873	395
Contractual services					
Travel	6	—	6	4	2
Meals and lodging	7	5	12	9	3
Postage, freight, and delivery charges	1	—	1	—	1
Compensation for personally owned autos	1	5	6	4	2
Reprographic services	25	—	25	2	23
Court reporting services	80	(10)	70	10	60
Payment for professional services	2,000	—	2,000	238	1,762
Contractual services not otherwise classified	90	—	90	82	8
Total contractual services	2,210	—	2,210	349	1,861
Materials and supplies					
Office, printing, and photographic supplies	5	—	5	3	2
Books, maps, and charts	12	—	12	10	2
Materials and supplies not otherwise classified	1	—	1	—	1
Total materials and supplies	18	—	18	13	5
Fixed and other charges					
Taxes on real estate	890	—	890	686	204
Total fixed and other charges	890	—	890	686	204
Law total	8,386	—	8,386	5,921	2,465
Finance:					
Personal services					
Salaries of regular employees	3,133	—	3,133	3,053	80
Compensation plan adjustments	60	—	60	21	39
Social security and medicare contributions	51	—	51	43	8
Tuition and training payments	26	5	31	30	1
Total personal services	3,270	5	3,275	3,147	128
Contractual services					
Travel	4	(3)	1	1	—
Meals and lodging	5	(2)	3	2	1
Compensation for personally owned autos	1	—	1	—	1
Reprographic services	2	—	2	2	—
Court reporting services	50	9	59	59	—
Payments for professional services	324	(11)	313	304	9

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Corporate Division	Budget Amounts: Original	Budget Amounts: Net Transfer	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Finance (continued):					
Contractual services not otherwise classified	$ 1	$ —	$ 1	$ 1	$ —
Repairs to office furniture and equipment	5	—	5	—	5
Total contractual services	394	(5)	389	372	17
Materials and supplies					
Office, printing, and photographic supplies	19	—	19	10	9
Books, maps, and charts	1	—	1	—	1
Total materials and supplies	20	—	20	10	10
Finance total	3,684	—	3,684	3,529	155
Engineering:					
Personal services					
Salaries of regular employees	27,176	—	27,176	24,839	2,337
Compensation plan adjustments	591	—	591	394	197
Social security and medicare contributions	375	—	375	351	24
Tuition and training payments	150	—	150	101	49
Total personal services	28,292	—	28,292	25,685	2,607
Contractual services					
Travel	12	—	12	7	5
Meals and lodging	25	—	25	17	8
Postage, freight, and delivery charges	3	—	3	1	2
Compensation for personally owned autos	15	—	15	8	7
Motor vehicle operating services	1	—	1	—	1
Reprographic services	5	—	5	4	1
Water and water services	3	1	4	4	—
Rental charges	1	—	1	—	1
Payments for professional services	238	—	238	139	99
Preliminary engineering reports and studies	27	(1)	26	13	13
Contractual services not otherwise classified	85	—	85	82	3
Repairs to waterway facilities	43	—	43	43	—
Repairs to testing and laboratory equipment	5	—	5	2	3
Repairs not otherwise classified	10	—	10	8	2
Total contractual services	473	—	473	328	145
Materials and supplies					
Office, printing, and photographic supplies	40	—	40	33	7
Tools and supplies	10	—	10	4	6
Wearing apparel	8	—	8	7	1
Books, maps, and charts	7	—	7	3	4
Materials and supplies not otherwise classified	5	—	5	1	4
Total materials and supplies	70	—	70	48	22
Engineering total	28,835	—	28,835	26,061	2,774

(in thousands of dollars)

Corporate Division	**Budget Amounts** Original	Net Transfer	Final	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
Maintenance and Operations:					
Personal services					
Salaries of regular employees	$ 87,956	$ (305)	$ 87,651	$ 85,102	$ 2,549
Compensation plan adjustments	4,662	280	4,942	4,714	228
Social security and medicare contributions	1,228	26	1,254	1,250	4
Salaries of non-budgeted employees	35	—	35	7	28
Tuition and training payments	266	—	266	198	68
Total personal services	94,147	1	94,148	91,271	2,877
Contractual services					
Travel	35	—	35	15	20
Meals and lodging	70	—	70	58	12
Compensation for personally owned autos	150	(13)	137	109	28
Motor vehicle operating services	2	—	2	1	1
Electrical energy	36,447	(225)	36,222	35,900	322
Natural gas	2,768	238	3,006	2,928	78
Water and water services	1,741	125	1,866	1,859	7
Communications services	605	—	605	554	51
Testing and inspection services	170	—	170	119	51
Rental charges	180	—	180	156	24
Governmental service charges	3,300	266	3,566	3,560	6
Maintenance of grounds and pavements	968	(87)	881	829	52
Payments for professional services	720	—	720	544	176
Contractual services not otherwise classified	570	(23)	547	404	143
Waste material disposal charges	10,955	(47)	10,908	10,285	623
Farming services	233	(209)	24	25	(1)
Sludge disposal	3,204	446	3,650	3,600	50
Repairs to collection facilities	3,333	(104)	3,229	3,076	153
Repairs to waterway facilities	50	—	50	44	6
Repairs to process facilities	4,976	(185)	4,791	4,648	143
Repairs to railroads	303	(18)	285	267	18
Repairs to buildings	1,050	(109)	941	612	329
Repairs to material handling and farm equipment	304	—	304	280	24
Safety repairs and services	368	(70)	298	280	18
Repairs to marine equipment	60	—	60	54	6
Computer software maintenance	5	—	5	5	—
Repairs to vehicle equipment	100	23	123	115	8
Repairs not otherwise classified	20	(9)	11	9	2
Total contractual services	72,687	(1)	72,686	70,336	2,350
Materials and supplies					
Metals	35	—	35	28	7
Electrical parts and supplies	1,800	330	2,130	1,751	379

General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfer	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Maintenance and Operations (continued):					
Plumbing accessories and supplies	$ 652	$ (10)	$ 642	$ 520	$ 122
Hardware	20	—	20	15	5
Buildings, grounds, paving materials, and supplies	193	—	193	126	67
Fiber, paper and insulation materials	14	—	14	6	8
Paints, solvents, and related materials	7	—	7	5	2
Vehicle parts and supplies	200	—	200	168	32
Mechanical repair parts	2,288	285	2,573	2,203	370
Manhole materials	11	—	11	10	1
Office, printing, and photographic supplies	50	—	50	43	7
Farming supplies	5	—	5	5	—
Processing chemicals	13,724	(543)	13,181	9,135	4,046
Laboratory testing supplies and small equipment	25	—	25	23	2
Cleaning supplies	5	—	5	4	1
Tools and supplies	500	(65)	435	376	59
Wearing apparel	2	—	2	1	1
Safety and medical supplies	60	—	60	43	17
Computer software	8	—	8	4	4
Computer supplies	17	—	17	11	6
Fuel	300	—	300	255	45
Gas (in containers)	5	—	5	1	4
Communication supplies	1	—	1	—	1
Lubricants	5	3	8	7	1
Materials and supplies not otherwise classified	108	—	108	59	49
Total materials and supplies	20,035	—	20,035	14,799	5,236
Machinery and equipment					
Equipment for collection facilities	50	(5)	45	45	—
Equipment for process facilities	100	15	115	109	6
Vehicle equipment	10	(10)	—	—	—
Testing and laboratory equipment	6	—	6	6	—
Total machinery and equipment	166	—	166	160	6
Maintenance and Operations total	187,035	—	187,035	176,566	10,469

(in thousands of dollars)

Corporate Division	**Budget Amounts** Original	Net Transfer	Final	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
Corporate Division Total					
Total all departments:					
Personal services	$ 246,482	$ 6	$ 246,488	$ 230,206	$ 16,282
Contractual services	95,114	(6)	95,108	87,218	7,890
Materials and supplies	25,774	—	25,774	19,698	6,076
Machinery and equipment	664	—	664	616	48
Fixed and other charges	890	—	890	686	204
Total Corporate Division	368,924	—	368,924	338,424	30,500
Reserve Claim Division					
Employee claims	8,000	—	8,000	4,234	3,766
General claims and emergency repair and replacement cost over $10,000	22,617	—	22,617	2,671	19,946
Total Reserve Claim Division	30,617	—	30,617	6,905	23,712
Total General Corporate Fund	$ 399,541	$ —	$ 399,541	$ 345,329	$ 54,212

Exhibit C-2
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Expenditures by Type - GAAP Basis

Year ended December 31, 2017
(with comparative amounts for prior year)

	(in thousands of dollars) 2017	2016	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2017
Personal services:					
Salaries and wages	$ 183,651	$ 181,391	$ 2,260	1 %	53%
Employee health and life insurance premiums	42,901	43,224	(323)	(1)	13
Social security and medicare contributions	2,602	2,528	74	3	1
Tuition and training payments	1,028	730	298	41	0
Other	22	39	(17)	(44)	0
Total personal services	230,204	227,912	2,292	1	67
Contractual services:					
Electrical energy	36,219	35,715	504	1	11
Natural gas	2,954	2,421	533	22	1
Postage, freight, and delivery charges	105	104	1	1	0
Waste material disposal charges	10,285	9,260	1,025	11	3
Administration building operation	1,752	1,691	61	4	1
Communication services	1,506	1,772	(266)	(15)	0
Farming services	25	30	(5)	(17)	0
Court reporting services	77	63	14	22	0
Water and water services	1,869	1,904	(35)	(2)	1
Motor vehicle operating services	69	58	11	19	0
Employee travel and transportation	352	445	(93)	(21)	0
Medical services	90	122	(32)	(26)	0
Rental charges	473	510	(37)	(7)	0
Maintenance of grounds and pavements	829	809	20	2	0
Governmental service charges	3,577	3,241	336	10	1
Repairs to process facilities	4,648	5,255	(607)	(12)	1
Other repairs	8,516	10,727	(2,211)	(21)	3
Other contractual services	11,889	12,983	(1,094)	(8)	3
Total contractual services	85,235	87,110	(1,875)	(2)	25
Materials and supplies:					
Processing chemicals	9,137	9,756	(619)	(6)	3
Laboratory testing supplies	984	970	14	1	0
Mechanical repair parts	2,917	2,208	709	32	1
Fuels and lubricants	802	669	133	20	0
Electrical parts and supplies	1,886	2,037	(151)	(7)	1
Plumbing accessories and supplies	924	1,293	(369)	(29)	0
Office, printing, and photographic supplies	319	295	24	8	0
Buildings, grounds, paving materials, and supplies	367	276	91	33	0
Cleaning supplies	279	260	19	7	0
Metals	130	153	(23)	(15)	0
Computer supplies	651	456	195	43	0
Other materials and supplies	1,893	2,755	(862)	(31)	1
Total materials and supplies	20,289	21,128	(839)	(4)	6

(continued)

	(in thousands of dollars) 2017	2016	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2017
Machinery and equipment:					
Vehicle equipment	$ —	$ 5	$ (5)	(100)%	0%
Testing and laboratory equipment	424	312	112	36	0
Equipment for collection facilities	23	36	(13)	(36)	0
Communication equipment	—	45	(45)	(100)	0
Other machinery and equipment	284	280	4	1	0
Total machinery and equipment	731	678	53	8	0
Fixed other charges:					
Taxes on real estate	686	790	(104)	(13)	0
Total fixed other charges	686	790	(104)	(13)	0
Claims and judgments	6,905	4,786	2,119	44	2
Total expenditures	$ 344,050	$ 342,404	$ 1,646		100%

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DEBT SERVICE FUND

Fund established to account for annual property tax levies and certain other revenues, principally interest on investments, which are used for payments of interest and redemption of general obligation bond issues.

Exhibit D-1
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances Including Comparison of Budget and Actual on Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

	Final Budget	Actual on Budgetary Basis	Actual Variance with Final Budget - Positive (Negative)
Revenues:			
Property taxes	$ 222,973	$ 218,405	$ (4,568)
Total tax revenue	222,973	218,405	(4,568)
Interest on investments	400	1,346	946
Miscellaneous	—	10	10
Total revenues	223,373	219,761	(3,612)
Expenditures:			
Debt service	228,826	228,826	—
Revenues over (under) expenditures	(5,453)	(9,065)	(3,612)
Other financing sources (uses):			
Transfers from Stormwater Fund	5,769	3,269	(2,500)
Total other financing sources (uses)	5,769	3,269	(2,500)
Revenues and Other financing (use) over (under) expenditures	316	(5,796)	(6,112)
Fund balances at beginning of year	118,107	178,312	60,205
Fund balances at end of the year	$ 118,423	$ 172,516	$ 54,093

CAPITAL PROJECTS FUNDS

Construction Fund

Fund established to account for proceeds of annual property tax levies and certain other revenues used for the acquisition of long-term assets used in principal functions of the District.

Stormwater Management Fund

Fund established to account for the annual property taxes which are specifically levied to finance all activities associated with stormwater management, including construction projects.

Capital Improvements Bond Fund

Fund established to account for proceeds of debt, government grants, and certain other revenues used in connection with improvements, replacements, and additions to designated environmental projects.

Exhibit E-1
Capital Project Funds
Schedule of Appropriations and Expenditures on Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

	Budget Amounts				
	Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Construction Fund:					
Contractual services					
Testing and Inspection Services	$ 600	$ (250)	$ 350	$ 43	$ 307
Intergovernmental Agreements	100	—	100	82	18
Payments for professional services	3,625	100	3,725	1,651	2,074
Professional engineering services for construction	1,859	—	1,859	—	1,859
Contractual services not otherwise classified	60	—	60	29	31
Repairs to collection facilities	157	150	307	285	22
Total contractual services	6,401	—	6,401	2,090	4,311
Machinery and equipment					
Equipment for colocation facilities	340	—	340	—	340
Equipment for waterway facilities	335	—	335	202	133
Equipment for process facilities	1,996	—	1,996	308	1,688
Computer equipment	274	—	274	241	33
Computer software	132	—	132	35	97
Communications equipment	71	—	71	67	4
Vehicle equipment	2,072	—	2,072	1,883	189
Machinery and equipment not otherwise classified	1,404	—	1,404	139	1,265
Total machinery and equipment	6,624	—	6,624	2,875	3,749
Capital Projects					
Collection facilities structures	2,469	(300)	2,169	950	1,219
Waterway facilities structures	349	—	349	—	349
Process facility structures	5,329	—	5,329	1,021	4,308
Buildings	2,767	—	2,767	850	1,917
Capital projects not otherwise classified	3,738	—	3,738	3,066	672
Preservation of collection facility structures	1,500	—	1,500	—	1,500
Preservation of waterway facility structures	931	—	931	—	931
Preservation of process facility structures	1,486	428	1,914	618	1,296
Preservation of buildings	2,484	—	2,484	2,322	162
Preservation capital projects not otherwise classified	373	(128)	245	—	245
Total capital projects	21,426	—	21,426	8,827	12,599
Construction Fund Summary:					
Contractual services	6,401	—	6,401	2,090	4,311
Machinery and equipment	6,624	—	6,624	2,875	3,749
Capital projects	21,426	—	21,426	8,827	12,599
Construction Fund total	34,451	—	34,451	13,792	20,659

(continued)

(in thousands of dollars)

	Budget Amounts				
	Original	**Net Transfers**	**Final**	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
Stormwater Management Fund:					
Personal services					
Salaries of regular employees	$ 5,635	$ —	$ 5,635	$ 5,370	$ 265
Compensation plan adjustments	193	—	193	108	85
Social security and medicare contributions	81	—	81	77	4
Salaries of nonbudgeted employees	11	—	11	—	11
Tuition and training payments	31	—	31	9	22
Health and life insurance premiums	580	—	580	502	78
Total personal services	6,531	—	6,531	6,066	465
Contractual services					
Travel	2	—	2	2	—
Meals and lodging	5	—	5	4	1
Postage, freight and delivery charges	3	—	3	1	2
Compensation for personally owned autos	25	—	25	15	10
Motor vehicle operating services	1	—	1	—	1
Testing and inspection services	30	—	30	—	30
Court reporting services	12	—	12	11	1
Rental charges	3	—	3	1	2
Intragovernmental agreements	12,846	—	12,846	2,546	10,300
Payments for professional services	775	—	775	227	548
Preliminary engineering reports and studies	4,800	—	4,800	1,097	3,703
Professional engineering services for construction	3,844	(150)	3,694	116	3,578
Contractual services not otherwise classified	246	—	246	163	83
Waste material disposal charges	70	—	70	54	16
Repairs to waterways facilities	2,415	—	2,415	2,251	164
Computer Software	—	150	150	150	—
Repairs not otherwise classified	6	—	6	1	5
Total contractual services	25,083	—	25,083	6,639	18,444
Materials and supplies					
Building and grounds materials and supplies	5	—	5	5	—
Office, printing, and photo supplies	12	—	12	4	8
Processing chemicals	5	—	5	—	5
Tools and supplies	11	—	11	8	3
Wearing apparel	2	—	2	—	2
Materials and supplies not otherwise classified	1,240	—	1,240	436	804
Total materials and supplies	1,275	—	1,275	453	822

(continued)

Exhibit E-1 (continued)
Capital Project Funds
Schedule of Appropriations and Expenditures on Budgetary Basis

Year ended December 31, 2017

(in thousands of dollars)

	Budget Amounts				Actual Variance with Final Budget - Positive (Negative)
	Original	Net Transfers	Final	Actual Amounts	
Stormwater Management Fund (continued):					
Machinery and equipment					
Marine equipment	$ 85	$ —	$ 85	$ —	$ 85
Total machinery and equipment	85	—	85	—	85
Capital Projects					
Waterways facilities structure	3,170	—	3,170	962	2,208
Capital projects not otherwise classified	1,620	—	1,620	—	1,620
Preservation of waterway facility structures	1,459	—	1,459	—	1,459
Total capital projects	6,249	—	6,249	962	5,287
Land					
Land	410	—	410	—	410
Total land	410	—	410	—	410
Fixed and other charges					
Equity transfer	5,769	—	5,769	3,269	2,500
Payments for easements	400	—	400	14	386
Total fixed and other charges	6,169	—	6,169	3,283	2,886
Stormwater Management Fund Summary:					
Personal services	6,531	—	6,531	6,066	465
Contractual services	25,083	—	25,083	6,639	18,444
Materials and supplies	1,275	—	1,275	453	822
Machinery and equipment	85	—	85	—	85
Capital projects	6,249	—	6,249	962	5,287
Land	410	—	410	—	410
Fixed and other charges	6,169	—	6,169	3,283	2,886
Stormwater Management Fund total	45,802	—	45,802	17,403	28,399
Capital Improvements Bond Fund Summary:					
Contractual services	29,055	26,585	55,640	28,836	26,804
Machinery and Equipment	—	1,245	1,245	580	665
Capital projects	313,054	153,344	466,398	209,693	256,705
Land	10,300	—	10,300	1,467	8,833
Fixed and other charges	2,216	4,390	6,606	4,452	2,154
Capital Improvements Bond Fund total *	354,625	185,564	540,189	245,028	295,161
Capital Projects Funds total	$ 434,878	$ 185,564	$ 620,442	$ 276,223	$ 344,219

* The Capital Improvements Bond Fund is budgeted on an "obligation" basis which records expenditures in the period in which the contracts or grants are awarded.

TRUST FUNDS

PENSION TRUST FUND

A fiduciary fund established to account for employer / employee contributions, investment earnings, and expenses for employee pensions.

OPEB TRUST FUND

Fund established to administer the defined benefit post-employment health care plan.

Exhibit F-1
Pension and Other Post Employment Trust Funds
Combing Statements of Fiduciary Net Position

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)

	Pension Trust Fund		OPEB Trust Fund		Total Fiduciary Funds	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Assets						
Cash	$ 1,990	$ 3,670	$ —	$ —	$ 1,990	$ 3,670
Receivables						
Employer contributions-taxes (net of allowance for uncollectible $3,883 in 2017; $3,753 in 2016)	89,604	79,505	—	—	89,604	79,505
Securities sold	42,172	7,563	—	—	42,172	7,563
Forward foreign exchange contracts	123,333	116,576	—	—	123,333	116,576
Accrued interest and dividends	3,660	3,161	73	76	3,733	3,237
Accounts receivable	43	45	—	—	43	45
Total receivables	258,812	206,850	73	76	258,885	206,926
Investments at fair value						
Corporate and governmental bonds and notes	249,812	234,275	—	—	249,812	234,275
Money market funds	—	—	16,994	5,590	16,994	5,590
Pooled funds - fixed income	184,200	195,104	62,805	61,360	247,005	256,464
Pooled funds - equities	—	—	97,893	81,809	97,893	81,809
Balanced funds	—	—	17,449	16,013	17,449	16,013
Common and preferred stocks	576,588	524,405	—	—	576,588	524,405
Mutual and commingled Equity funds	342,484	285,515	—	—	342,484	285,515
Short-term investments	30,689	32,493	—	—	30,689	32,493
Total investments	1,383,773	1,271,792	195,141	164,772	1,578,914	1,436,564
Securities lending capital	27,448	42,118	—	—	27,448	42,118
Total assets	1,672,023	1,524,430	195,214	164,848	1,867,237	1,689,278
Liabilities						
Accounts payable	1,360	1,270	14	4	1,374	1,274
Securities lending collateral	27,448	42,118	—	—	27,448	42,118
Forward foreign exchange contracts	124,384	116,937	—	—	124,384	116,937
Securities purchased	17,037	11,507	—	—	17,037	11,507
Total liabilities	170,229	171,832	14	4	170,243	171,836
Net position restricted for pension and OPEB benefits	$ 1,501,794	$ 1,352,598	$ 195,200	$ 164,844	$ 1,696,994	$ 1,517,442

Exhibit F-2
Pension and Other Post Employment Trust Funds
Combining Statements of Changes in Fiduciary Net Position

Year ended December 31, 2017
(with comparative amounts for prior year)

(in thousands of dollars)

	Pension Trust Fund		OPEB Trust Fund		Total Fiduciary Funds	
	2017	2016	2017	2016	2017	2016
Additions:						
Contributions:						
Employer contributions	$ 89,858	$ 80,260	$ 18,431	$ 19,917	$ 108,289	$ 100,177
Employee contributions	20,840	20,831	—	—	20,840	20,831
Retiree contributions	—	—	—	7,917	—	7,917
Total contributions	110,698	101,091	18,431	27,834	129,129	128,925
Investment income:						
Net appreciation (depreciation) in fair value of investments	177,342	92,763	21,209	6,577	198,551	99,340
Interest and dividend income	21,754	25,003	4,225	4,013	25,979	29,016
Total investment income (loss)	199,096	117,766	25,434	10,590	224,530	128,356
Less investment expenses	(4,621)	(4,614)	(42)	(42)	(4,663)	(4,656)
Investment income (loss) net of expenses	194,475	113,152	25,392	10,548	219,867	123,700
Security lending activities:						
Security lending income	448	265	—	—	448	265
Borrower rebates	(13)	295	—	—	(13)	295
Bank fees	(89)	(126)	—	—	(89)	(126)
Net income from securities lending activities	346	434	—	—	346	434
Other	3	107	—	—	3	107
Total additions	305,522	214,784	43,823	38,382	349,345	253,166
Deductions:						
Annuities and benefits						
Employee annuitants	127,099	121,730	—	—	127,099	121,730
Retiree health care benefits	—	—	13,431	22,835	13,431	22,835
Surviving spouse annuitants	24,203	22,919	—	—	24,203	22,919
Child annuitants	142	153	—	—	142	153
Ordinary disability benefits	631	413	—	—	631	413
Duty disability benefits	77	110	—	—	77	110
Total annuities and benefits	152,152	145,325	13,431	22,835	165,583	168,160
Refunds of employee contributions	2,560	2,011	—	—	2,560	2,011
Administrative expenses	1,614	1,503	37	32	1,651	1,535
Total deductions	156,326	148,839	13,468	22,867	169,794	171,706
Net increase (decrease)	149,196	65,945	30,356	15,515	179,551	81,460
Net position held in trust for pension and OPEB benefits						
Beginning of year	1,352,598	1,286,653	164,844	149,329	1,517,442	1,435,982
End of year	$ 1,501,794	$ 1,352,598	$ 195,200	$ 164,844	$ 1,696,994	$ 1,517,442

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III.
STATISTICAL AND DEMOGRAPHICS SECTION

MWRD President Mariyana T. Spyropoulos and Commissioner Josina Morita were joined by MWRD staff after receiving awards at the 2017 WEFTEC Awards Ceremony in Chicago. Three awards were presented to the MWRD for Water Quality Improvement, Project Excellence and Innovative Facility Design. Appearing left to right, Principal Civil Engineer Yvonne Lefler, Managing Civil Engineer Kevin Fitzpatrick, Commissioner Morita, Associate Civil Engineer Meagan Matias, President Spyropolous, Principal Civil Engineer Justine Skawski, Principal Civil Engineer Lou Storino, Assistant Director of Engineering Bill Sheriff and Senior Civil Engineer Bipin Patel.

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Statistical and Demographics Section (Unaudited)

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information and the District's overall financial health.

Contents	Exhibits
Financial Trends	**I-1 through I-4**
These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	**I-5 through I-9**
These schedules contain information to help the reader assess the District's most significant local revenue sources, property taxes and user charges.	
Debt Capacity	**I-10 through I-12**
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and its ability to issue additional debt in the future.	
Demographic and Economic Information	**I-13 and I-14**
These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	**I-15 through I-17**
These schedules contain service and infrastructure data to help the reader understand how the information in this financial report relates to the services the District provides and the activities it performs.	

Sources: *Unless otherwise noted the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

Exhibit I-1
Net Position by Component

Last Ten Fiscal Years

(accrual basis of accounting)

(in thousands of dollars)

	2017	2016	2015	2014
Net investment in capital assets *	$ 4,710,123	$ 4,591,899	$ 4,630,463	$ 4,548,793
Restricted				
Restricted for corporate working cash	280,437	279,390	278,852	278,148
Restricted for reserve claim	9,976	2,128	6,499	7,764
Restricted for debt service	318,646	318,575	310,383	305,375
Restricted for capital projects	32,067	75,762	—	15,457
Restricted for construction working cash	22,204	22,070	21,947	21,833
Restricted for stormwater working cash	37,509	37,384	37,216	37,035
Unrestricted (Deficit)	(794,533)	(787,263)	(756,154)	(722,949)
Total net position	$ 4,616,429	$ 4,539,945	$ 4,529,206	$ 4,491,456

* Infrastructure under the modified approach is reported in the period the initial condition assessment was completed.

2013	2012	2011	2010	2009	2008
$ 4,506,950	$ 4,514,633	$ 4,506,544	$ 4,492,811	$ 4,559,884	$ 4,575,974
276,894	277,006	277,270	277,249	275,459	272,120
9,861	4,524	6,211	22,521	25,073	35,817
278,970	268,760	257,418	227,320	232,815	212,353
28,886	18,828	29,908	38,018	—	13,412
21,644	21,649	21,611	27,377	27,286	27,005
37,690	37,737	39,573	39,554	38,953	37,902
4,037	(1,006)	(53,477)	(96,934)	(49,191)	47,316
$ 5,164,932	$ 5,142,131	$ 5,085,058	$ 5,027,916	$ 5,110,279	$ 5,221,899

Exhibit I-2
Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(in thousands of dollars)

	2017	2016	2015	2014
Revenues				
General Revenues:				
Property taxes	$ 563,764	$ 556,648	$ 533,240	$ 526,851
Personal property replacement tax	43,194	38,961	37,863	39,571
Interest on investments	8,784	6,181	5,381	9,486
Tax increment financing distributions	9,100	9,228	13,069	4,925
Claims and damage settlements	783	209	350	630
Miscellaneous	5,819	5,527	5,804	5,290
Gain on sale of capital assets	50	1,210	2,922	8
Total general revenues	631,494	617,964	598,629	586,761
Program Revenues:				
Charges for services				
User charges	51,098	48,621	46,238	50,696
Land rentals	17,352	20,166	18,189	16,357
Fees, forfeits and penalties	5,401	4,164	4,885	5,456
Capital grants and contributions				
Federal grants	14,558	12,825	11,170	11,089
Total program revenues	88,409	85,776	80,482	83,598
Total revenues	719,903	703,740	679,111	670,359
Expenses				
Board of Commissioners	4,094	4,166	3,671	3,721
General Administration	15,791	15,690	14,835	15,096
Monitoring and Research	29,591	28,753	27,259	26,922
Procurement and Materials Management	5,947	6,602	6,801	6,331
Human Resources	54,267	54,447	58,512	72,896
Information Technology	12,734	14,702	14,602	14,708
Law	5,830	6,709	6,008	6,812
Finance	3,520	3,570	3,401	3,433
Engineering	27,830	28,002	27,232	26,561
Maintenance and Operations	178,994	177,829	173,177	169,234
Pension costs	106,814	108,606	87,145	92,944
OPEB Trust Fund costs *	(6,681)	(7,008)	(5,408)	(19,449)
Claims and judgments	(2,662)	(8,548)	23,560	2,660
Construction costs	85,535	136,203	69,434	77,191
Loss on sale of capital assets	202	13	32	127
Depreciation (unallocated)	12,063	12,083	12,123	12,229
Interest on bonds	109,550	111,182	118,977	114,328
Total expenses	643,419	693,001	641,361	625,744
Change in Net Position	$ 76,484	$ 10,739	$ 37,750	$ 44,615

* The 2012 decrease resulted from a reduction in the liability estimate for OPEB.

2013	2012	2011	2010	2009	2008
$ 470,855	$ 486,316	$ 506,888	$ 409,550	$ 429,968	$ 432,412
40,737	35,605	36,849	39,352	37,477	42,527
3,051	11,123	13,156	9,119	7,632	27,112
3,361	6,239	12,715	6,818	1,359	797
2,271	1,472	1,298	285	695	606
4,765	5,822	4,859	5,181	6,642	5,450
923	—	676	2,736	—	—
525,963	546,577	576,441	473,041	483,773	508,904
49,182	69,322	57,469	49,433	47,886	49,439
14,851	12,081	12,161	10,040	9,660	9,572
3,396	3,353	3,279	2,731	4,305	4,357
11,110	22,164	17,218	17,156	5,518	896
78,539	106,920	90,127	79,360	67,369	64,264
604,502	653,497	666,568	552,401	551,142	573,168
3,520	3,471	3,348	3,627	3,680	3,748
14,426	14,296	14,844	15,767	19,046	18,438
25,294	24,689	25,221	28,450	29,252	27,612
5,660	5,694	6,928	6,447	6,196	5,398
67,841	63,103	47,683	46,882	43,670	61,465
14,331	13,714	14,423	16,127	20,611	20,767
6,975	5,942	7,151	8,132	7,491	7,274
3,394	3,175	2,962	3,189	3,233	3,238
25,051	4,332	4,028	6,245	9,284	8,144
162,372	161,919	178,438	191,090	209,488	196,612
52,065	78,360	70,331	62,996	54,804	45,343
(19,567)	(7,155)	10,251	24,540	25,464	8,920
3,369	25,738	25,488	9,134	17,536	9,174
88,528	75,496	84,240	104,947	131,095	93,421
173	147	95	381	436	750
12,020	12,459	12,235	11,428	9,227	9,224
116,249	111,044	101,760	95,382	72,249	65,819
581,701	596,424	609,426	634,764	662,762	585,347
$ 22,801	$ 57,073	$ 57,142	$ (82,363)	$ (111,620)	$ (12,179)

Exhibit I-3
Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(in thousands of dollars)

	2017	2016	2015	2014
General Corporate Fund				
Nonspendable:				
Prepaid insurance	$ 4,101	$ 2,117	$ 2,137	$ 2,143
Inventories	34,787	35,502	37,623	39,586
Restricted	306,854	306,800	305,779	307,147
Unassigned (Deficit)	(53,799)	(44,428)	(58,427)	(61,850)
Total General Corporate Fund	291,943	299,991	287,112	287,026
All Other Governmental Funds				
Nonspendable:				
Prepaid insurance	79	—	—	—
Restricted	381,079	451,657	378,458	219,606
Assigned	147,473	145,341	127,920	112,768
Unassigned	(79)	(13,525)	(9,090)	—
Total Governmental Funds	$ 820,495	$ 883,464	$ 784,400	$ 619,400

2012	2012	2011	2010	2009	2008
$ 2,391	$ —	$ —	$ —	$ —	$ —
40,136	39,467	38,922	38,924	38,761	38,067
344,558	344,186	342,398	341,381	338,602	333,650
(51,960)	(19,151)	(96,225)	(175,521)	(166,687)	(142,300)
335,125	364,502	285,095	204,784	210,676	229,417
—	—	—	—	—	—
328,953	575,796	763,064	519,456	773,035	464,633
112,478	—	—	—	—	—
—	—	—	—	—	—
$ 776,556	$ 940,298	$ 1,048,159	$ 724,240	$ 983,711	$ 694,050

Exhibit I-4
Changes in Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting) *(in thousands of dollars)*

	2017	2016	2015	2014
Revenues				
General Revenues:				
Property taxes	$ 526,932	$ 583,875	$ 525,302	$ 516,316
Personal property replacement tax	43,194	38,961	37,863	39,571
Interest on investments	8,784	6,181	5,381	9,486
Land sales	50	1,233	3,164	8
Tax increment financing distributions	9,100	9,228	13,069	4,925
Claims and damage settlements	783	209	350	630
Miscellaneous	5,878	5,540	5,869	5,445
Program Revenues:				
Charges for services				
User charges	51,098	48,621	46,238	50,696
Land rentals	17,352	20,166	18,189	16,357
Fees, forfeits and penalties	5,401	4,164	4,885	5,456
Capital grants and contributions				
Government grants	14,555	12,817	11,165	11,162
Total revenues	683,127	730,995	671,475	660,052
Expenditures				
Operations:				
Board of Commissioners	4,075	4,158	3,662	3,710
General Administration	15,766	15,490	14,833	14,829
Monitoring and Research	29,696	28,490	27,486	26,687
Procurement and Materials Management	5,954	6,611	6,885	6,325
Human Resources	54,225	54,606	58,441	72,879
Information Technology	12,728	14,213	14,697	14,582
Law	5,922	6,707	6,018	6,802
Finance	3,530	3,597	3,427	3,425
Engineering	26,068	26,051	25,971	25,278
Maintenance and Operations	179,181	177,695	173,534	168,376
Pension costs	75,579	77,712	62,498	75,556
Claims and judgments	6,905	4,786	5,658	44,988
Construction costs	268,497	296,768	326,430	236,259
Debt service:				
Redemption of bonds	113,695	102,670	101,220	89,118
Interest on bonds	119,520	117,474	118,680	110,115
Total expenditures	921,341	937,028	949,440	898,929
Revenues over (under) expenditures	(238,214)	(206,033)	(277,965)	(238,877)
Other Financing Sources (Uses)				
Payment to escrow agent	—	(399,432)	(82,906)	—
State revolving fund loan proceeds	175,245	179,224	181,537	81,721
Sale of refunding bonds	—	322,260	70,805	—
Proceeds from sale of bonds	—	104,000	225,000	—
Premium on sale of bonds	—	99,045	48,529	—
Proceeds from capital lease	—	—	—	—
Total other financing sources (uses)	175,245	305,097	442,965	81,721
Net change in fund balance	$ (62,969)	$ 99,064	$ 165,000	$ (157,156)
Debt service as a percentage of non-capital expenditures	31.6%	28.4%	31.7%	26.9%

2013	2012	2011	2010	2009	2008
$ 454,966	$ 489,168	$ 492,751	$ 410,663	$ 418,077	$ 399,917
40,737	35,605	36,849	39,352	37,477	42,527
3,051	11,123	13,156	9,119	7,632	27,112
2,575	—	2,326	3,045	6	6
3,361	6,239	12,715	6,818	1,359	797
2,271	1,472	1,298	285	695	606
4,765	5,822	4,859	5,181	6,642	5,450
49,182	69,322	57,469	49,433	47,886	49,439
14,851	12,081	12,161	10,040	9,660	9,572
3,396	3,353	2,534	2,731	4,305	4,357
11,110	22,164	17,218	20,233	1,440	896
590,265	656,349	653,336	556,900	535,179	540,679
3,514	3,463	3,344	3,628	3,659	3,721
14,111	13,877	14,332	15,411	18,555	17,958
25,128	24,495	25,084	28,445	28,891	27,146
5,671	5,698	6,949	6,493	6,156	5,341
67,856	63,105	47,710	46,944	43,603	61,385
14,024	13,167	13,820	15,823	20,200	19,328
6,984	5,942	7,166	8,164	7,446	7,211
3,393	3,172	2,965	3,203	3,208	3,205
23,987	3,229	2,975	5,367	7,951	6,703
161,787	161,188	177,908	191,165	208,123	194,916
67,523	66,191	36,635	30,099	31,744	28,937
4,970	5,998	6,923	6,728	9,464	7,626
199,231	259,315	337,051	496,885	397,265	191,415
85,709	71,400	64,112	60,602	73,105	112,577
111,665	118,854	98,015	104,414	67,148	66,591
795,553	819,094	844,989	1,023,371	926,518	754,060
(205,288)	(162,745)	(191,653)	(466,471)	(391,339)	(213,381)
—	—	(253)	—	—	—
41,546	54,884	78,481	152,465	81,000	41,185
—	—	—	—	—	—
—	—	400,000	—	600,000	—
—	—	37,344	—	—	—
—	—	—	54,535	—	—
41,546	54,884	515,572	207,000	681,000	41,185
$ (163,742)	$ (107,861)	$ 323,919	$ (259,471)	$ 289,661	$ (172,196)
28.8%	29.9%	27.4%	26.1%	21.2%	27.3%

Exhibit I-5
Equalized Assessed Value, Direct Tax Rate and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

(in thousands of dollars, except tax rates)

Fiscal Year Ended December 31,	Chicago Equalized Assessed Value	Suburbs Equalized Assessed Value	Total Equalized Assessed Value	Total Direct Tax Rate (1)	Estimated Full Taxable Value (3)	Equalized Assessed Value as a Percentage of Full Value
2007	$ 73,645,316	$ 82,327,478	$ 155,972,794	0.263	$ 656,474,744	23.8%
2008	80,977,543	89,119,839	170,097,382	0.252	616,163,594	27.6
2009	84,586,808	89,880,835	174,467,643	0.261	550,135,370	31.7
2010	82,087,170	84,830,896	166,918,066	0.274	449,811,540	37.1
2011	75,122,914	73,925,579	149,048,493	0.320	442,787,689	33.7
2012	65,250,387	68,147,608	133,397,995	0.370	414,382,389	32.2
2013	62,363,876	61,055,668	123,419,544	0.417	459,860,597	26.8
2014	64,908,057	60,828,131	125,736,188	0.430	499,136,554	25.2
2015	70,963,289	59,341,515	130,304,804	0.426	528,843,259	24.6
2016	74,016,506	66,735,695	140,752,201	0.406 (3)	528,843,259 (2)	26.6

Source: Cook County Clerk for Equalized Assessed Values and Tax Rates and the Civic Federation for Estimated Full Values

(1) Tax rates per $100 equalized assessed valuation.

(2) Current data not available from Civic Federation.

(3) Does not include values for Railroad, Pollution Control or the part of O'Hare Airport located in DuPage County.

Exhibit I-6
District Direct Property Tax Rates, Overlapping Property Tax Rates of Major Local Governments, and Districted Tax Levies by Fund

Last Ten Fiscal Years

(rates per $100 of assessed value)

	2017 (1)	2016	2015	2014	2013	2012	2011	2010	2009	2008
District direct rates										
Corporate	$ 0.155	$ 0.161	$ 0.175	$ 0.183	$ 0.182	$ 0.179	$ 0.168	$ 0.144	$ 0.135	$ 0.141
Reserve Claim	0.004	0.004	0.004	0.002	0.005	0.005	0.002	0.001	0.002	0.004
Retirement	0.051	0.047	0.044	0.040	0.042	0.021	0.019	0.016	0.016	0.015
Debt Service	0.165	0.160	0.175	0.174	0.163	0.135	0.114	0.094	0.097	0.083
Construction	0.011	0.010	0.013	0.014	0.009	0.015	0.001	0.005	0.006	—
Stormwater Management	0.028	0.024	0.019	0.017	0.016	0.015	0.016	0.014	0.005	0.009
Total direct rate	$ 0.414	$ 0.406	$ 0.430	$ 0.430	$ 0.417	$ 0.370	$ 0.320	$ 0.274	$ 0.261	$ 0.252
Major local governments' tax rates (2)										
City of Chicago	$ —	$ 1.630	$ 1.549	$ 1.193	$ 1.209	$ 1.151	$ 0.999	$ 0.914	$ 0.887	$ 0.928
Chicago Board of Education	—	3.726	3.455	3.660	3.671	3.422	2.875	2.581	2.366	2.472
Chicago Park District	—	0.362	0.372	0.401	0.402	0.395	0.346	0.319	0.309	0.323
Cook County	—	0.533	0.552	0.568	0.560	0.531	0.462	0.423	0.394	0.415
Cook County Forest Preserve Dist.	—	0.063	0.069	0.069	0.069	0.063	0.058	0.051	0.049	0.051
Community College #508 (City Coll)	—	0.169	0.177	0.193	0.198	0.190	0.165	0.151	0.150	0.156
City of Chicago Library Fund	—	0.122	0.123	0.134	0.135	0.128	0.111	0.102	0.099	0.102
City of Chicago School Bldg/Imprvmt	—	0.128	0.134	0.146	0.152	0.146	0.119	0.116	0.112	0.117
District's tax levies by fund (in thousands)										
Corporate	$223,946	$226,743	$227,196	$230,000	$224,400	$237,193	$249,828	$240,059	$237,116	$240,082
Stormwater Management	40,856	34,250	24,050	21,000	20,000	20,000	24,100	24,029	8,849	15,212
Reserve Claim	5,900	5,800	5,700	3,000	6,500	6,670	3,400	1,951	3,182	7,073
Retirement	73,438	65,161	58,004	50,531	51,621	28,490	28,163	26,478	26,751	25,664
Debt Service	238,874	225,715	228,728	218,319	202,290	180,748	169,645	156,090	169,051	140,614
Construction	16,271	13,785	16,500	17,400	11,079	20,418	1,819	8,749	10,411	—
Total tax levies	$599,285	$571,454	$560,178	$540,250	$515,890	$493,519	$476,955	$457,356	$455,360	$428,645

Source: Cook County Clerk

(1) District's tax rates are estimated based on 2016 equalized assessed valuation of $141 billion.

(2) Major local governments' rates for 2017 are not yet available.

Exhibit I-7
Principal Property Taxpayers

2016 and Nine Years Ago

(in thousands of dollars)

Taxpayer	Type of Business	2016 (1) Equalized Assessed Value (3)	2016 (1) Rank	2016 (1) Percentage of Total Equalized Assessed Value	2007 Equalized Assessed Value	2007 Rank	2007 Percentage of Total Equalized Assessed Value
Willis Tower	Retail & Office	$ 420,480	1	0.30%	$ 514,662	1	0.33%
CME Center (2)	Office	268,501	2	0.19	364,783	3	0.23
Aon Center	Insurance	252,408	3	0.18	374,456	2	0.24
Blue Cross Blue Shield Tower	Office	250,676	4	0.18	—	—	—
One Prudential Plaza	Financial Services	235,469	5	0.17	293,604	5	0.19
Water Tower Place	Retail & Office	226,358	6	0.16	231,069	7	0.14
300 N LaSalle	Retail & Office	205,994	7	0.15	—	—	—
AT & T Corporate Center	Communications	204,322	8	0.15	297,653	4	0.19
Chase Tower	Banking	203,126	9	0.14	250,261	6	0.16
Citadel Center	Office	196,745	10	0.14	208,906	10	0.13
Citicorp Center	Banking	—	—	—	216,217	8	0.15
Leo Burnett Building	Advertising	—	—	—	211,813	9	0.14
		$ 2,464,079		1.76%	$ 2,963,424		1.90%

Source: Cook County Treasurer's Office and Cook County Clerk's Office

(1) 2017 information is unavailable.

(2) Formerly referred to as Equity Office.

(3) The Equalized Assessed Valuation for 2016 is $140,752,201,171

Exhibit I-8
Property Tax Levies and Collections

Last Ten Fiscal Years

(in thousands of dollars)

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year	Collected within the First Year		
		Amount	Percentage of Levy	Final Due Date
2008	$ 428,645	$ 400,048	93.3%	12/01/09
2009	455,360	383,612	84.2	12/13/10
2010	457,356	435,009	95.1	11/01/11
2011	476,955	460,618	96.6	08/01/12
2012	493,573	476,881	96.6	08/01/13
2013	514,659	497,452	96.7	08/01/14
2014	540,666	523,203	96.8	08/01/15
2015	555,098	541,008	97.5	08/01/16
2016	571,454	559,938	98.0	08/01/17
2017	593,135	—	—	08/01/18

Exhibit I-9
User Charge Rates

Last Ten Fiscal Years

	2017	2016	2015	2014 (1)
Large Commercial/Industrial User Rates (2)				
Flow per million gallons	$ 259.61	$ 255.02	$ 250.51	$ 246.08
5-day BOD per 1,000 lbs. (5)	229.13	234.95	240.49	245.75
SS per 1,000 lbs. (6)	142.47	148.33	154.08	159.72
Tax-Exempt User Rates (3)				
Flow per million gallons	$ 259.61	$ 255.02	$ 250.51	$ 246.08
5-day BOD per 1,000 lbs. (5)	229.13	234.95	240.49	245.75
SS per 1,000 lbs. (6)	142.47	148.33	154.08	159.72
OM&R Rate (4)	0.3390	0.3440	0.3910	0.4350

(1) The Large Commercial-Industrial and Tax-Exempt Users Rates are the same beginning with tax year 2014.

(2) Large Commercial-Industrial Users are non-governmental, non-residential Users engaged in significant commercial or industrial activities.

(3) Tax-Exempt Users are exempt from payment of property taxes.

(4) This rate represents the OM&R costs as a percentage of the District's total tax levy and it is applied to Commercial-Industrial Users' real estate tax credits for determining their final User Charge.

(5) BOD = Biochemical Oxygen Demand

(6) SS = Suspended Solids

2013	2012	2011	2010	2009	2008
$ 241.73	$ 256.48	$ 243.99	$ 262.44	$ 229.37	$ 223.72
250.76	259.22	247.48	270.68	231.90	229.23
165.24	195.95	194.18	200.33	174.25	178.11
$ 245.18	$ 263.48	$ 250.31	$ 269.25	$ 235.96	$ 230.29
254.34	266.27	253.89	277.70	238.56	235.98
167.60	201.24	199.21	205.53	179.25	183.35
0.4240	0.4860	0.4730	0.5570	0.5040	0.4990

Exhibit I-10
Ratios of Total General Bonded Debt and Net Bonded Debt Outstanding (1)

Last Ten Fiscal Years

(dollars and population in thousands, except debt per capita)

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes and Interest	Capital Lease Payable (4)	Total Debt	Resources Available for Repayment of Debt (2)	Net Debt	Total Debt as a % Personal Income (3)	Total Debt per Capita (3)	Net Debt as a % of Est Full Taxable Value (3)	Net Debt Per Capita (3)
2008	$ 1,392,699	$ 64,894	$ —	$ 1,457,593	$ 101,053	$ 1,356,540	1.05%	$ 277.00	0.22%	$ 257.80
2009	1,979,203	86,286	—	2,065,489	106,279	1,959,210	1.46	392.01	0.36	371.84
2010	1,961,974	196,225	53,688	2,211,887	111,055	2,100,832	1.44	422.12	0.47	400.92
2011	2,466,464	108,008	51,784	2,626,256	137,217	2,489,039	1.87	503.50	0.56	477.19
2012	2,515,376	44,527	49,838	2,609,740	136,173	2,473,567	1.79	506.75	0.60	480.30
2013	2,481,973	35,809	47,795	2,565,577	122,527	2,443,050	1.73	489.52	0.53	466.14
2014	2,500,785	90,460	45,653	2,636,898	140,162	2,496,736	1.83	495.84	0.50	469.49
2015	2,770,788	161,697	43,405	2,975,890	140,806	2,835,084	1.91	565.76	0.57	538.99
2016	2,965,282	157,390	41,047	3,163,719	163,508	3,000,211	1.86	603.88	0.60	572.67
2017	2,879,915	296,529	38,574	3,215,018	147,000	3,068,018	1.65	619.70	0.58	591.37

(1) Represents long-term debt for general bonded debt, and bond anticipation notes, including interest, which are eventually converted to general bonded debt. Details of the District's long-term debt can be found in the notes to the basic financial statements.

(2) Represents the restricted fund balance in the Debt Service Fund.

(3) See Exhibit I-13 for personal income and population information, and Exhibit I-5 for estimated full taxable value information.

(4) The District entered into a capital lease agreement in 2010.

Exhibit I-11
Estimate of Direct and Overlapping Debt

As of December 31, 2017

(in thousands of dollars)

Direct debt					
Bonds and notes payable					$ 2,697,667
Capital lease					38,574
Overlapping bonded debt of major local governments (1)	Net Debt (2)	% Applicable (3)	Applicable Amount		
City of Chicago	$ 9,532,447	100.00%	$ 9,532,447		
Chicago Board of Education (4)(5)	8,179,138	100.00	8,179,138		
Chicago Park District (4)	821,000	100.00	821,000		
City Colleges (District 508) (4)	315,560	100.00	315,560		
Cook County	3,361,102	97.96	3,292,536		
Cook County Forest Preserve District	151,010	97.96	147,929		
Total overlapping debt (6)					22,288,610
Total direct and overlapping debt					$ 25,024,851

(1) Excludes outstanding tax anticipation notes and warrants. Except as stated, does not include debt issued by other taxing authorities in Cook County.

(2) Source: Each of the respective taxing districts, current as of 12/31/2017.

(3) Based on 2016 Equalized Assessed Valuations, which are the most recent available.

(4) Includes approximately $355 million, $237 million, $7.29 billion and $288 million of general obligation bonds of the City of Chicago, City Colleges (District 508), Chicago Board of Education and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources.

(5) Includes approximately $98 million of Public Building Commission Bonds debt.

(6) Does not include debt issued by other taxing authorities located in Cook County.

Exhibit I-12
Computation of Statutory Debt Margin

Last Ten Fiscal Years

(in thousands of dollars)

	2017 (1)	2016	2015	2014
Equalized assessed valuation	$140,752,201	$140,752,201	$130,304,804	$125,736,188
Statutory debt limit (5.75% of equalized assessed valuation)	8,093,251	7,492,526	7,492,526	7,229,831
Total debt applicable to debt limit:				
General obligation bonds outstanding	2,697,667	2,769,608	2,655,365	2,422,620
Less: alternate bonds (2)	(98,145)	(99,080)	(50,000)	—
Adjusted general obligation bonds outstanding	2,599,522	2,670,528	2,605,365	2,422,620
Bond anticipation notes outstanding	296,529	157,390	161,697	90,460
Capital lease outstanding	38,574	41,047	43,405	45,653
Liabilities of tax financed funds:				
Corporate	21,650	27,952	23,647	37,136
Stormwater	1,715	2,062	6,973	5,689
Debt service	—	—	—	—
Reserve claim	273.999	174	205	681
Construction	3,171	3,368	4,812	6,648
Total applicable debt	2,961,435	2,902,521	2,846,104	2,608,887
Less applicable assets:				
Debt service funds unrestricted cash and investments	115,673	115,673	108,671	108,392
Interest payable in the next twelve months	(117,604)	(117,604)	(115,735)	(106,175)
Total applicable assets	(1,931)	(1,931)	(7,064)	2,217
Total net debt applicable to debt limit	2,963,366	2,904,452	2,853,168	2,606,670
Statutory debt margin	$ 5,129,885	$ 4,588,074	$ 4,639,358	$ 4,623,161
Total applicable net debt as a percentage of statutory debt limit	36.6%	38.8%	38.1%	36.1%

(1) Debt limit calculation based on 2016 equalized assessed valuation since 2017 value is not yet available.

(2) Alternate bonds do not count against the debt limit.

2013	2012	2011	2010	2009	2008
$123,419,544	$133,397,995	$149,048,493	$166,918,066	$174,467,643	$170,097,382
7,096,624	7,670,385	8,570,288	9,597,789	10,031,889	9,780,599
2,481,973	2,515,375	2,466,464	1,961,974	1,979,203	1,392,699
—	—	—	—	—	—
2,481,973	2,515,375	2,466,464	1,961,974	1,979,203	1,392,699
35,809	44,527	108,008	196,225	86,286	64,894
47,795	49,837	51,784	53,688	—	—
30,150	30,076	35,347	45,381	45,260	42,374
3,515	2,496	1,956	2,496	1,101	1,470
—	—	—	—	—	—
380	1,110	1,381	410	327	1,036
2,816	4,062	1,542	1,732	4,236	2,855
2,602,438	2,647,483	2,666,482	2,261,906	2,116,413	1,505,328
98,006	105,285	114,344	88,710	88,849	89,397
(107,868)	(109,300)	(116,410)	(92,619)	(59,873)	(73,103)
(9,862)	(4,015)	(2,066)	(3,909)	28,976	16,294
2,612,300	2,651,498	2,668,548	2,265,815	2,087,437	1,489,034
$ 4,484,324	$ 5,018,887	$ 5,901,740	$ 7,331,974	$ 7,944,452	$ 8,291,565
36.8%	34.6%	31.1%	23.6%	20.8%	15.2%

Exhibit I-13
Demographic and Economic Statistics

Last Ten Fiscal Years

(population and dollars in thousands)

Year	Population	Personal Income	Per Capita Personal Income	Median Household Income	Unemployment Rate
2017	5,188	$ 186,434,150	$ 35,936	$ 63,794	4.8%
2016	5,239	170,081,127	32,464	58,708	5.8
2015	5,260	155,734,043	29,607	54,461	5.8
2014	5,318	144,394,219	27,152	53,653	7.0
2013	5,241	148,352,487	28,304	51,391	9.1
2012	5,150	145,456,281	28,246	53,852	8.8
2011	5,216	140,483,393	26,933	54,036	9.8
2010	5,240	153,959,010	29,381	59,201	10.4
2009	5,269	141,675,329	26,888	53,709	10.1
2008	5,262	139,190,968	26,452	52,664	6.2

Source: Population, Personal Income and Median Household Income is for Cook County, Illinois. Population, Median Household Income and Personal Income information is provided by The Nielsen Claritas Data Services, and unemployment information is provided by the U.S. Department of Labor, Bureau of Labor Statistics. The District service area represents 98% of the assessed valuation of Cook County.

Exhibit I-14
Principal Employers

2017 and Nine Years Ago

	2017			2008		
Employer	**Employees**	**Rank**	**Percentage of Total Employment (5)**	**Employees**	**Rank**	**Percentage of Total Employment**
U.S. Government (1)	41,500	1	0.80%	78,000	1	1.48%
Chicago Public Schools (2)	35,447	2	0.68	43,910	2	0.83
City of Chicago	31,160	3	0.60	35,570	3	0.68
Cook County (3)	21,316	4	0.41	22,142	5	0.42
Advocate Health Care	19,049	5	0.37	15,660	7	0.30
Northwestern Memorial Healthcare (4)	16,667	6	0.32	—	—	—
University of Chicago (2)	16,583	7	0.32	14,287	8	0.27
J.P. Morgan Chase & Co.	15,701	8	0.30	—	—	—
State of Illinois (2)	14,690	9	0.28	18,124	6	0.34
Amazon.Com Inc. (5)	13,240	10	0.26	—	—	—
Wal-Mart Stores Inc.	—	—	—	23,453	4	0.45
Walgreen Company	—	—	—	14,254	9	0.27
AT&T Inc.	—	—	—	14,000	10	0.27
UAL Corp	—	—	—	14,000	10	0.27
Total	225,353		4.34%	293,400		5.58%

(1) Fiscal year ends in September
(2) Fiscal year ends in June
(3) Fiscal year ends in November
(4) Fiscal year ends in August
(5) Includes Whole Foods employees

Source: Reprinted with permission, Crain's Chicago Business [January 15, 2018]. © Crain Communications, Inc.

Exhibit I-15
Budgeted Positions by Fund/Department

Last Ten Fiscal Years

	Budgeted Positions									
Fund/Department	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
General Corporate Fund										
Board of Commissioners	38	38	37	37	37	37	40	45	45	45
General Administration	123	122	119	112	109	114	125	124	146	138
Monitoring and Research	309	308	297	288	286	280	303	308	308	309
Procurement and Materials Management	63	63	63	62	62	62	69	70	70	70
Human Resources	141	73	74	72	58	57	59	60	54	54
Information Technology	75	76	70	70	70	69	71	71	72	72
Law	38	38	37	36	38	37	38	40	40	40
Finance	28	28	29	29	29	29	31	31	31	33
Engineering (Corporate Fund) (1)	246	244	242	241	242	29	32	34	34	34
Maintenance & Operations	922	927	955	951	947	943	1,029	1,047	1,046	1,045
Total General Corporate Fund	1,983	1,917	1,923	1,898	1,878	1,657	1,797	1,830	1,846	1,840
Engineering (Construction Fund) (2)	0	0	0	0	0	21	28	45	45	45
Engineering (Stormwater Management)	59	59	59	63	49	48	44	50	49	47
Engineering (Capital Improvements Bond Fund) (2)	0	0	0	0	0	196	202	191	191	177
Grand Total	2,042	1,976	1,982	1,961	1,927	1,922	2,071	2,116	2,131	2,109

(1) Increase due to the transfer of positions from the Capital Improvements Bond and Construction Funds to the Corporate Fund

(2) Decrease due to the transfer of positions from the Capital Improvements Bond and Construction Funds to the Corporate Fund

Exhibit I-16
Operating Indicators

Last Ten Fiscal Years

	Area Served (1)	Communities Served (2)	Number of People Served (3)	Commercial and Industrial Population Equivalent Served	Number of Local Sewer Connections to Intercepting Sewers	Gallons of Pumping Station Maximum Capacity (4)	Gallons of Sewage Processed per Day (4)	Daily Sewage Treatment Capacity (4)
2017	882	129	5,188,486	4,500,000	10,000	4,000,000	1,251,000	2,000,000
2016	883	129	5,239,253	4,500,000	10,000	4,000,000	1,300,000	2,000,000
2015	883	129	5,260,069	4,500,000	10,000	4,000,000	1,244,200	2,000,000
2014	883	129	5,318,365	4,500,000	10,000	4,000,000	1,288,600	2,000,000
2013	884	126	5,241,489	4,500,000	10,000	4,000,000	1,218,200	2,000,000
2012	884	126	5,149,578	4,500,000	10,000	4,000,000	1,070,200	2,000,000
2011	884	126	5,215,968	4,500,000	10,000	4,000,000	1,342,800	2,000,000
2010	884	126	5,239,879	4,500,000	10,000	4,000,000	1,245,200	2,000,000
2009	884	126	5,269,000	4,500,000	10,000	4,000,000	1,366,700	2,000,000
2008	884	126	5,262,000	4,500,000	10,000	4,000,000	1,284,600	2,000,000

(1) In square miles
(2) Including the City of Chicago
(3) Nielsen -- Claritas Data Service
(4) In thousands of gallons

Exhibit I-17
Capital Asset Statistics

Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Miles of intercepting sewers and force mains operated	560	560	560	560	560	559	559	559	559	559
Miles of waterway water levels controlled	76	76	76	76	76	76	76	76	76	76
Acres of strip-mined land utilized for solids processing	13,796+	13,796+	13,796+	13,796+	13,796+	13,796+	13,796+	13,796+	13,796+	13,796+
Number of water reclamation plants	7	7	7	7	7	7	7	7	7	7
Number of pumping stations	23	23	23	23	23	23	23	23	23	23
Miles of TARP tunnels constructed for pollution and flood control	109.4	109.4	109.4	109.4	109.4	109.4	109.4	109.4	109.4	109.4
Number of TARP reservoirs constructed	2	2	2	1	1	1	1	1	1	1
Number of TARP reservoirs under construction	1	1	1	2	2	2	2	2	2	2
Number of flood control reservoirs	34	34	34	33	31	31	31	31	31	31
Instream aeration stations	2	2	2	2	2	2	2	2	2	2
Sidestream elevated pool aeration stations	5	5	5	5	5	5	5	5	5	5

Source: District's Engineering Department

IV.
SINGLE AUDIT SECTION

Former Cubs pitcher Jason Hammel, Cook County Sheriff Tom Dart, MWRD President Mariyana Spyropoulos and Ford Heights baseball players, coaches and residents unveil the new Excell Walker Field. The MWRD collaborated with Cook County Sheriff's office, the Ford Heights Park District, the Baseball Tomorrow Fund, Cubs Charities, James McHugh Construction, the U.S. Army Corps of Engineers and other partners to deliver the state-of-the-art baseball field. The MWRD provided 110 tons of Class A exceptional quality (EQ) biosolids compost to help build up the turf playing surfaces. Biosolids compost supplies organic matter and improves soil structure and porosity to allow plants to more effectively utilize nutrients.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Honorable President and Members of the Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Metropolitan Water Reclamation District of Greater Chicago (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Corporate Fund and the Retirement Fund for the year then ended, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 11, 2018. Our report includes a reference to other auditors who audited the financial statements of the District's Pension Trust Fund as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Chicago, Illinois
May 11, 2018

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INDEPENDENT AUDITORS' REPORT

The Honorable President and
Members of the Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying Schedule of Expenditures of Federal Awards (the "Schedule") of the Metropolitan Water Reclamation District of Greater Chicago (the "District"), for the year ended December 31, 2017 and the related notes to the Schedule.

Management's Responsibility for the Schedule of Expenditures of Federal Awards
Management is responsible for the preparation and fair presentation of this financial statement 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained *in Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion
In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards of the District for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements
In accordance with Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have also issued a report dated May 11, 2018 on our consideration of the District's compliance with requirements that could have a direct and material effect on the major program and on internal control over compliance in accordance with the Uniform Guidance. That report is an integral part of an audit performed in accordance with the Uniform Guidance and should be read in conjunction with this report.

Prado & Renteria

Chicago, Illinois
May 11, 2018

PRADO & RENTERIA
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable President and
Members of the Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago

Report on Compliance for the Major Federal Program

We have audited the Metropolitan Water Reclamation District of Greater Chicago's (the "District") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2017. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program
In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Prado & Renteria

Chicago, Illinois
May 11, 2018

Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Award Date	Pass-Through to Subrecipients	Total Federal Expenditures
U.S. Environmental Protection Agency					
Passed through Illinois Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Funds					
Project Descriptions					
Westside Primary Settling Tanks 1-9 and Aerated Grit Facility, SWRP	66.458	L174555	December 2016	—	$ 5,362,400
Des Plaines River Intercepting Sewer Rehabilitation, SSA	66.458	L174621	May 2014	—	543,900
Calumet TARP Pumping Station Improvements, Calumet WRP	66.458	L174923	May 2013	—	386,400
A/B and C/D Service Tunnel Rehabilitation - Phase Two, SWRP	66.458	L175152	March 2016	—	752,200
D799 Switchgear Replacement, SWRP	66.458	L175223	December 2015	—	481,600
Calumet Intercepting Sewer 19F Rehabilitation, CSA	66.458	L175263	May 2016	—	1,732,700
McCook Reservoir Des Plaines Inflow Tunnel, SSA	66.458	L175342	July 2016	—	3,258,900
Conversion of Old GCTs to WASSTRIP Process, SWRP	66.458	L175366	May 2016	—	529,500
Safety Railing Around Tanks, SWRP	66.458	L175368	August 2016	—	173,400
Safety Railing Around Tanks, CWRP	66.458	L175371	October 2016	—	234,000
Safety Railing Around Tanks, OWRP	66.458	L175372	October 2016	—	89,400
McCook Reservoir Expanded Stage 2 Slope Stabilization & Retaining Walls, SWRP	66.458	L175460	May 2017	—	895,200
		Total U.S. Environmental Protection Agency Funding of Capitalization Grants for Clean Water State Revolving Funds			$ 14,439,600
			Total Federal Expenditures		**$ 14,439,600**

See Accompanying Notes to Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Metropolitan Water Reclamation District of Greater Chicago (the "District") under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position and the respective change in financial position of the District.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 – Program Description

CFDA # 66.458 – Capitalization Grants for Clean Water State Revolving Funds

The Capitalization Grants for Clean Water State Revolving Funds create State Revolving Funds (SRFs) through a program of capitalization grants to states, which will provide a long-term source of state financing for construction of wastewater treatment facilities and implementation of other water quality management activities. The capitalization grant is deposited in the SRF, which is used to provide loans and other types of financial assistance, but no grants, to local communities and inter-municipal and interstate agencies. The States must agree to enter into binding commitments with recipients to provide financial assistance from the SRF in an amount equal to 16.67% of the total SRF loan, with the federal share being 83.33%. Those loans awarded under the American Recovery and Reinvestment Act of 2009 (ARRA) are funded 50% from ARRA funds and 50% from SRFs. There were no loans awarded under ARRA for the year ended December 31, 2017.

Note 5 – Project Descriptions

Descriptions of projects, funded wholly or partially by federal sources, for which the District received funds during the year ended December 31, 2017:

State Revolving Fund Loans

Loan #L174555 was awarded to the District on December 6, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for the Westside Primary Settling Tanks 1-9 and Aerated Grit Facility, SWRP, Project 04-128-3P. The maximum SRF loan amount is $150,545,633. The maximum pass through federal funding is $125,449,676. A total of $5,362,400 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $122,467,139 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Note 5 – Project Descriptions – Continued

Loan #L174621 was awarded to the District on May 8, 2014, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Des Plaines River Intercepting Sewer Rehabilitation, SSA, Project 06-158-3S. The maximum SRF loan amount is $13,628,725. The maximum pass through federal funding is $11,356,817. A total of $543,900 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $544,673 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L174923 was awarded to the District on May 2, 2013, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Calumet TARP Pump Station Improvements, Project 06-212-3M. The maximum SRF loan amount is $32,893,059. The maximum pass through federal funding is $27,409,786. A total of $386,400 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $31,171,133 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175152 was awarded to the District on March 25, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for A/B and C/D Service Tunnel Rehabilitation - Phase Two, SWRP, Project 04-132-3D. The maximum SRF loan amount is $21,111,910. The maximum pass through federal funding is $17,592,555. A total of $752,200 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $12,762,686 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175223 was awarded to the District on December 15, 2015, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for D799 Switchgear Replacement, SWRP, Project 09-182-3E. The maximum SRF loan amount is $9,800,000. The maximum pass through federal funding is $8,166,340. A total of $481,600 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $4,117,506 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175263 was awarded to the District on May 27, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Calumet Intercepting Sewer 19F Rehabilitation, CSA, Project 11-239-3S. The maximum SRF loan amount is $12,746,856. The maximum pass through federal funding is $10,621,955. A total of $1,732,700 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $10,170,251 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175342 was awarded to the District on July 26, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for McCook Reservoir Des Plaines Inflow Tunnel, SSA, Project 13-106-4F. The maximum SRF loan amount is $80,000,000. The maximum pass through federal funding is $66,664,000. A total of $3,258,900 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $58,455,509 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175366 was awarded to the District on May 27, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Conversion of Old GCTs to WASSTRIP Process, SWRP, Project 15-120-3P. The maximum SRF loan amount is $5,374,018. The maximum pass through federal funding is $4,478,169. A total of $529,500 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $4,376,621 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Note 5 – Project Descriptions – Continued

Loan #L175368 was awarded to the District on August 4, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Safety Railing Around Tanks, SWRP, Project 15-123-3D. The maximum SRF loan amount is $5,386,512. The maximum pass through federal funding is $4,488,580. A total of $173,400 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $5,123,953 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175371 was awarded to the District on October 31, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Safety Railing Around Tanks, CWRP, Project 15-265-3D. The maximum SRF loan amount is $1,497,033. The maximum pass through federal funding is $1,247,478. A total of $234,000 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $1,309,512 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175372 was awarded to the District on October 27, 2016, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Safety Railing Around Tanks, OWRP, Project 15-072-3D. The maximum SRF loan amount is $1,442,000. The maximum pass through federal funding is $1,201,619. A total of $89,400 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $1,429,788 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Loan #L175460 was awarded to the District on May 12, 2017, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for McCook Reservoir Expanded Stage 2 Slope Stabilization and Retaining Walls, SWRP, Project 16-125-4F. The maximum SRF loan amount is $7,546,837. The maximum pass through federal funding is $6,288,780. A total of $895,200 in federal funds was disbursed by the IEPA during fiscal year 2017. As of December 31, 2017, $4,483,130 was outstanding. The outstanding SRF loan amount is presented as a bond anticipation note in the District's financial statements.

Schedule of Findings and Questioned Costs

Year ended December 31, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:		**Unmodified**
Internal control over financial reporting:		
Material weakness(es) identified?	_______ Yes	X No
Significant deficiency(ies) identified?	_______ Yes	X None reported
Noncompliance material to financial statements noted?	_______ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_______ Yes	X No
Significant deficiency(ies) identified?	_______ Yes	X None reported
Type of auditors' report issued on compliance for major federal programs:		**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_______ Yes	X No

Identification of major federal programs:

U.S. Environmental Protection Agency

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:		$750,000
Auditee qualified as low-risk auditee?	X Yes	_______ No

SECTION II – FINANCIAL STATEMENT FINDINGS – Required to be Reported in Accordance with Governmental Auditing Standards

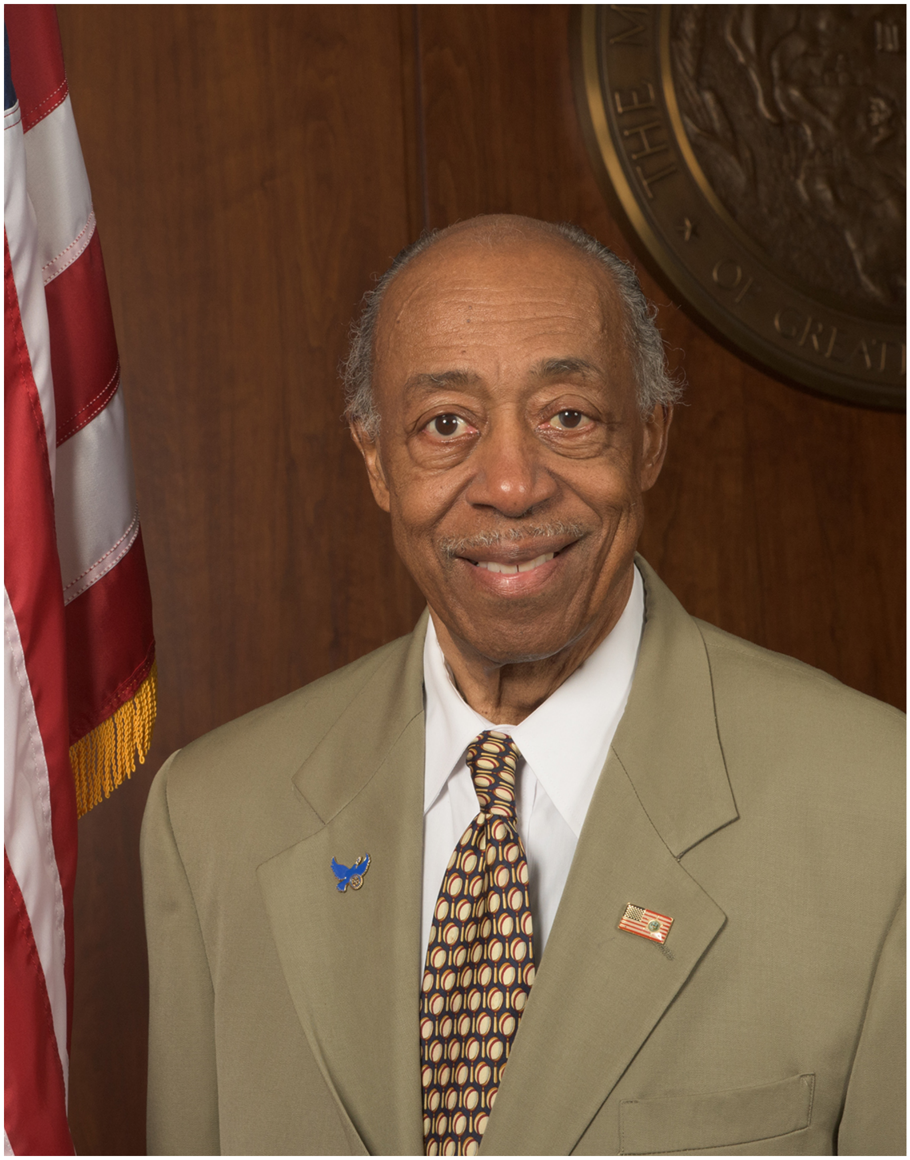
None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None.



In memory of

TIMOTHY BRADFORD

Commissioner

Metropolitan Water Reclamation District of Greater Chicago

2014 - 2017