

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
**ANNUAL FINANCIAL REPORT**

For the Year Ended  
December 31, 2015



**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
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**Certified Public Accountants & Advisors**  
*Members of American Institute of Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

The Honorable President  
Members of the Board of Trustees  
Retiree Health Insurance Trust Fund  
City of Aurora, Illinois

We have audited the financial statements of the Retiree Health Insurance Trust Fund (the Fund), a fiduciary fund of the City of Aurora, Illinois (the City) as of December 31, 2015 and for the year then ended and the related notes to financial statements as listed in the accompanying 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Fund'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 Fund'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 opinion.

## Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Retiree Health Insurance Trust Fund of the City of Aurora, Illinois, as of December 31, 2015, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1A, these basic financial statements present only the Fund and are not intended to present fairly the financial position and changes in financial position of the City in accordance with accounting principles generally accepted in the United States of America.

The Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 74 resulted in the modification of certain disclosures and required supplementary information. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements 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. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read "A. L. 22P", is located in the lower right quadrant of the page.

Naperville, Illinois  
June 17, 2016

**CITY OF AURORA  
RETIREE HEALTH INSURANCE TRUST FUND**

**(A Fiduciary Fund of the City of Aurora, Illinois)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's discussion and analysis (MD&A) of the City of Aurora Retiree Health Insurance Trust Fund's financial statements. The MD&A addresses the major factors affecting the operations and investment performance of the fund during the fiscal year ended December 31, 2015 and includes comparative information for the fiscal year ended December 31, 2014.

The City of Aurora Retiree Health Insurance Trust Fund (the "Fund") exists to provide health insurance benefits to qualified retirees of the City of Aurora (the "City"), Illinois, in accordance with a retiree health insurance plan established by the City. The Fund is a trust fund of the City operated in accordance with Section 115(1) of the Internal Revenue Code. It was established on January 1, 2007 pursuant to a trust document approved by the Aurora City Council on December 19, 2006. (The original trust document was subsequently amended and restated.) As stated in a letter ruling released on March 30, 2010, the Internal Revenue Service has determined that the income of the Fund is not subject to federal income taxation.

As of December 31, 2015, the fund provided benefits to 502 retirees and their family members. Plan members also included 940 active City employees.

**Overview of Financial Statements and Accompanying Information**

This discussion and analysis is intended to serve as an introduction to the Fund's financial reporting which is comprised of the following components:

1. **Basic Financial Statements:** This information presents the plan net position restricted for benefits as of December 31, 2015. This financial information also summarizes the changes in plan net position restricted for benefits for the year then ended.
2. **Notes to Basic Financial Statements:** The notes to basic financial statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.
3. **Required Supplementary Information:** The required supplementary information consists of schedules and related notes concerning actuarial information, funded status, actuarially determined contributions, and investment returns for the Fund.
4. **Other Supplementary Information:** This section includes a schedule of changes in plan net position with budget versus actual comparisons.

The Fund implemented Statement No. 74 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for the fiscal year ended December 31, 2015, becoming one of the first OPEB plans in the United States to implement this new reporting standard. The new financial reporting standard modified the Fund's notes to the basic financial statements and required supplementary information as well as required the calculation of a total other postemployment benefit (OPEB) liability and a net OPEB liability.

CITY OF AURORA RETIREE HEALTH INSURANCE TRUST FUND

(A Fiduciary Fund of the City of Aurora, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

**Plan Net Position**

The statement of plan net position is presented below for the Fund as of December 31, 2015 and 2014. The financial statement reflects the resources available to pay benefits to members at the end of the years reported. A summary of the plan net position is presented below.

**Condensed Statement of Plan Net Position**

	2015	2014	Dollar Change	Percent Change
Cash and Equivalents	\$ 1,768,127	\$ 1,943,126	\$ (174,999)	-9.0%
Investments, at fair value	33,855,450	31,973,971	1,881,479	5.9%
Receivables	218,426	79,716	138,710	174.0%
Prepaid Expenses	3,442	3,310	132	4.0%
Total Assets	35,845,445	34,000,123	1,845,322	5.4%
Liabilities	1,160,187	712,708	447,479	62.8%
Total Net Plan Position	<u>\$ 34,685,258</u>	<u>\$ 33,287,415</u>	<u>\$ 1,397,843</u>	4.2%

**Financial Highlights**

The Fund's plan net position rose by \$1.4 million or 4.2% from December 31, 2014 to December 31, 2015. The increase is due to positive investment income and an increase in employer contributions for the current year. Investments increased by \$1.9 million or 5.9% as the Fund sought to more fully invest its assets. Liabilities increased by about \$450,000 or 62.8% as more claims payable were outstanding at December 31, 2015 than at the end of the prior year.

The Fund was actuarially funded at 13.6% as of December 31, 2015, compared to 15.2% as of December 31, 2014.

The overall rate of return for the fund was 2.57% during 2015, compared to 5.2% during 2014 (net of fees). (It should be noted that the stated rate of return for 2014 was not the money-weighted rate of return calculated in accordance with GASB Statement No. 74.)

# CITY OF AURORA RETIREE HEALTH INSURANCE TRUST FUND

(A Fiduciary Fund of the City of Aurora, Illinois)

## MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

### Funded Ratio

The funded ratio of the plan measures the ratio of plan net position against actuarially determined liabilities and is an indicator of the fiscal strength of the fund's ability to meet obligations to its members. The Fund's Board of Trustees commissions an actuarial valuation each year. The most recent available valuation found that the funded status of the Fund as of December 31, 2015 decreased to 13.6% from 15.2% on December 31, 2014. The net OPEB liability was \$220.9 million on December 31, 2015 as compared to \$211.5 million on December 31, 2014. This was an increase of \$9.4 million or 4.4% and resulted from a decrease in the discount rate to 4.58% as required by GASB Statement No. 74 from 5.50% used in the prior year. For more information, please refer to the Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios in the Required Supplementary Information section of this report.

The assumptions used in the actuarial valuation impact upon the Fund's funded ratio. The key assumptions used in the valuation include that 1) the Fund will earn a 7.7% annual rate of return on its investments, 2) healthcare costs will increase 4.5% annually over the long term, and 3) the costs of satisfying the net OPEB liability of the Fund will be amortized over a 30-year open period. While the Fund's investment return target is 7.7%, the Fund's actuary used a 4.58% discount rate because the projection of future contribution and fiduciary net position were not found to be sufficient to pay all future benefit payments of current fund members. Therefore, the investment rate or return was blended with the AA rated GO Bond rate of 3.57% at December 31, 2015 to arrive at the discount rate.

### Investments

The allocation of investment assets for the Fund as of December 31, 2015 and 2014 were as follows:

#### Allocation of Investments

	2015		2014	
	Amount	Percentage	Amount	Percentage
Cash and Equivalents	\$1,768,127	5.0%	\$1,943,126	5.7%
Fixed Income Securities	12,907,928	36.2%	12,049,282	35.5%
Domestic Equity Securities	15,913,482	44.7%	15,522,217	45.8%
International Equity Securities	3,894,922	10.9%	3,894,284	11.5%
Real Estate Investment Trusts	1,139,118	3.2%	508,188	1.5%
Total	<u>\$35,623,577</u>	<u>100.0%</u>	<u>\$33,917,097</u>	<u>100.0%</u>

Proper implementation of the Fund's investment policy requires that performance of the investment portfolio be periodically evaluated and that the portfolio be analyzed to insure compliance with established asset allocation targets. The Board of Trustees of the Fund evaluates its investment portfolio, in consultation with The Bogdahn Group on a quarterly basis. During 2015, the Fund increased its position in real estate through an investment trust. The real estate position was expanded to further diversify the portfolio and enhance the Fund's potential for greater future investment income.

CITY OF AURORA RETIREE HEALTH INSURANCE TRUST FUND

(A Fiduciary Fund of the City of Aurora, Illinois)

MANAGEMENT’S DISCUSSION AND ANALYSIS – Continued

**Changes in Plan Net Position**

A condensed statement of changes in plan net position for the years ended December 31, 2015 and 2014 is presented below. The financial statement reflects the changes in the resources available to pay benefits to plan participants, including retirees and beneficiaries.

**Condensed Statement of Changes in Plan Net Position**

	<u>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Additions:				
Employer Contributions	\$8,058,388	\$7,437,793	\$620,595	8.3%
Net Investment Income	<u>831,424</u>	<u>1,638,650</u>	<u>(807,226)</u>	-49.3%
Total Additions	<u>8,889,812</u>	<u>9,076,443</u>	<u>(186,631)</u>	-2.1%
Deductions:				
Health Insurance Benefits	7,477,497	6,179,321	1,298,176	21.0%
Administrative Expenses	<u>14,473</u>	<u>13,357</u>	<u>1,116</u>	8.4%
Total Deductions	<u>7,491,970</u>	<u>6,192,678</u>	<u>1,299,292</u>	21.0%
Net Increase in Plan Net Position	<u>\$1,397,842</u>	<u>\$2,883,765</u>	<u>(\$1,485,923)</u>	-51.5%

**Additions**

Additions to plan net position include employer contributions and net income from investment activities. Employer contributions increased from \$7.4 million in 2014 to \$8.1 million in 2015, a change of about \$620,000 or 8.3%. The increase reflects the City’s intent to pay a higher percentage of the actuarially determined contribution to the Fund each year.

The Fund’s net investment income for 2015 was approximately \$830,000 as compared to \$1.6 million during 2014. The overall annual return for 2015 was 2.57% compared with 5.2% in the prior year. While the returns for the Fund’s total portfolio in 2015 were modestly positive, the decline in investment performance from the prior year was related to lower returns for domestic equity securities and fixed-income securities. Counterbalancing these returns were improved performance by the Fund’s international equity investments and strong performance by the investment in real estate.

Retiree contributions are received by the Fund. However, in accordance with GASB Statement No. 74, these contributions are netted with the cost of health insurance benefits. In 2015, retiree contributions totaled \$2.2 million, compared to \$2.0 million in 2014. The contributions required of retirees are established based upon the City’s analysis of past and projected future benefit costs and, where



## CITY OF AURORA RETIREE HEALTH INSURANCE TRUST FUND

(A Fiduciary Fund of the City of Aurora, Illinois)

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

applicable, the results of negotiations with employee groups subject to collective bargaining. During 2015, retirees generally paid between 22% and 35% of the applicable premium for medical insurance coverage depending upon their coverage type (i.e., retiree, retiree plus one, or retiree plus family). However, employees hired on or after January 1, 2010 are required to pay different percentages when they retire. Those employees who retire with 20 or more years with the City must pay 40% of the applicable premium. Retirees with less than 20 years of service must pay 100%.

#### **Deductions**

Deductions from plan net position are primarily benefit payments. During 2015 and 2014, the Fund paid out \$7.5 million and \$6.2 million, respectively, in benefits. This was an increase of \$1.3 million or 21.0% between the two fiscal years. The rise in costs was related to a greater number of retiree participants under the age of 65 receiving benefits. (Prior to age 65, the Fund provides primary coverage to retiree participants. Upon a retiree's reaching age 65, Medicare provides primary coverage and the Fund's coverage becomes secondary.) Also, generally unfavorable claims experience led to the higher cost of benefits.

#### **Future Outlook**

Employer contributions to the Fund are expected to grow over the next several years as the City intends to satisfy a higher percentage of the actuarially determined contribution. With respect to investment income, the Fund will continue to structure its investment portfolio with the goal of maximizing returns over the long term.

#### **Request for Information**

This financial report is designed to provide a general overview of the Fund's finances for interested parties. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Dr. Brian W. Caputo, President, City of Aurora Retiree Health Insurance Trust Fund, 44 East Downer Place, Aurora, IL 60507.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF AURORA, ILLINOIS**

**RETIREE HEALTH INSURANCE TRUST FUND**

**STATEMENT OF FIDUCIARY NET POSITION**

December 31, 2015

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**ASSETS**

Cash and Short-Term Investments	\$ 1,768,127
Investments, at Fair Value	
Fixed Income Securities	12,907,928
Domestic Equity Securities	15,913,482
International Equity Securities	3,894,922
Real Estate Investment Trusts	1,139,118
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)	
Accounts Receivable	144,036
Accrued Interest	74,390
Prepaid Expenses	3,442
	<hr/>
Total Assets	35,845,445

**LIABILITIES**

Accounts Payable	551
Deposits Payable	64,818
Claims Payable	1,091,671
Due to the Primary Government	3,147
	<hr/>
Total Liabilities	1,160,187

**NET POSITION RESTRICTED  
FOR OPEB**

\$ 34,685,258

See accompanying notes to financial statements.

**CITY OF AURORA, ILLINOIS**

**RETIREE HEALTH INSURANCE TRUST FUND**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Year Ended December 31, 2015

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**ADDITIONS**

Contributions

Employer Contributions \$ 8,058,388

Total Contributions 8,058,388

Investment Income

Net Appreciation in Fair Value  
of Investments 369,654

Interest and Dividends 554,606

Total Investment Income 924,260

Less Investment Expense (92,836)

Net Investment Income 831,424

Total Additions 8,889,812

**DEDUCTIONS**

Health Insurance Benefits 7,477,497

Administrative Expenses 14,473

Total Deductions 7,491,970

NET INCREASE 1,397,842

**NET POSITION RESTRICTED  
FOR OPEB**

January 1 33,287,416

December 31 \$ 34,685,258

See accompanying notes to financial statements.

**CITY OF AURORA, ILLINOIS**

**RETIREE HEALTH INSURANCE TRUST FUND**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Retiree Health Insurance Trust Fund (the Fund) of the City of Aurora, Illinois have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below.

**A. Reporting Entity**

The Fund is a component unit of the City of Aurora, Illinois (the City) pursuant to GASB Statement No. 61 and is included in the City's fiduciary fund financial statements.

**B. Fund Accounting**

The Fund uses funds to report on its net position and the changes in its net position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Fund is classified into the fiduciary category.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

**C. Basis of Accounting**

The Fund is accounted for with a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of fiduciary net position. The Fund's operating statements present increases (e.g., additions) and decreases (e.g., deductions) in fiduciary net position.

The accrual basis of accounting is utilized by the Fund. Under this method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred.

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Investments

Investments are stated at fair value as of December 31, 2015 for both reporting and actuarial purposes. Securities traded on national exchanges are valued at the last reported sale price.

E. Budgets

An annual budget is adopted for the Fund by the City Council of the City. The budget is adopted on a basis consistent with generally accepted accounting principles. The budget, which may not be legally exceeded at the fund level, lapses at the end of the fiscal year. Once adopted, the budget may be amended by the City Council.

**2. CASH AND INVESTMENTS**

The cash and investments of the Fund are held separately from those of the City and are under the control of the Fund's Board of Trustees (the Board).

A. Investment Policy

The Fund's trust document empowers the Board to establish the Fund's investment policy. The Board operates under an investment policy that was originally approved on May 20, 2008 and amended on May 8, 2014. The Board may amend the investment policy by a majority vote.

Under the terms of the investment policy, the Board may invest the assets of the Fund in stocks traded on major United States and non-United States exchanges, securities listed on the National Association of Securities Dealers Automated Quotations exchange, mutual funds, and commingled funds. Investment graded fixed income securities are also permissible investments. Investments in options, futures, commodities, and non-marketable illiquid investments are prohibited.

The investment policy calls for the following allocation of the Fund's assets:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	45%	1.1%
Domestic Equities	40%	5.6%
International Equities	10%	5.9%
Real Estate	5%	5.4%
Cash and Cash Equivalents	0%	0.0%

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

**2. CASH AND INVESTMENTS (Continued)**

A. Investment Policy (Continued)

The long-term expected real rates of return shown for the asset classes above are long-term expected returns after adjustment to eliminate inflation.

B. Concentrations

There are no significant investments (other than U.S. Government guaranteed obligations) in any one organization that represent 5% or more of Fund's investments.

C. Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on Fund investments, net of Fund investment expense, was 2.57%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund requires pledging of collateral with a fair value of 110% for all depository accounts, time deposit accounts or investments in certificates of deposits of financial institutions in excess of FDIC or SAIF insurance. The collateral is required to be held by an independent third party depository or the Federal Reserve Bank in the Fund's name.

E. Interest Rate Risk

The following table presents the investments and maturities of the Fund's fixed income securities as of December 31, 2015:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Greater than 10
Fixed Income Securities	12,907,928	-	4,156,853	3,811,008	4,940,067
<b>TOTAL</b>	<b>\$ 12,907,928</b>	<b>\$ -</b>	<b>\$ 4,156,853</b>	<b>\$ 3,811,008</b>	<b>\$ 4,940,067</b>

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**2. CASH AND INVESTMENTS (Continued)**

F. Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government or money market mutual funds that are primarily invested in U.S. Treasury and agency obligations that are explicitly or implicitly guaranteed by the United States Government. However, the investment policy is silent regarding exposure to credit risk. The money market mutual funds are rated Aaa by Moody's. The income securities are rated Baa3 to Aaa by Moody's. Certain fixed income securities are not rated.

G. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund's agent separate from where the investment was purchased in the Fund's name. The money market mutual funds are not subject to custodial credit risk.

**3. PLAN DESCRIPTION**

A. Plan Administration

The Fund was established pursuant to a trust document approved by the Aurora City Council on December 19, 2006. The City administers the Fund. The Fund is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all City employees who, in general qualify for pension benefits under either the Illinois Municipal Retirement Fund (IMRF), the Aurora Firefighters' Pension Fund, or the Aurora Police Pension Fund. Elected officials are eligible for benefits if they qualify for pension benefits under the IMRF.

Management of the Fund is vested with the Fund's Board. The Board consists of five members: the City's Chief Financial Officer/City Treasurer (ex-officio), the City's Assistant Director of Finance for Accounting and Financial Reporting (ex-officio), the City's Director of Human Resources (ex-officio), and two elected retiree plan participants.



**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**3. PLAN DESCRIPTION (Continued)**

**B. Fund Membership**

At December 31, 2015, membership consisted of:

Inactive Fund Members and Beneficiaries	
Currently Receiving Benefits Payments	502
Inactive Fund Members Entitled to	
but not yet Receiving Benefit Payments	-
Active Fund Members	940
 TOTAL	 1,442

**C. Benefits Provided**

All healthcare benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; vision care; dental care and prescriptions. Upon a retiree reaching age 65 years of age, Medicare becomes the primary insurer and the City's plan becomes secondary. Until a retiree reaches age 65, \$5,000 of life insurance coverage is provided at no cost. The benefits and benefit levels are governed by the City and can be amended by the City through its personnel manual and union contracts.

**D. Contributions**

In conjunction with the preparation of the annual actuarial valuation for the Fund, the Fund's actuary calculates the City's actuarially determined contribution (ADC) for the City's fiscal year after the next. For example, the actuarial valuation as of December 31, 2015 included the ADC for the City's 2017 fiscal year. (The fiscal years of the Fund and the City both coincide with the calendar year.) Historically, the City has sought to contribute to the Fund a percentage of the ADC that is more than the anticipated cost of current-year claims, but less than 100% of the ADC. The City includes its intended contribution in the annual city budget. The City is responsible for providing the resources to the Fund necessary to pay the costs of benefits provided under the City's self-insured health plan as specified in collective bargaining agreements and employee compensation plans subject to certain Fund member sharing of benefit-related costs.

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**3. PLAN DESCRIPTION (Continued)**

E. Sharing of Benefit-Related Costs

Through the City's collective bargaining agreements and employee compensation plans, inactive Fund members receiving benefits share in paying the costs of benefits provided by the Fund. Other classes of Fund members are not required to share Fund costs. For the fiscal year ended December 31, 2015, inactive Fund members currently receiving benefit payments paid between \$162 and \$260 for single, between \$320 and \$545 for Fund-member-plus-one-dependent, and between \$626 and \$931 for family medical coverage per month. The required payment for dental insurance was \$41 for single, \$84 for Fund-member-plus-one-dependent, and \$112 for family coverage per month. The City must contribute the amount beyond Fund member payments necessary to fund the actuarial liability for OPEB. The City may change inactive Fund member payment requirements through its collective bargaining agreements and employee compensation plans.

**4. OPEB LIABILITY OF THE CITY**

A. Net OPEB Liability

The components of the net OPEB liability of the City as of December 31, 2015 were as follows:

Total OPEB Liability	\$	255,568,641
Plan Fiduciary Net Position		34,685,258
City's Net OPEB Liability		220,883,383
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		13.57%

See the Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios on page 13 of the required supplementary information for additional information related to the funded status of the Fund.

B. Actuarial Assumptions

The total OPEB liability above, after considering the sharing of benefit-related costs with inactive Fund members, was determined by an actuarial valuation performed as of December 31, 2015 using the following actuarial methods and assumptions.

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**4. OPEB LIABILITY OF THE CITY (Continued)**

B. Actuarial Assumptions (Continued)

Actuarial Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Assumptions	
Inflation	3.0%
Investment Rate of Return (Net of Fund Investment Expense, Including Inflation)	7.7%
Healthcare Cost Trend Rates	8.0% (for 2016, declining by 0.5% per year to an ultimate rate of 4.5% for 2021 and later years)
Asset Valuation Method	Market

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2014 for active and retired participants in the Illinois Municipal Retirement Fund. The RP-2000 Mortality Table with blue collar adjustment, projected to 2014, was used for active and retired firefighters and police officers. The RP-2000 Disabled Mortality Table, projected to 2014, was used for disabled firefighters and police officers.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the calendar years 2011 through 2015.

The long-term rate of return on Fund investments was determined using a building block-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. 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. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2015 are indicated in Note 2A above.

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**4. OPEB LIABILITY OF THE CITY (Continued)**

C. Discount Rate

The discount rate used to measure the total OPEB liability was 4.58%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected not to be available to make all projected future benefit payments of current Fund members for more than 25 years after December 31, 2015. Therefore, the long-term expected rate of return on Fund plan investments at 7.7% was blended with the index rate of 3.57% for tax exempt general obligation municipal bonds rated AA or better published in the Bond Buyer at December 31, 2015 to arrive at a discount rate of 4.58% used to determine the total OPEB liability.

D. Rate Sensitivity

The following is a sensitive analysis of the net OPEB liability to changes in the discount rate and the healthcare cost trend rate. The table below presents the net OPEB liability of the City calculated using the discount rate of 4.58% as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.58%) or 1 percentage point higher (5.58%) than the current rate:

	1% Decrease (3.58%)	Current Discount Rate (4.58%)	1% Increase (5.58%)
Net OPEB Liability	\$ 282,230,680	\$ 220,883,383	\$ 193,304,386

The table below presents the net OPEB liability of the City calculated using the healthcare rate of 4.5% to 8.0% as well as what the City's net OPEB liability would be if it were calculated using a healthcare rate that is 1 percentage point lower (3.5% to 7.0%) or 1 percentage point higher (5.5% to 9.0%) than the current rate:

	1% Decrease (3.5% to 7.0%)	Current Healthcare Rate (4.5% to 8.0%)	1% Increase (5.5% to 9.0%)
Net OPEB Liability	\$ 174,193,003	\$ 220,883,383	\$ 281,264,426

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF AURORA, ILLINOIS**

**RETIREE HEALTH INSURANCE TRUST FUND**

SCHEDULE OF CHANGES IN THE EMPLOYER'S  
NET OPEB LIABILITY AND RELATED RATIOS

December 31, 2015

	<u>2015</u>
<b>TOTAL OPEB LIABILITY</b>	
Service Cost	\$ 6,878,917
Interest	11,356,166
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	<u>(7,477,497)</u>
Net Change in Total OPEB Liability	10,757,586
Total OPEB Liability - Beginning	<u>244,811,055</u>
<b>TOTAL OPEB LIABILITY - ENDING</b>	<u><u>\$ 255,568,641</u></u>
<b>FIDUCIARY NET POSITION</b>	
Contributions - Employer	\$ 8,058,388
Net Investment Income	831,424
Benefit Payments	(7,477,497)
Administrative Expense	<u>(14,473)</u>
Net Change in Fiduciary Net Position	1,397,842
Fiduciary Net Position - Beginning	<u>33,287,416</u>
<b>FIDUCIARY NET POSITION - ENDING</b>	<u><u>\$ 34,685,258</u></u>
<b>EMPLOYER'S NET OPEB LIABILITY</b>	<u><u>\$ 220,883,383</u></u>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.6%
Covered-Employee Payroll	\$ 80,907,445
Employer's Net OPEB Liability as a Percentage of Covered-Employee Payroll	273.0%

(See independent auditor's report.)

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Last Nine Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially Determined Contribution	\$ 16,764,385	\$ 13,052,085	\$ 11,951,819	\$ 12,361,724	\$ 11,773,685	\$ 11,182,621	\$ 13,251,599	\$ 13,904,908	\$ 15,230,301
Contributions in Relation to the Actuarially Determined Contribution	17,790,881	6,810,269	6,911,969	4,548,786	4,580,046	5,380,735	6,116,378	7,437,793	8,058,388
<b>CONTRIBUTION DEFECIENCY (Excess)</b>	<b>\$ (1,026,496)</b>	<b>\$ 6,241,816</b>	<b>\$ 5,039,850</b>	<b>\$ 7,812,938</b>	<b>\$ 7,193,639</b>	<b>\$ 5,801,886</b>	<b>\$ 7,135,221</b>	<b>\$ 6,467,115</b>	<b>\$ 7,171,913</b>
Covered-Employee Payroll	\$ 66,557,105	\$ 72,246,059	\$ 72,367,412	\$ 64,712,359	\$ 65,237,549	\$ 72,083,003	\$ 67,057,641	\$ 74,988,337	\$ 80,907,445
Contributions as a Percentage of Covered-Employee Payroll	26.7%	9.4%	9.6%	7.0%	7.0%	7.5%	9.1%	9.9%	10.0%

**Notes to Schedule**

Valuation date: Actuarially determined contribution rates are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Pay, Open
Remaining Amortization period	30 Years
Asset Valuation Method	Market
Inflation	3.0%
Healthcare Cost Trend Rate	Ranging from 7.5% - 8.00% for 2007-2014, 8.00% for 2015-2016, then declining by 0.5% per year to an ultimate rate of 4.50% for 2021 and later
Investment Rate of Return	7.7%
Retirement Age	See Note 4B in the Notes to Financial Statements
Mortality	See Note 4B in the Notes to Financial Statements

(See independent auditor's report.)

**CITY OF AURORA, ILLINOIS**  
**RETIREE HEALTH INSURANCE TRUST FUND**  
**SCHEDULE OF INVESTMENT RETURNS**

December 31, 2015

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	<u>2015</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	2.57%



**SUPPLEMENTARY INFORMATION**

**CITY OF AURORA, ILLINOIS**

**RETIREE HEALTH INSURANCE TRUST FUND**

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION -  
BUDGET AND ACTUAL

For the Year Ended December 31, 2015

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Over (Under)</b>
<b>ADDITIONS</b>				
Contributions				
Employer Contributions	\$ 8,058,388	\$ 8,058,388	\$ 8,058,388	\$ -
Total Contributions	8,058,388	8,058,388	8,058,388	-
Investment Income				
Net Appreciation in Fair Value of Investments	-	-	369,654	369,654
Interest and Dividends	1,000,000	1,000,000	554,606	(445,394)
Total Investment Income	1,000,000	1,000,000	924,260	(75,740)
Less Investment Expense	(167,000)	(167,000)	(92,836)	74,164
Net Investment Income	833,000	833,000	831,424	(1,576)
Total Additions	8,891,388	8,891,388	8,889,812	(1,576)
<b>DEDUCTIONS</b>				
Health Insurance Benefits	9,649,493	9,949,493	9,722,540	(226,953)
Less Retiree Contributions	(2,414,922)	(2,414,922)	(2,245,043)	169,879
Net: Health Insurance Benefits	7,234,571	7,534,571	7,477,497	(57,074)
Administrative Expenses	38,000	38,000	14,473	(23,527)
Total Deductions	7,272,571	7,572,571	7,491,970	(80,601)
<b>NET INCREASE</b>	<b>\$ 1,618,817</b>	<b>\$ 1,318,817</b>	1,397,842	<b>\$ 79,025</b>
<b>NET POSITION RESTRICTED FOR OPEB</b>				
January 1			33,287,416	
December 31			\$ 34,685,258	

(See independent auditor's report.)