NEW ISSUE – BOOK ENTRY ONLY

Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA
(See "RATINGS" herein.)

Subject to compliance by the District with certain covenants, in the opinions of Co-Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present Illinois income taxes. See "TAX EXEMPTION" herein.

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

$188,315,000

General Obligation Refunding Bonds, Unlimited Tax Series A of March, 2007

Dated: Date of Delivery **Due: December 1, as shown on the inside cover**

The General Obligation Refunding Bonds, Unlimited Tax Series A of March, 2007 (the "Bonds") will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only. The Bonds are issuable in denominations of $5,000 or any integral multiple of $5,000. Purchasers will not receive physical delivery of bond certificates. Principal and interest are payable by Amalgamated Bank of Chicago, Chicago, Illinois, the Bond Registrar and Paying Agent, to DTC, which will remit such principal and interest to DTC's Participants for payment to the Beneficial Owners of the Bonds, as described herein. Interest on the Bonds will be payable on June 1, 2007 and semiannually thereafter on each June 1 and December 1. **The Bonds are not subject to redemption prior to maturity.**

See the Inside Cover for the Maturity Schedule.

The Bonds are direct and general obligations of the Metropolitan Water Reclamation District of Greater Chicago, Cook County, Illinois (the "District"). The Bonds are payable from ad valorem taxes levied upon all taxable property within the District without limitation as to rate or amount.

The Bonds are offered when, as, and if issued, and accepted by the Underwriters and subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the District by DLA Piper US LLP, Chicago, Illinois, Special Counsel to the District. Certain legal matters will be passed upon for the Underwriters by their Co-Underwriters' Counsel, Katten Muchin Rosenman LLP, Chicago, Illinois, and Golden & Associates, P.C., Chicago, Illinois. It is anticipated that the Bonds will be available for delivery to DTC on or about March 21, 2007.

Banc of America Securities LLC

Cabrera Capital Markets, Inc.	**Loop Capital Markets, LLC**	**Podesta & Co.**
George K. Baum & Company	**Merrill Lynch & Co.**	**Popular Securities**
Goldman, Sachs & Co.	**M.R. Beal & Company**	**Samuel A. Ramirez & Co., Inc.**

Dated: February 14, 2007

MATURITY SCHEDULE

$188,315,000
General Obligation Refunding Bonds
Unlimited Tax Series A of March, 2007

Maturity (December 1)	Principal Amount	Interest Rate	Yield
2014	$ 4,000,000	4.00%	3.84%
2014	14,760,000	5.00	3.84
2015	4,000,000	4.00	3.88
2015	15,675,000	5.00	3.88
2016	1,000,000	4.00	3.91
2016	19,585,000	5.00	3.91
2017	2,500,000	4.00	3.95
2017	15,455,000	5.00	3.95
2018	20,015,000	5.00	3.99
2019	21,125,000	5.00	4.02
2020	22,250,000	5.00	4.04
2021	23,395,000	5.00	4.06
2022	24,555,000	5.00	4.08

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations may not be relied upon as statements of the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Unless otherwise indicated, the District is the source of all tables and statistical and financial information contained in this Official Statement. The information set forth herein relating to governmental bodies other than the District has been obtained from such governmental bodies or from other sources believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and opinions expressed herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition or operations of the District since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor should be considered less important than any other by reason of its position in this Official Statement. Where statutes, ordinances, reports or other documents are referred to herein, reference should be made to such statutes, ordinances, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any other Federal, state, municipal or other governmental entity (other than the District) shall have passed upon the accuracy or adequacy of this Official Statement.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level which might not otherwise prevail in the open market. Such stabilizing, if begun, may be discontinued, and also may be recommenced at any time, in each case without notice.

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OFFICIAL STATEMENT

$188,315,000
General Obligation Refunding Bonds, Unlimited Tax Series A of March, 2007

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

COOK COUNTY, ILLINOIS

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices, is to set forth certain information in conjunction with the sale by the Metropolitan Water Reclamation District of Greater Chicago (the "District") of $188,315,000 principal amount of its General Obligation Refunding Bonds, Unlimited Tax Series A of March, 2007 (the "Bonds"). Factors that may affect an investment decision concerning the Bonds are described throughout this Official Statement. Persons considering a purchase of any of the Bonds should read the Official Statement in its entirety.

The Bonds are authorized and issued under and pursuant to the Metropolitan Water Reclamation District Act, as amended (Illinois Compiled Statutes, Chapter 70, Act 2605), the Sanitary District Refunding Bond Act, as amended (Illinois Compiled Statutes, Chapter 70, Act 3005), the Local Government Debt Reform Act, as amended (Illinois Compiled Statutes, Chapter 30, Act 350) (the "Debt Reform Act"), and a bond ordinance adopted by the Board of Commissioners (the "Board") of the District on February 1, 2007, as amended (the "Bond Ordinance").

The Bonds are direct and general obligations of the District, whose full faith and credit has been pledged for the punctual payment of the principal of and interest on the Bonds. The Bonds are payable from ad valorem taxes levied upon all taxable property within the District, without limitation as to rate or amount.

This Official Statement contains summaries of the terms of the Bonds, together with descriptions of the District and other pertinent information. All references to agreements and documents are qualified in their entirety by references to the definitive forms of such agreements and documents. Any statements or information indicated to involve matters of opinion or estimates are represented as opinions or estimates in good faith, but no assurance can be given that the facts will materialize as so opined or estimated.

REFUNDING PLAN

The Bonds are issued to refund (i) the $57,900,000 outstanding principal amount of General Obligation Capital Improvement Bonds, Unlimited Tax Series C of December, 2002 of the District maturing in the years 2014 to 2016, both inclusive (the "2002C Bonds") and (ii) the $146,000,000 outstanding principal amount of Variable Rate General Obligation Capital Improvement Bonds, Unlimited Tax Series E of December 2002 of the District (the "2002E Bonds").

On or about March 1, 2007, the District expects to sell $93,130,000* principal amount of its General Obligation Refunding Bonds, Unlimited Tax Series B of March, 2007 (the "Series B Unlimited Tax Bonds") and $103,500,000* principal amount of its General Obligation Refunding Bonds, Limited Tax Series C of March, 2007 (the "Series C Limited Tax Bonds"). The Series B Unlimited Tax Bonds will be issued to refund the $100,000,000* outstanding principal amount of General Obligation Capital Improvement Bonds, Unlimited Tax Series of July, 2006 (the "2006 ULT Bonds" and together with the 2002C Bonds and the 2002E Bonds, the "Prior Unlimited Tax Bonds"). The Prior Unlimited Tax Bonds were issued to finance construction projects initiated prior to October 1, 1991, including projects included in the District's Tunnel and Reservoir Plan ("TARP"). The Series C Limited Tax Bonds will be issued to refund the $110,435,000* outstanding principal amount of General Obligation Capital Improvement Bonds, Limited Tax Series of July, 2006 maturing in the years 2027 and 2033 (the "Prior Limited Tax Bonds" and together with the Prior Unlimited Tax Bonds, the "Prior Bonds"). The Prior Limited Tax Bonds were issued to finance other capital improvement projects of the District. For additional information concerning the District's construction plan, see APPENDIX B – "CAPITAL IMPROVEMENTS PROGRAM."

The 2002E Bonds will be redeemed on March 21, 2007 at the redemption price of par plus accrued interest to the redemption date. Moneys sufficient to redeem the 2002E Bonds will be deposited with Amalgamated Bank of Chicago, as trustee under the trust indenture securing the 2002E Bonds. The District has previously entered into an interest rate swap agreement (the "Swap Agreement") with respect to the interest payable on the 2002E Bonds. The Swap Agreement will be terminated on March 21, 2007 and the net amount of all termination payments due to the provider of the Swap Agreement has been included as a cost to be funded as part of the refunding plan for the 2002E Bonds.

The 2002C Bonds will be redeemed on December 1, 2012 at the redemption price of par plus accrued interest to the redemption date. The 2006 ULT Bonds and the Prior Limited Tax Bonds will be redeemed on December 1, 2016 at the redemption price of par plus accrued interest to the redemption date.

The 2002C Bonds, the 2006 ULT Bonds and the Prior Limited Tax Bonds (the "Remaining Prior Bonds") will be advance refunded and defeased as of the date of issuance of the Bonds by the deposit of moneys and direct and general obligations of the United States of America (the "Government Securities"), the principal of which, together with interest to be earned thereon and any initial cash balances, will be sufficient to pay (i) the interest on the Remaining Prior Bonds when due and (ii) the redemption price of the Remaining Prior Bonds on the applicable redemption date. The Government Securities will be held in escrow accounts established for the Remaining Prior Bonds pursuant to Escrow Agreements by and between the District and Amalgamated Bank of Chicago as escrow agent.

The accuracy and adequacy of (i) the arithmetical computations of the maturing principal of and interest on the Government Securities and the initial cash balances to pay, when due, the redemption price of and interest on the Remaining Prior Bonds as described above and (ii) the mathematical computations supporting the conclusions of Co-Bond Counsel that interest on the Bonds is exempt from federal income taxation will be verified by Bansley & Kiener, certified public accountants.

* Preliminary, subject to change.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows:

SOURCES OF FUNDS	
Principal Amount of Bonds	$188,315,000.00
Original Issue Premium	16,775,788.95
District Funds	5,421,628.05
Total	$210,512,417.00
USES OF FUNDS	
Refund 2002C Bonds and 2002E Bonds	$209,165,544.00 (1)
Costs of Issuance (2)	1,346,873.00
Total	$210,512,417.00

(1) Includes termination payment to swap provider.
(2) Includes Underwriters' discount.

THE BONDS

General Description

The Bonds will mature on December 1 of the years and in the amounts shown on the inside cover page of this Official Statement. The Bonds will bear interest from their dated date, payable on June 1 and December 1 in each year, at the rates set forth on the inside cover page of this Official Statement. The first interest payment date for the Bonds is June 1, 2007. The Bonds will be issued only as fully registered book-entry bonds in denominations of $5,000 or integral multiples of $5,000. See "BOOK-ENTRY ONLY SYSTEM." Principal and interest are payable by Amalgamated Bank of Chicago, Chicago, Illinois, as Bond Registrar and Paying Agent.

No Redemption

The Bonds are not subject to redemption prior to maturity.

SECURITY FOR THE BONDS

The Bonds are direct and general obligations of the District for the payment of which the full faith and credit of the District has been pledged. The Bonds are payable from ad valorem taxes levied upon all taxable property within the boundaries of the District without limitation as to rate or amount. The Bond Ordinance provides for the levy of a tax on all taxable property within the District adequate to pay principal of and interest on the Bonds when due beginning June 1, 2008. Principal of and interest on the Bonds to become due on June 1, 2007 and December 1, 2007 will be paid from taxes levied for the payment of debt service on the Prior Bonds and other available funds of the District.

BOOK-ENTRY ONLY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for Bonds of the same maturity and interest rate as shown on the inside cover page hereof, in the principal amount of each such maturity and interest rate, and will be deposited with DTC.

DTC is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Discontinuance of Book-Entry System

The District may remove DTC or any successor securities depository at any time. If at any time DTC or any successor securities depository resigns, is removed or becomes incapable of acting as a securities depository, then the District will appoint a successor securities depository to provide a system of book-entry only transfers for the Bonds, by written notice to the predecessor securities depository directing it to notify its participants of the appointment of a successor securities depository.

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

The District may terminate the system of book-entry only transfers for the Bonds at any time by written notice to the securities depository directing it to notify its Participants of the availability of bond certificates. In such events, the District will issue, and the Bond Registrar will authenticate, register and deliver to the Beneficial Owners of the Bonds, bond certificates in replacement of such Beneficial Owners' beneficial interests in the Bonds, all as shown in the records maintained by the securities depository. If such certificates are issued, the provisions of the Bond Ordinance will apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that, while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds; however, all rights of ownership must be exercised through DTC and the book-entry system.

ADDITIONAL FINANCING

Long-Term Capital Needs

The District has traditionally financed a substantial portion of its capital projects through the issuance of general obligation indebtedness. The District expects that future capital expenditures will continue to be financed in large part through the issuance of its general obligation indebtedness. There are currently no legislative proposals pending to eliminate or curtail the District's power to issue its general obligation bonds without voter approval. Legislation has been adopted which extended the existing bonding power of the District through 2016. For a description of certain of the District's present and future capital projects, see APPENDIX B – "CAPITAL IMPROVEMENTS PROGRAM." The District will also continue to evaluate whether market conditions will enable it to refinance additional outstanding indebtedness at favorable rates.

IEPA Projects

The District is involved in the ongoing TARP Phase I, Little Calumet Leg Project, as well as several plant and sewer rehabilitation projects for which the Illinois Environmental Protection Agency ("IEPA") has approved partial funding through the State of Illinois Water Pollution Control Revolving Loan Fund (the "Revolving Loan Fund"). Under the terms of the Revolving

Loan Fund, the District issues preliminary bonds in the amount of interim project loan advances to pay project costs. The preliminary bonds are funded at project completion by the issuance of IEPA long term general obligation bonds of twenty-year maturities. In connection with these fundings, the District has authorized the issuance of the following Capital Improvement Bonds:

Series and Authorization	Principal Outstanding (1)	Preliminary Bonds Outstanding (1)
1990 IEPA Series, $45,000,000	$ 13,707,575.71	$ —
1991 IEPA Series, $59,000,000	6,848,261.05	—
1992 IEPA Series, $204,000,000	59,170,180.58	—
1994 IEPA Series, $210,000,000	38,503,914.00	—
1997 IEPA Series, $190,000,000	87,934,237.00	—
2001 IEPA Series, $180,000,000	156,647,008.37	2,355,700.00
2004 IEPA Series, $150,000,000	—	13,712,800.00
Total	$362,811,176.71	$16,068,500.00

(1) As of December 31, 2006.

In March 2007, the District anticipates authorizing approximately $160,000,000 additional Limited Tax Capital Improvement Bonds to be funded through the IEPA Revolving Loan Fund Program.

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

The District

The District is a sanitary district and a body corporate and politic of the State of Illinois (the "State"), organized and existing under the Act. The District is an independent government and taxing body encompassing approximately 91% of the land area and 98% of the assessed valuation of Cook County, Illinois. The District was originally organized as the Sanitary District of Chicago in 1889 under an act of the Illinois General Assembly which has been modified from time to time to increase the District's powers and jurisdiction. From 1955 through 1988 the District was called The Metropolitan Sanitary District of Greater Chicago. In order to provide a more accurate description of the District's current functions and responsibilities the name was changed, effective January 1, 1989, to the Metropolitan Water Reclamation District of Greater Chicago.

The District is responsible for preventing pollution of Lake Michigan, the source of Chicago's water supply, and treating wastewater to improve the water quality in the Chicago, Des Plaines, Calumet and Illinois Rivers and all other waterways within its jurisdiction. While it exercises no direct control over wastewater collection and transmission systems maintained by cities, towns and villages in Cook County, the District does control municipal sewer construction by permits. It also provides the main trunk lines for the collection of wastewater from the local systems, and provides facilities for the treatment and disposal of the wastewater products. The District also provides facilities to store, treat and release combined sewage overflow and storm water runoff within its jurisdiction. Beginning in 2005, the District was assigned responsibility pursuant to 70 ILCS 2605/7h for stormwater management for all of Cook County, including areas outside of the District's corporate boundaries.

The District is currently undertaking a number of capital projects designed to fulfill its statutory responsibilities. A description of the District's Capital Improvements Program is set forth in APPENDIX B attached hereto.

Services

As of December 31, 2006, the District collects, treats, and disposes of wastewater from approximately 5.25 million people and non-domestic load equivalent to approximately 4.5 million people in an 883 square mile area of Cook County. The District's 554 miles of intercepting sewers and force mains, ranging in size from 12 inches to 27 feet in diameter, are fed by direct interceptor sewer connections from the local systems of the City of Chicago and 125 suburban communities for which the District has issued over 39,300 user permits.

The District also has total or shared responsibilities with local communities for operating and maintaining 32 flood control reservoirs.

Administration

The District is governed by a nine member Board of Commissioners. Commissioners are elected at large and serve on a salaried basis. Three Commissioners are elected every two years for six-year terms. The Board elects a President, Vice President and Chairman of the Committee on Finance biannually from its membership.

Currently, the Board is composed of the following Commissioners:

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

The District's day to day operations are managed by the General Superintendent, who is appointed by and reports directly to the Board. With the consent of the Board, the General Superintendent appoints eight department heads who report directly to him. The General Superintendent is responsible for administering board policies, as well as preparing and implementing the District's annual budget and long-range plan. The Treasurer of the District, its chief financial officer, is also appointed by and reports directly to the Board. The Treasurer is responsible for the District's financial planning and investment management. The Board of Commissioners appoints a Civil Service Board that has statutory responsibilities for the District's classified service employees.

Mr. Richard Lanyon was appointed General Superintendent by the Board of Commissioners on June 1, 2006. Mr. Lanyon has been with the District for 43 years. Prior to his appointment, he served as Director of Research and Development for seven years after serving as Assistant Director of Research and Development. Mr. Lanyon is a registered Professional Engineer, with a Master's Degree in Civil Engineering from the University of Illinois at Urbana-Champaign.

Mr. Harold G. Downs has been Treasurer of the District since 1982. Mr. Downs served as the District's Assistant Treasurer for 12 years prior to assuming his current position. Mr. Downs holds a M.B.A. degree from Northwestern University.

The District's other principal officers serve as heads of the following departments under the General Superintendent.

Other Principal Officers	Title	Department
Joseph P. Sobanski	Chief Engineer	Engineering
Osoth Jamjun	Chief of Maintenance and Operations	Maintenance and Operations
Louis Kollias	Director	Research and Development
Frederick M. Feldman	Attorney	Law
Patrick J. Foley	Director	Personnel
Darlene A. LoCascio	Purchasing Agent	Purchasing
Keith D. Smith	Director	Information Technology
Jacqueline Torres	Director of Finance / Clerk of the District	Finance

The departments have responsibility for the following activities:

Engineering Department – This department conducts and/or supervises facilities planning, design and construction inspection for the District, including new water reclamation plants; remodeling, alteration and expansion of existing plants; the Tunnel and Reservoir Plan (TARP); flood control reservoirs; construction of new and upgrading of existing sewer lines and pumping stations; solids management and disposal; and stormwater management activities within Cook County. The department provides liaison with the United States and Illinois Environmental Protection Agencies and with the U.S. Army Corps of Engineers; evaluates compliance with directives, processes permits for new sewer construction; applies for construction project state revolving fund loans; and provides coordination with other local governmental agencies, including county, township, and municipal agencies.

Maintenance and Operations Department – The responsibilities of this department include: protecting the water quality of Lake Michigan, which is the major water supply of the Chicago area; intercepting and treating domestic and industrial wastewater to minimize pollution of the waterways; and operating and maintaining all the facilities of the District. In performing the above responsibilities, the department produces a high quality treatment plant effluent in compliance with the National Pollutant Discharge Elimination System (NPDES) Permits, provides for the proper utilization of the solids that are recovered from the various treatment processes, and controls collection facilities and the Tunnel and Reservoir Plan (TARP) system to minimize combined sewer overflows and treatment plant bypasses. The department has the added responsibilities of operating and maintaining flood control reservoirs to handle storm water run-off, operating and maintaining waterway aeration stations and Sidestream Elevated Pool Aeration (SEPA) Stations for the maintenance of water quality dissolved oxygen standards, maintaining a program of debris clearance from the waterways, controlling the state-allocated Lake Michigan diversion and operating and maintaining the hydroelectric Lockport powerhouse, which generates a revenue of $1.4 million per year for the District.

Research and Development Department – This department conducts ongoing research in wastewater treatment, solids disposal and related fields; monitors water reclamation plant operations, effluent quality and solids disposal for compliance with federal and state permits; monitors water quality of the Chicago area waterways and Lake Michigan for compliance with federal and state water quality standards; and administers the Sewage and Waste Control Ordinance and User Charge Ordinance for compliance with the requirements of the Clean Water Act of 1977 and regulations of the United States Environmental Protection Agency.

Law Department – This department is responsible for all legal matters relating to the District. The department also reviews necessary legislation for presentation to the Illinois General Assembly and provides legal interpretation of governing statutes.

Personnel Department – This department is responsible for providing effective human resources management programs including: recruitment and selection, employee training and development, compensation and benefits, and labor and employee relations. Approximately 860 of the District's 2,100 employees are represented by 15 different unions. These unions comprise six different bargaining units. The District and the unions representing its employees have enjoyed a long tradition of amicable and professional relations. Multi-year collective bargaining agreements were negotiated with all unions in 2005. These agreements will be in effect until June 30, 2008.

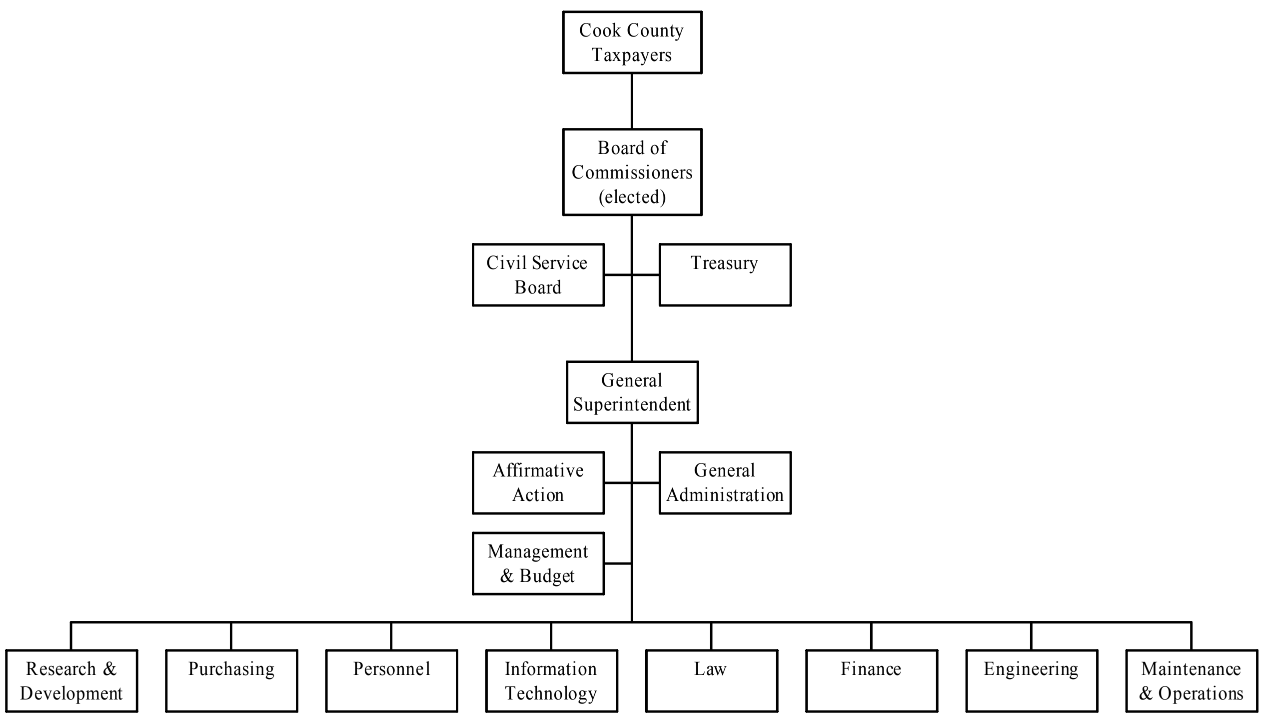
Purchasing Department – This department is responsible for procuring all materials and services in compliance with the Purchasing Act of the Metropolitan Water Reclamation District of Greater Chicago. The department operates four major storerooms at the District facilities providing planning, receiving, storing and issuing of materials. The department is also responsible for the sale of obsolete, used and surplus materials.

Information Technology Department – This department is responsible for refining and maintaining a District-wide information strategy plan; improving continuously the economics of the deployment of information technology; refining and maintaining the currency of the Information Technology Disaster Recovery Plan; providing internal consulting services and team support to departments in their employment of information technology; developing information processing and development standards; providing systems analysis and programming services for computer-based application systems; providing application programming, configuration maintenance, and online support maintenance for the District's Enterprise Resource Planning Section; providing capacity planning and software support; maintaining and operating the District-wide wide-area computer network and the MOB local-area network; managing of the District's telephone system and wireless communications; providing Help Desk support services to users; providing maintenance for computers and hardware peripherals District-wide; and overseeing computer security for all District users of information technology.

Finance Department – This department is responsible for reporting financial transactions and preparing the Comprehensive Annual Financial Report (CAFR). Additionally, the department maintains all official records of District Proceedings, pursues revenue collections and pays obligations of the District in compliance with relevant statutes, professional standards, and District policy.

General Administration – This organizational unit includes The Office of the General Superintendent, Affirmative Action, Management & Budget, and the General Administration Division. The Office of the General Superintendent has overall administrative responsibility for the entire District. Affirmative Action administers the Affirmative Action ordinance to provide opportunities for protected class enterprises in the District purchasing process. Management & Budget is responsible for central budget preparation and administration, fiscal planning, and organizational studies. The General Administration Division provides centralized support services such as Safety, Security, Environmental Site Remediation, Public Information and Building Administration across departmental lines.

Organization



OTHER LOCAL GOVERNMENTAL UNITS

Principal Units

There are numerous governmental units located within the boundaries of the District, each of which (i) is separately incorporated under the laws of the State; (ii) has an independent tax levy; (iii) derives its power and authority under the laws of the State; and (iv) maintains its own financial records and accounts. Each of these units may levy taxes upon property within its particular boundaries, and each is authorized to issue debt obligations. The principal municipality within the District is the City of Chicago. Other municipalities in Cook County with populations in excess of 50,000 include Arlington Heights, Berwyn, Cicero, Des Plaines, Evanston, Mount Prospect, Oak Lawn, Oak Park, Orland Park, Palatine, Schaumburg and Skokie. Approximately 47% of the Equalized Assessed Valuation of taxable property in Cook County is located within the City of Chicago with the balance located in other municipalities and unincorporated areas.

Other Major Governmental Units

Cook County (the "County") is governed by a board of seventeen Commissioners (the "County Board"), each elected for four-year terms from one of seventeen districts. All taxable property situated in the District is located within the boundaries of the County. The County is a home rule unit under the Illinois Constitution of 1970 (the "Illinois Constitution").

The Forest Preserve District of Cook County (the "Forest Preserve District") is coterminous with the County. The Forest Preserve District creates, maintains and operates forest preserves within the County. The Forest Preserve District is governed by a seventeen-member board composed of the members of the County Board.

The City of Chicago (the "City") was incorporated in 1837 and exercises broad governmental powers as a home rule unit under the Illinois Constitution. The City is governed by a Mayor elected at large for a four-year term, and the City Council. The City Council consists of 50 members ("Aldermen"), each representing one of the City's 50 wards. Aldermen are elected for four-year terms.

The Board of Education of the City of Chicago (the "Board of Education") exercises general supervision and jurisdiction over the public school system in the City. The Board consists of seven members appointed by the Mayor of the City without consent or approval of the City Council. The Board of Education adopts the budget, approves contracts (including collective bargaining agreements), levies real property taxes and establishes general policies of the public schools (the "School District").

The Chicago School Finance Authority (the "School Finance Authority") was created in 1980 by the Illinois General Assembly and is a body politic and corporate that has previously issued bonds on behalf of the Board of Education.

The Chicago Park District (the "Park District") is responsible for the maintenance and operation of parks, boulevards, marinas, and certain other public property within the City. The Park District is governed by a seven-member board, appointed by the Mayor of the City, with the approval of the City Council.

Community College District No. 508 (the "Community College District") maintains a system of community colleges within the City of Chicago. The Community College District is governed by a seven-member board, appointed by the Mayor of the City, with the approval of the City Council.

Certain Other Public Bodies

The Public Building Commission of Chicago (the "PBC") is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental units. The PBC issues bonds to finance its projects and leases its facilities to the respective units of local government. At the present time the City, the Park District, the Board of Education and the Community College District lease facilities from the PBC. The Mayor of the City, with the approval of the City Council, appoints 6 of the 11 members of the PBC Board. The presiding officers of the District, the County, the Forest Preserve District, the Park District and the Board of Education, with the approval of their respective governing bodies, each appoint one member. The Chairman is elected by the PBC Board. The PBC has no authority to levy real property or other taxes.

The Regional Transportation Authority (the "RTA") is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six county area of northeastern Illinois, including the County. The RTA is governed by a 13-member board. Four members are appointed by the Mayor of the City with the approval of the City Council. The fifth City representative is the Chairman of the CTA (as defined below). Four members are appointed by the Commissioners of the County Board elected from districts a majority of the electors of which reside outside of Chicago. One member is appointed by the Chairman of the DuPage County Board with the approval of the DuPage County Board and two members are appointed by the joint determination of the Chairmen of the county boards of Kane, Lake, McHenry and Will Counties. The thirteenth member, who is the Chairman of the RTA, is appointed by the other twelve members by a three-fourths vote. The RTA is primarily funded from sales taxes imposed by the RTA on sales in the six county area and a portion of sales taxes imposed by the State. The RTA is also authorized to impose, but does not currently impose, taxes on automobile rentals, motor fuel and offstreet parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes. The RTA may not levy real property taxes.

The Chicago Transit Authority (the "CTA") is a municipal corporation empowered to acquire, construct, own, operate and maintain a transportation system in the metropolitan area of the County. The CTA is governed by a seven-member board, four members appointed by the Mayor of the City with the approval of the City Council, and three members appointed by the Governor with the approval of the State Senate. The CTA board elects from its members a Chairman for a term of three years. The CTA may not levy real property or other taxes.

The Metropolitan Pier and Exposition Authority (the "MPEA"), formerly known as the Metropolitan Fair and Exposition Authority, is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and the Navy Pier recreational facilities. MPEA periodically issues revenue bonds to finance the construction of certain facilities. MPEA is governed by a 12-member board, six of whom are appointed by the Governor with the approval of the State Senate and six of whom are appointed by the Mayor of the City. The Chairman of MPEA is appointed by the Mayor of the City with the consent of the Governor, and the Chief Executive Officer is appointed by the Governor with the consent of the Mayor of the City. MPEA is authorized to impose certain taxes to provide security for the bonds issued to finance the expansion of McCormick Place. The MPEA may not levy real property taxes.

Interrelationships

The governmental units and other public bodies described above share, in varying degrees, a common property tax base with the District. See "DEBT INFORMATION." However, they are all separate legal and financial units, and the financial condition or circumstances of any one unit does not necessarily imply similar financial conditions or circumstances for the District.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

All of the "Equalized Assessed Valuation" (described below) of taxable real property in the District is located in the County. Information under this caption describes the current procedures for real property assessment, tax levy and tax collection in the County. There is no assurance that the procedures described under this caption will not be changed. Illinois laws relating to the real property taxation are contained in the Illinois Property Tax Code (the "Property Tax Code.

Assessment

The Cook County Assessor (the "County Assessor") is responsible for the assessment of all taxable real property within the County except for certain railroad property and pollution control facilities which are assessed directly by the State. One third of the County is presently reassessed each year on a repeating triennial schedule established by the Assessor. Suburbs in the northern and northwestern portions of the County were last reassessed in 2004, suburbs in the southern and southwestern portions of the County were last reassessed in 2005 and the City was last reassessed in 2006. Suburbs in the northern and northwestern portions of the County are to be reassessed in 2007.

Real property in the County is separated into nine classifications for assessment purposes. After the County Assessor establishes the fair market value of a parcel of property, that value is multiplied by the appropriate classification percentage to arrive at the Assessed Valuation for the parcel. The classification percentages range from 16% for certain residential, commercial and industrial property to 36% and 38%, respectively, for other industrial and commercial property.

The County Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the County Assessor certifies the Assessed Valuations, a taxpayer can seek review of the assessment by the Cook County Board of Review. The Board of Review has the power to review and adjust Assessed Valuations set by the County Assessor.

In addition owners of real property can also appeal assessments to the Illinois Property Tax Appeal Board (the "PTAB"), a state-wide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Taxpayers may appeal decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County. Objections filed in the Circuit Court of Cook County are reviewed pursuant to procedures similar to the judicial review procedure that has been in place for some time, but with a different standard of proof than that previously required. In addition, subject to certain time limits, in cases where the County Assessor agrees that an assessment error has been made after the assessment process is complete, the County Assessor can correct the Assessed Value, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

In a series of recent PTAB decisions, the PTAB reduced the assessed valuations of certain commercial and industrial property in the County based upon the application of median levels of assessment derived from Illinois Department of Revenue sales-ratio studies instead of utilizing the assessment percentages provided in the Cook County Real Property Assessment Classification Ordinance (the "Classification Ordinance"). On appeal, the Illinois Appellate Court determined that it was improper for the PTAB, on its own initiative, to use the sales-ratio studies when such studies were not raised as an issue by the taxpayer before the Board of Review or in its appeal to the PTAB.

The Appellate Court decisions do not preclude a taxpayer in a properly presented case from introducing into evidence sales-ratio studies for the purpose of obtaining an assessment below that which would result from application of the Classification Ordinance. No prediction can be made whether any currently pending or future case would be successful.

Despite any potential short-term impact on the District's general revenues, the long-term impact to the District of court decisions that lower assessed values of certain properties based upon sales-ratio studies is anticipated to be negligible because these decisions do not question the District's ability to levy or collect real property taxes or the amount of the District's real property tax levy.

Equalization

After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year (including any revisions made by the Board of Appeals or the Board of Review), the Illinois Department of Revenue reviews the assessments and determines an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county. The purpose of equalization is to bring the aggregate assessed value of all real estate in each county to the statutory requirement of 33-1/3 percent of fair cash value. Adjustments in Assessed Valuation made by the PTAB or the courts are not reflected in the Equalization Factor. For tax year 2005, the Equalization Factor for the County was 2.7320. The Assessed Valuation of each parcel of real estate in the County is multiplied by the County's Equalization Factor to determine the parcel's equalized assessed valuation (the "Equalized Assessed Valuation").

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base").

The following table sets forth the Equalization Factors for the last ten years.

Tax Year	Equalization Factor
2005	2.7320
2004	2.5757
2003	2.4598
2002	2.4689
2001	2.3098
2000	2.2235
1999	2.2505
1998	2.1799
1997	2.1489
1996	2.1517

Tax bills in Cook County are based on the Assessment Base for the preceding year. Property taxes to be billed in 2007 (for the 2006 tax year) will be based on the 2006 Equalized Assessed Valuation.

Exemptions

The annual General Homestead Exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of $5,000. Additional exemptions exist for (i) senior citizens, with the exemption operating annually to reduce the Equalized Assessed Valuation on a senior citizen's home by a minimum of $3,000 and (ii) disabled veterans, with the exemption operating annually to exempt up to $58,000 of the Assessed Valuation of property owned and used exclusively by such veterans or their spouses for residential purposes. A Homestead Improvement Exemption allows owners of single family residences to make up to $75,000 in home improvements without increasing the Assessed Valuation of their property for at least four (4) years. For rehabilitation of certain historic property, the Equalized Assessed Valuation is limited for eight (8) years to the value of such property when the rehabilitation work began. The Senior Citizens Tax Freeze Homestead Exemption was enacted in 1994 and freezes property tax assessments for homeowners who are 65 and older and have annual incomes of $45,000 or less. In general, the exemption limits the annual real property tax bill of such property by granting to senior citizens an exemption as to a portion of the valuation of their property. The exempt amount is the difference between the current Equalized Assessed Valuation of their residence and the Equalized Assessed Valuation of their residence for the year prior to the year in which the senior citizen first qualifies and applies for the exemption (plus the Equalized Assessed Valuation of improvements since such year). In addition, certain property is exempt from taxation on the basis of ownership and/or use such as public parks, public schools, churches, and not for profit and public hospitals.

On July 12, 2004, the Governor of the State signed into law a bill (the "2004 Amendment") that, among other things, amends the Property Tax Code to permit each county in the State, by enacting an ordinance within six months of the effective date of the law, to limit future increases in the Assessed Valuation of residential property in such county to an annual increase of not more than seven percent per year. The County has adopted such an ordinance. The limitation on increases in Assessed Valuation will expire for all real property subject to the District's tax levy not later than the 2007 assessment year. The 2004 Amendment limits the rate at which the assessed value of residential real property may be increased in the next several assessment years, and grants some permanent tax relief to residential property owners by increasing the amount of certain exemptions. The relief granted to these taxpayers is expected to shift the tax burden to residential properties that have not had significant increases in assessed valuation and to industrial, commercial and other non-residential properties the assessments of which are not limited by the law. These changes do not alter the contractual obligation of the District, or the statutory power of the District, to levy property taxes without limitation as to rate for the punctual payment of the principal of and interest on the Bonds as the same shall become due and payable. Accordingly, any reduction in the aggregate equalized assessed valuation of all property subject to taxation for the payment of the Bonds would be offset by an increase in the rate of tax imposed for the payment of the Bonds.

In October 2004, the Chicagoland Chamber of Commerce, along with multiple other plaintiffs, filed a Complaint for Declaratory and Injunctive Relief in the Circuit Court of Cook County, requesting the Court to enter an order declaring the 2004 Amendment unconstitutional and enjoining the application and enforcement of its provisions, *The Chicagoland Chamber of Commerce, et al. v. Maria Pappas, et al.*, 04 CH 16874. In April 2005, the Circuit Court granted the defendants' motion to dismiss the plaintiffs' complaint. The plaintiffs have filed an appeal, which is pending. The District is not a party to the lawsuit and the outcome of the lawsuit is not expected to have a material impact on the District's general revenues. If the alternative homestead exemption law is allowed to sunset without further extension, the general homestead exemption currently in effect will apply thereafter.

Additionally, since 1996 counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, longtime, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. As of this date, the County has not established such a property tax exemption, but could establish one in the future.

Tax Levy

There are over 800 units of local government (each a "Unit") located in whole or in part in the County which have taxing powers. The major Units having taxing power over property within the County are the District, the County, the Forest Preserve District, the City, the Park District, the Finance Authority, the Board of Education and the Community College District.

As part of the annual budgetary process of the major Units, proceedings are adopted by the designated body for each Unit each year in which they determine to levy real estate taxes. The tax levy proceedings impose their respective real estate taxes in terms of a dollar amount. Each Unit certifies its real estate tax levy, as established by the proceedings, to the Cook County Clerk (the "County Clerk"). The remaining administration and collection of the real estate taxes is statutorily assigned to the County Clerk and the County Treasurer, who is also the County Collector (the "County Collector").

After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit by dividing the levy of each Unit by the Assessment Base of the respective Unit. If any tax rate thus calculated or any component of such a tax rate (such as a levy for a particular fund) exceeds any applicable statutory rate limit, the County Clerk disregards the excessive rate and applies the maximum rate permitted by law.

The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all of the Units having jurisdiction over the particular parcel. The County Clerk enters the tax determined by multiplying the total tax rate by the Equalized Assessed Valuation of that parcel in the Warrant Books prepared for the County Collector along with the tax rates, the Assessed Valuation and the Equalized Assessed Valuation. The Warrant Books are the County Collector's authority for the collection of taxes and are used by the County Collector as the basis for issuing tax bills to all property owners.

The Illinois Truth in Taxation Act (the "Taxation Act") imposes procedural limitations on a Unit's real estate taxing powers, and requires notice in prescribed form to be published if the aggregate annual levy (exclusive of levies for debt service and election costs) is estimated to exceed 105% of the extension of the preceding year. A public hearing must also be held, which may not be simultaneous with the budget hearing of the taxing district. No amount in excess of 105% of the preceding year's extension may be used as the basis for issuing tax bills to property owners unless the levy is accompanied by a certification of compliance with the foregoing procedures. Tax increases must also comply with the limits of the Tax Extension Limitation Law. The Taxation Act does not impose any limitation on the rate or the amount of the levy to pay principal of and interest on the District's general obligation bonds.

Collection

Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year are extended and become payable during the following year in two installments, the first due on March 1 and the second on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, Assessed Valuation and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Taxes on railroad real property used for transportation purposes are payable in one lump sum on the same date as the second installment. The following table sets forth the second installment penalty date (that is the date after which interest is due on unpaid amounts) for the last ten years; the first installment penalty date has been March 1 for all years.

Tax Year	Second Installment Penalty Date
2005	September 1, 2006
2004	November 1, 2005
2003	November 15, 2004
2002	October 1, 2003
2001	November 1, 2002
2000	November 1, 2001
1999	October 1, 2000
1998	November 1, 1999
1997	October 28, 1998
1996	September 19, 1997

During periods of peak collections, the County Collector, as recipient of tax collections, forwards tax receipts to each Unit, including the District, on no less than a weekly basis. Upon receipt of taxes from the County Collector, the District Treasurer, as holder of District funds, promptly credits the taxes received to the funds for which they were levied.

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court, and applies for a judgment for all unpaid taxes. The court order resulting from the application for judgment provides for an annual tax sale (the "Annual Tax Sale") of unpaid taxes shown on that year's Warrant Books. A public sale is held, at which time successful tax buyers pay the unpaid taxes plus penalties. Unpaid taxes accrue penalties at the rate of 1.5% per month from their due date until the date of sale. Taxpayers can redeem their property by paying the amount paid at the sale, plus a maximum of 18% for each six-month period after the sale. If no redemption is made within two years, the purchaser receives a deed to the property. In addition, there are miscellaneous statutory provisions for foreclosure of tax liens.

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited and the lien is eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes and interest to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale.

The scavenger sale (the "Scavenger Sale"), like the Annual Tax Sale, is a sale of property with unpaid taxes. The Scavenger Sale is scheduled to be held every two years on all property on which two or more years' taxes are delinquent. The sale price of the property is the amount bid at such sale, which may be less than the amount of delinquent taxes. Redemption periods vary from six months to two and one-half years, depending upon the type and occupancy of the property.

The annual appropriation ordinance of the District has a provision for an allowance for uncollectible taxes. The District reviews this provision annually and makes adjustments according to collection experience. The allowance for uncollectible taxes was 2.5% for levy years 1990 through 2000, 2.0% for levy year 2001, and 3.0% for levy year 2002. The allowance for uncollectible taxes for levy years 2003 through 2006 was 3.5%.

Property Tax Extension Limitation Law and Debt Reform Act

On February 12, 1995, Public Act 89-1 extended the provisions of the Tax Extension Limitation Law to non-home rule taxing districts in the County, including the District. The Tax Extension Limitation Law limits the annual growth in property tax extensions for the District to (i) 5% for taxes extended in 1995, and (ii) the lesser of 5% or the percentage increase in the Consumer Price Index for All Urban Consumers during the calendar year preceding the relevant levy year for taxes extended in years after 1995. Generally, extensions can be increased beyond this limitation to reflect construction of new property within the taxing district or pursuant to a referendum approval of tax or limitation rate increases.

The effect of the Tax Extension Limitation Law is to limit the growth in the amount of property taxes that can be extended for the taxing body. The Tax Extension Limitation Law also limits the ability of the District to issue its general obligation bonds secured by unlimited tax levies in the future; these limitations on the extensions of property taxes contained in the Tax Extension Limitation Law do not apply to the taxes levied by the District (i) to pay the principal of and interest on its outstanding general obligation bonds issued prior to March 1, 1995; (ii) to pay the principal of and interest on bonds issued to refund or continue to refund those bonds issued before March 1, 1995; (iii) to pay the principal of and interest on bonds to finance construction projects initiated prior to October 1, 1991 (consisting primarily of the TARP projects as described in APPENDIX B); or (iv) to pay interest or principal on bonds issued to refund or continue to refund bonds issued after March 1, 1995 that are approved by referendum.

The Debt Reform Act permits units of local government, including the District, to issue limited tax bonds that have otherwise been authorized by applicable law. The base for such bond issues is the debt service extension for the levy year 1994. The District could also increase its debt service extension base by referendum. Under legislation enacted in 1997, the Tax Extension Limitation Law was amended so that the issuance of bonds by the District to construct construction projects initiated before October 1, 1991, including the TARP projects, will not reduce the District's ability to issue limited tax bonds for other major capital projects.

The Tax Extension Limitation Law requires the County Clerk, in extending taxes for Units in the County, including the District, to use the equalized assessed value of all property within the taxing district for the levy year prior to the levy year for which taxes are then being extended.

TAXATION OF PROPERTY WITHIN DISTRICT – STATISTICAL INFORMATION

Equalized Assessed Valuation by Major Classification
(amounts in thousands)

Year of Levy	Real Property	Railroad and Environmental Protection Property	Total
2005	$130,438,124	$148,797	$130,586,921
2004	118,889,944	148,616	119,038,560
2003	110,120,812	145,816	110,266,628
2002	102,405,543	431,822	102,837,365
2001	92,500,093	404,997	92,905,090
2000	85,149,867	367,141	85,517,008
1999	80,527,449	337,206	80,864,655
1998	76,439,045	314,017	76,753,062
1997	73,550,010	310,941	73,860,951
1996	70,874,093	302,155	71,176,248

Source of data: Office of County Clerk

Equalized Assessed Valuation – Chicago and Suburbs
(amounts in thousands)

Year of Levy	Chicago	Suburbs	Total
2005	$59,304,530	$71,282,391	$130,586,921
2004	55,277,096	63,761,464	119,038,560
2003	53,168,632	57,097,996	110,266,628
2002	45,330,892	57,506,473	102,837,365
2001	41,981,912	50,923,178	92,905,090
2000	40,480,075	45,036,933	85,517,008
1999	35,354,802	45,509,853	80,864,655
1998	33,940,146	42,812,916	76,753,062
1997	33,349,557	40,511,394	73,860,951
1996	30,765,001	40,411,247	71,176,248

Source of data: Office of County Clerk

Estimated Full Value – Chicago and Suburbs
(amounts in thousands)

Year of Levy	Chicago	Suburbs	Total
2004	$262,080,627	$279,861,423	$541,942,050
2003	223,572,427	248,399,242	471,971,669
2002	201,938,231	226,167,677	428,105,908
2001	185,912,246	206,294,563	392,206,809
2000	162,593,364	186,372,891	348,966,255
1999	135,522,333	173,910,877	309,433,210
1998	122,726,446	165,036,400	287,762,846
1997	111,679,906	159,513,087	271,192,993
1996	106,622,485	154,582,101	261,204,586

Source of data: The Civic Federation, Chicago, Illinois (Based upon information from the Illinois Department of Revenue.)
Information obtained from the Civic Federation after publication date of the District's 2005 CAFR. Amounts differ from those presented in the CAFR, and represent the most current Estimated Full Values. 2005 data not available.

Comparative Tax Rates of Major Local Governmental Units
(Per $100 Equalized Assessed Valuation)

	Tax Years (1)							
	2005	2004	2003	2002	2001	2000	1999	1998
Metropolitan Water Reclamation District	$0.315	$0.347	$0.361	$0.371	$0.401	$0.415	$0.419	$0.444
City of Chicago	1.153	1.188	1.262	1.452	1.478	1.498	1.673	1.812
Chicago Board of Education	3.026	3.104	3.142	3.562	3.744	3.714	4.104	4.172
Chicago Park District	0.443	0.455	0.439	0.515	0.546	0.557	0.627	0.653
County of Cook	0.533	0.593	0.630	0.690	0.746	0.824	0.854	0.911
Cook County Forest Preserve District	0.060	0.060	0.059	0.061	0.067	0.069	0.07	0.072
Community College District #508	0.234	0.242	0.246	0.280	0.307	0.311	0.347	0.354
Chicago School Finance Authority	0.127	0.177	0.151	0.177	0.223	0.223	0.255	0.268
City of Chicago Library Fund	0.090	0.114	0.118	0.139	0.159	0.162	0.187	0.186
Total	$5.981	$6.280	$6.408	$7.247	$7.671	$7.773	$8.536	$8.872

Source of data: Office of County Clerk

(1) Based upon taxes extended for collection in succeeding years as a percentage of the Equalized Assessed Valuation for the tax year.

Metropolitan Water Reclamation District Tax Rates by Fund
(Per $100 Equalized Assessed Valuation)

	Tax Years							
	2005	2004	2003	2002	2001	2000	1999	1998
Corporate Fund	$0.158	$0.167	$0.163	$0.164	$0.171	$0.179	$0.175	$0.190
Retirement Fund	0.018	0.024	0.024	0.024	0.027	0.027	0.033	0.029
Debt Service Fund	0.113	0.139	0.143	0.145	0.158	0.151	0.151	0.170
Reserve Claim Fund	0.004	0.004	0.004	0.004	0.004	0.005	0.005	0.005
Corporate Working Cash Fund	–	–	0.004	0.004	0.004	0.005	0.005	0.005
Construction Fund	0.014	0.013	0.023	0.030	0.037	0.043	0.045	0.041
Construction Working Cash Fund	–	–	–	–	–	0.005	0.005	0.004
Stormwater Management Fund	0.008	–	–	–	–	–	–	–
Total	$0.315	$0.347	$0.361	$0.371	$0.401	$0.415	$0.419	$0.444

Source of data: Office of County Clerk

Statutory Tax Rate Limitation by Fund
(Per $100 Equalized Assessed Valuation)

Corporate Fund	$0.410
Retirement Fund (1)	Unlimited
Debt Service Fund (1)	Unlimited
Reserve Claim Fund (2)	0.005
Corporate Working Cash Fund	0.005
Construction Fund	0.100
Construction Working Cash Fund	0.005
Stormwater Management Fund	0.050

Source of data: Office of County Clerk

(1) Subject to the provisions of the Tax Extension Limitation Law. See "REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES – Tax Extension Limitation Law and Debt Reform Act."

(2) Subject to maximum accumulated value of $0.05.

Tax Levies, Collections, and Receivables *(1)*
(amounts in thousands)

	2006			2005			2004			2003			2002		
	Amount	**% of Levy**	**% of APT *(2)***	**Amount**	**% of Levy**	**% of APT *(2)***	**Amount**	**% of Levy**	**% of APT *(2)***	**Amount**	**% of Levy**	**% of APT *(2)***	**Amount**	**% of Levy**	**% of APT *(2)***
Gross Property Tax Levy:															
Corporate Fund	$213,500	52.9		$206,566	50.2		$198,676	48.2		$180,310	45.3		$168,279	44.2	
Construction Fund	17,766	4.4		17,940	4.4		14,847	3.6		25,170	6.3		30,702	8.0	
Debt Service Fund	126,036	31.2		147,281	35.8		166,152	40.2		157,334	39.5		149,169	39.1	
Retirement Fund	25,072	6.2		23,598	5.7		28,247	6.8		25,958	6.5		24,825	6.5	
Stormwater Management Fund	15,508	3.8		10,451	2.5		–	0.0		–	0.0		–	0.0	
Corporate Working Cash Fund	–	0.0		–	0.0		–	0.0		4,645	1.2		4,276	1.1	
Reserve Claim Fund	5,957	1.5		5,513	1.3		5,142	1.2		4,645	1.2		4,276	1.1	
Total Gross Property Tax Levy	$403,839	100.0		$411,349	100.0		$413,064	100.0		$398,062	100.0		$381,527	100.0	
Less Allowance for Estimated Uncollectible Taxes	14,134	3.5		14,397	3.5		14,451	3.5		13,933	3.5		11,446	3.0	
Anticipated Property Tax Collections	$389,705	96.5	100.0	$396,952	96.5	100.0	$398,613	96.5	100.0	$384,129	96.5	100.0	$370,081	97.0	100.0
Property Tax Collected:															
First Year	$ –	0.0	–	$398,343	96.8	100.4	$399,017	96.6	100.1	$375,549	94.3	97.8	$369,667	96.8	99.9
Second Year							11,002	2.7	2.8	19,361	4.9	5.0	7,459	2.0	2.0
Third Year										(1,898)	(0.5)	(0.5)	(1,631)	(0.4)	(0.4)
Fourth Year													(575)	(0.2)	(0.2)
Fifth Year															
Total Property Tax Collected	$ –	–	–	$398,343	96.8	100.4	$410,019	99.3	102.9	$393,012	98.7	102.3	$374,920	98.3	101.3
Net Property Tax Receivable	$389,705	96.5	100.0	$ –			$ –			$ –			$ –		

Net Property Tax Receivable by Fund:	
Corporate Fund	$206,028
Construction Fund	17,144
Debt Service Fund	121,625
Retirement Fund	24,194
Stormwater Management Fund	14,965
Corporate Working Cash Fund	–
Reserve Claim Fund	5,749
Net Property Tax Receivable	$389,705

(1) As of December 31, 2006. Unaudited.
(2) Anticipated Property Tax Collections.

DEBT INFORMATION

(Unaudited)

The following tables set forth direct and overlapping debt applicable to the District as of December 31, 2006, adjusted to include the Bonds and exclude the 2002C Bonds and the 2002E Bonds refunded by the Bonds.

Direct Debt

	Amount
IEPA Preliminary Bonds	$ 16,068,500
General Obligation Bonds Outstanding (Includes IEPA Loans)	1,579,401,177
Less: Refunded 2002C Bonds and 2002E Bonds	(203,900,000)
Plus: The Bonds	188,315,000
Total Direct Debt	$1,579,884,677

Estimated Overlapping Bonded Debt (1) (as of December 31, 2006)

	Bonded Debt (2)	Percent Applicable (3)	Amount Applicable
City of Chicago	$5,768,630,155	100.00%	$5,768,630,155
Chicago Board of Education	4,652,371,000 (4)	100.00%	4,652,371,000 (4)
Chicago School Finance Authority	268,075,000	100.00%	268,075,000
Chicago Park District	842,660,000 (4)	100.00%	842,660,000 (4)
City Colleges	50,935,000	100.00%	50,935,000
Cook County	3,019,350,000	97.91%	2,956,245,585
Cook County Forest Preserve District	127,185,000	97.91%	124,526,834
Total Net Overlapping Debt (5)			$14,663,443,574
Total Direct and Net Overlapping Debt (5)			$16,243,328,251

(1) Excludes outstanding tax anticipation notes and warrants.
(2) Source: Each of the respective taxing districts.
(3) Based on 2005 EAVs; the most recent available. For 2005, the EAV from the portion of the District within the City of Chicago was $59,304,530,189.
(4) Includes approximately $4,202,885,504 and $334,695,000 of general obligation bonds of the Chicago Board of Education and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources. An ad valorem property tax levy is filed in an amount sufficient to pay debt service on the alternate revenue bonds. When sufficient revenues have accumulated to pay annual debt service on the alternate revenue bonds, the property tax levy is abated. To date, alternate revenues have been available in amounts sufficient to pay principal and interest coming due on the alternate revenue bonds issued by the Chicago Board of Education and the Chicago Park District.
(5) Does not include debt issued by other taxing authorities located in Cook County.

Selected Debt Ratios

	Per Capita (1)	% of Equalized Assessed Value (2)	% of Estimated Full Value (3)
Direct Debt	$293.84	1.21%	0.29%
Total Direct and Overlapping Debt (4)	$3,021.04	12.44%	3.00%

(1) 2000 Cook County Population: 5,376,741.
(2) 2005 Equalized Assessed Value: $130,586,921,450.
(3) 2004 Estimated Full Value: $541,942,050,000.
(4) Does not include debt issued by other taxing authorities located in Cook County not included under "Overlapping Bonded Debt."

Combined Schedule of Bonds Issued and Outstanding*

(as of December 31, 2006)
(amounts in thousands)

Series	Interest Rate	Final Maturity (1)	Annual Payments						Initial Principal	Amount Retired	Principal Outstanding
Capital Improvement											
June 1991	6.9	2007	2007	14,000 (2)					$200,000	$186,000	$14,000
December 2002 Unlimited C	5.375	2016	2013	6,100	2015	19,300			64,000	—	64,000
			2014	18,300	2016	20,300					
December 2002 Limited D	3.00-5.375	2013	2007	13,100	2010	15,100	2013	11,300	100,000	—	100,000
			2008	13,800	2011	15,800					
			2009	14,400	2012	16,500					
December 2002 Unlimited E	3.89	2022	2017	21,000	2019	24,000	2021	26,000	146,000	—	146,000
			2018	23,000	2020	25,000	2022	27,000			
July, 2006 Unlimited	5.00	2035	2034	50,000	2035	50,000			100,000		100,000
July, 2006 Limited	5.00	2033	2010	14,630	2018	11,770	2025	4,180	250,000		250,000
			2011	12,995	2019	11,945	2026	4,120			
			2012	12,380	2020	13,280	2027	2,135			
			2015	11,995	2021	12,105	2032	50,000			
			2016	11,515	2022	15,800	2033	50,000			
			2017	11,150							
IEPA Revolving Loan Fund Bonds	2.50-3.745	2026	2007	23,766	2014	23,543	2021	12,893	497,538	134,727	362,811
			2008	24,405	2015	22,246	2022	12,034			
			2009	25,062	2016	21,521	2023	11,138			
			2010	25,736	2017	20,989	2024	8,479			
			2011	26,429	2018	17,801	2025	4,844			
			2012	26,063	2019	16,085	2026	1,498			
			2013	25,066	2020	13,213					
	Total Capital Improvement and IEPA Revolving Loan Fund								$1,357,538	$320,727	$1,036,811
Refunding											
August 1992 (3)	5.9-6.05	2009	2007	19,200	2008	14,900	2009	15,400	$188,700	$139,200	$49,500
March 1993 (4)	6.50	2007	2007	20,025					224,360	204,335	20,025
July 1997 (5)	4.7-5.50	2014	2007	375	2010	200	2013	21,000	116,325	40,650	75,675
			2008	15,400	2011	200	2014	22,100			
			2009	16,200	2012	200					
May, 2006 Unlimited (6)	5.00	2031	2023	31,860	2026	36,535	2029	41,935	346,600	—	346,600
			2024	33,335	2027	38,255	2030	43,795			
			2025	34,895	2028	40,055	2031	45,935			
May, 2006 Limited (6)	5.00	2031	2023	5,035	2026	5,480	2029	5,985	50,790	—	50,790
			2024	5,165	2027	5,645	2030	6,050			
			2025	5,315	2028	5,820	2031	6,295			
	Total Refunding								$926,775	$384,185	$542,590
	Total — All Series								$2,284,313	$704,912	$1,579,401

(Footnotes appear on the following page.)

*Unaudited

(1) Bonds issued prior to August 1992 mature on January 1 of the years indicated. Bonds issued on or after August 1992 mature on December 1 of the years indicated, except IEPA Revolving Loan Fund Bonds which mature semiannually on January 1 and July 1.

(2) Term Bonds maturing January 1, 2007.

(3) Seven bond issues were fully or partially refunded by August 1992 Refunding Bond Issue as provided below:

$21,300,000	Capital Improvement, October 1985, maturing 1996-2000, called January 1, 1995, at 102%.
$2,980,000	Refunding, December 1985, maturing 2003, called January 1, 2000, at 100%.
$27,555,000	Refunding, June 1986, maturing 2000-2004, called January 1, 1998, at 100%.
$80,400,000	Capital Improvement, March 1989, maturing 2002-2008, called January 1, 1998, at 100%.
$17,400,000	Capital Improvement, November 1990, maturing 2009-2010, called January 1, 2000, at 102%.
$3,050,000	Corporate Working Cash, November 1990, maturing 2009 and 2010, called January 1, 2000, at 102%.
$15,000,000	Capital Improvement, June 1991, partial maturities 2008 and 2011.

(4) Six bond issues were partially refunded by March 1993 Refunding Bond Issue as provided below:

$26,800,000	Capital Improvement, May 1986, maturing 1996-2001, called January 1, 1996, at 102%.
$56,600,000	Capital Improvement, June 1988, maturing 1996-2008, called January 1, 1998, at 102%.
$44,300,000	Capital Improvement, March 1989, maturing 1996-2001, called January 1, 1999, at 100%.
$9,750,000	Corporate Working Cash, November 1990, maturing 1996-2000, 2005-2008, called January 1, 2000, at 102%.
$51,300,000	Capital Improvement, November 1990, maturing 1996-2000, 2004-2008, called January 1, 2000, at 102%.
$11,500,000	Capital Improvement, June 1991, partial maturity 2011.

(5) Three bond issues were partially refunded by July 1997 Refunding Bond Issue as provided below:

$19,970,000	Refunding, December 1985, maturing 1998 and 2000 at 100%.
$14,400,000	Capital Improvement, November 1990, maturing 2002-2004, called January 1, 2000, at 102%.
$73,765,000	Capital Improvement, January 1995, maturing 2008-2009 and 2014, callable December 1, 2005, at 100%.

(6) Two refunding bond issues were refunded by May 2006 Refunding Bond Issue Unlimited and Limited as provided below:

$363,000,000	Variable Rate General Obligation Refunding Bonds, Unlimited Tax Series A of June 2002 (7)
$53,000,000	Variable Rate General Obligation Refunding Bonds, Limited Tax Series B of June 2002 (7)

(7) Five bond issues were partially refunded by June 2002 Refunding Bond Issue Unlimited Series A and Limited Series B as provided below:

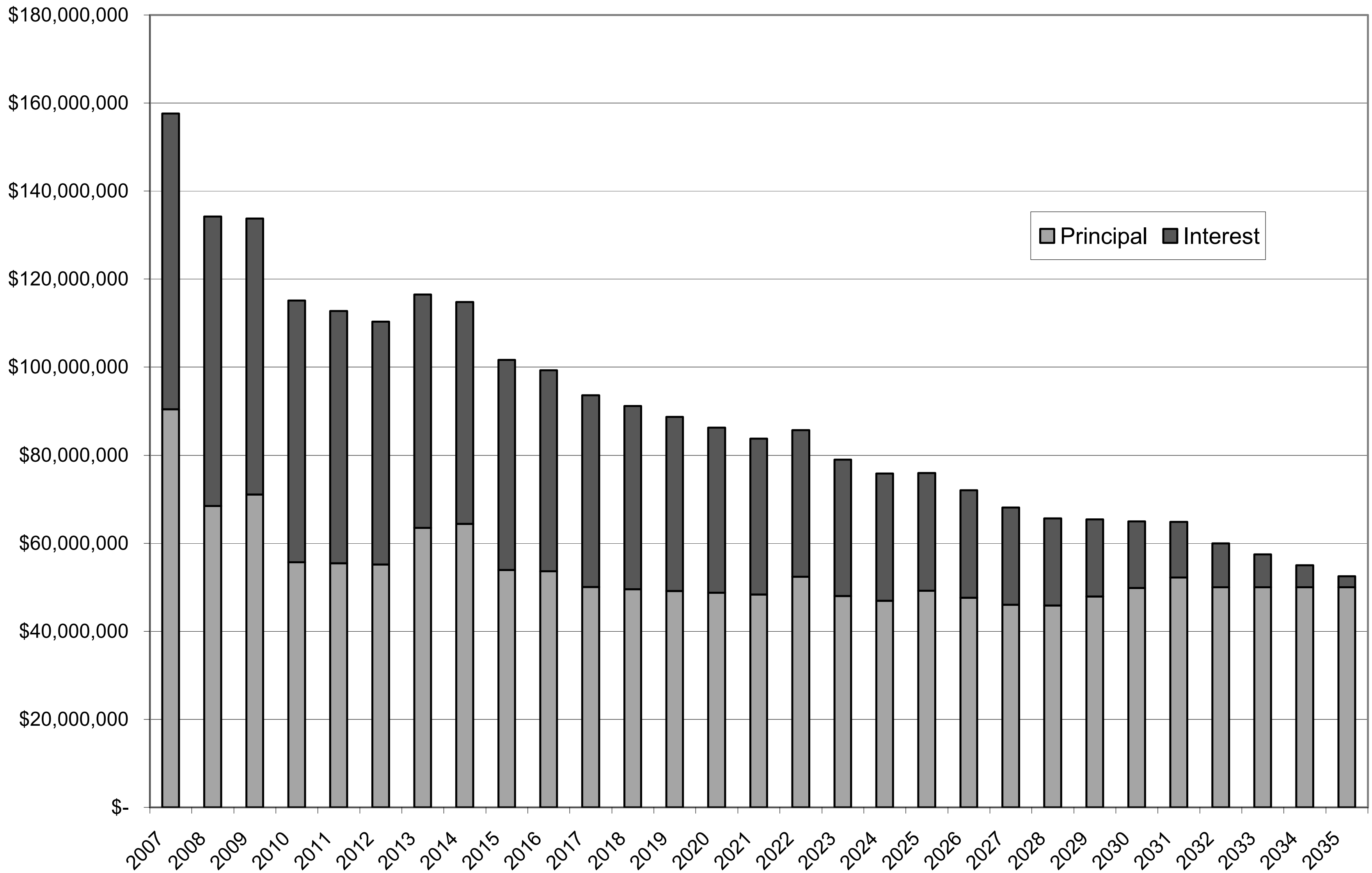
$39,950,000	Capital Improvement, June 1991, maturing 2008 and 2011.
$145,500,000	Capital Improvement, March 1993, maturing 2008-2010 and 2012.
$68,415,000	Capital Improvement, January 1995, maturing 2007 and 2010-2012.
$100,000,000	Capital Improvement, Unlimited Series June 2001 A, maturing 2008-2014 at 100%, callable December 1, 2012, at 101%.
$20,510,000	Capital Improvement, Limited Series June 2001 B, maturing 2007-2008.

General Obligation Bonded Debt Service Schedule (1)
(Amounts in thousands; as of December 31, 2006)

Year	Bonds Outstanding (2)			The Bonds			Total			% Principal Retired	
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Annual	Cumulative
2007	$ 90,465,785	$ 60,683,430	$ 151,149,215	$ —	$ 6,458,854	$ 6,458,854	$ 90,465,785	$ 67,142,284	$ 157,608,069	5.8%	5.8%
2008	68,504,808	56,452,808	124,957,617	—	9,300,750	9,300,750	68,504,808	65,753,558	134,258,367	4.4%	10.2%
2009	71,061,369	53,395,248	124,456,617	—	9,300,750	9,300,750	71,061,369	62,695,998	133,757,367	4.5%	14.7%
2010	55,665,961	50,182,957	105,848,917	—	9,300,750	9,300,750	55,665,961	59,483,707	115,149,667	3.6%	18.3%
2011	55,424,092	48,022,326	103,446,418	—	9,300,750	9,300,750	55,424,092	57,323,076	112,747,168	3.5%	21.8%
2012	55,142,809	45,897,558	101,040,367	—	9,300,750	9,300,750	55,142,809	55,198,308	110,341,117	3.5%	25.3%
2013	63,466,396	43,764,427	107,230,823	—	9,300,750	9,300,750	63,466,396	53,065,177	116,531,573	4.1%	29.4%
2014	45,642,825	41,101,758	86,744,583	18,760,000	9,300,750	28,060,750	64,402,825	50,402,508	114,805,333	4.1%	33.5%
2015	34,241,344	39,356,170	73,597,514	19,675,000	8,402,750	28,077,750	53,916,344	47,758,920	101,675,264	3.4%	37.0%
2016	33,035,874	38,200,534	71,236,408	20,585,000	7,459,000	28,044,000	53,620,874	45,659,534	99,280,408	3.4%	40.4%
2017	32,139,167	37,082,451	69,221,618	17,955,000	6,439,750	24,394,750	50,094,167	43,522,201	93,616,368	3.2%	43.6%
2018	29,571,045	36,016,998	65,588,043	20,015,000	5,567,000	25,582,000	49,586,045	41,583,998	91,170,043	3.2%	46.8%
2019	28,030,236	34,987,101	63,017,337	21,125,000	4,566,250	25,691,250	49,155,236	39,553,351	88,708,587	3.1%	49.9%
2020	26,492,921	33,998,388	60,491,309	22,250,000	3,510,000	25,760,000	48,742,921	37,508,388	86,251,309	3.1%	53.0%
2021	24,998,205	32,998,885	57,997,090	23,395,000	2,397,500	25,792,500	48,393,205	35,396,385	83,789,590	3.1%	56.1%
2022	27,833,935	32,062,056	59,895,992	24,555,000	1,227,750	25,782,750	52,388,935	33,289,806	85,678,742	3.4%	59.5%
2023	48,032,733	30,977,409	79,010,143	—	—	—	48,032,733	30,977,409	79,010,143	3.1%	62.5%
2024	46,979,768	28,853,242	75,833,009	—	—	—	46,979,768	28,853,242	75,833,009	3.0%	65.5%
2025	49,234,112	26,737,987	75,972,099	—	—	—	49,234,112	26,737,987	75,972,099	3.1%	68.7%
2026	47,632,790	24,420,722	72,053,513	—	—	—	47,632,790	24,420,722	72,053,513	3.0%	71.7%
2027	46,035,000	22,095,250	68,130,250	—	—	—	46,035,000	22,095,250	68,130,250	2.9%	74.7%
2028	45,875,000	19,793,500	65,668,500	—	—	—	45,875,000	19,793,500	65,668,500	2.9%	77.6%
2029	47,920,000	17,499,750	65,419,750	—	—	—	47,920,000	17,499,750	65,419,750	3.1%	80.7%
2030	49,845,000	15,103,750	64,948,750	—	—	—	49,845,000	15,103,750	64,948,750	3.2%	83.9%
2031	52,230,000	12,611,500	64,841,500	—	—	—	52,230,000	12,611,500	64,841,500	3.3%	87.2%
2032	50,000,000	10,000,000	60,000,000	—	—	—	50,000,000	10,000,000	60,000,000	3.2%	90.4%
2033	50,000,000	7,500,000	57,500,000	—	—	—	50,000,000	7,500,000	57,500,000	3.2%	93.6%
2034	50,000,000	5,000,000	55,000,000	—	—	—	50,000,000	5,000,000	55,000,000	3.2%	96.8%
2035	50,000,000	2,500,000	52,500,000	—	—	—	50,000,000	2,500,000	52,500,000	3.2%	100.0%
	$1,375,501,177	$907,296,205	$2,282,797,381	$188,315,000	$111,134,104	$299,449,104	$1,563,816,177	$1,018,430,309	$2,582,246,485	100%	

(1) Unaudited.
(2) Excludes the $203,900,000 principal amount of Refunded 2002C and 2002E Bonds and $16,068,500 principal amount of Preliminary Bonds outstanding under the IEPA Revolving Loan Fund Program.

District General Obligation Bonded Debt Service
(Includes IEPA Debt)
As of December 31, 2006



Long-Term Contractual Obligation

In December 2000, the Board of Commissioners authorized the District to enter into a long-term contract with a contractor to design, build, finance, own, operate, and maintain a 150 dry ton per day biosolids processing facility at the District's Stickney Water Reclamation Plant. The contractor has obtained its own financing to design, build, and own the facility. Any loans or bonds used to finance the facility shall be non-recourse to the District and shall not use any of the District's bonding capacity to support the financing.

The original estimate of the time to permit, design, and build the facility was three years. Once completed and accepted for operation by the District, a 20-year operational contract will follow. The District will begin payment on the contract only after the facility is completed and accepted for operation. Operations are not expected to begin until mid-2007.

The payment to the contractor will be divided into two parts. The first is a facility fee of approximately $4.4 million per year for 19 years to pay for the facility. The facility will become the property of the District at the end of the contract. The second payment is a per ton cost for the processing and utilization of biosolids. The first year's estimated cost is $6.6 million (based on processing 150 tons per day of biosolids). This cost is subject to annual adjustments based on the Consumer Price Index, and monthly adjustments proportionate to the natural gas costs of the District.

The District has an option to purchase the facility at the end of the 5th, 10th, and 15th year of operation for the remaining principal portion of the debt. The Board of Commissioners has approved the contract at a cost not to exceed $217,169,090. Based upon current energy costs and expected inflation, the current cost estimate to complete the contract is $261,302,540. The contract estimate will be monitored over time, and if the cost to complete will exceed the approved contract amount, the Board of Commissioners will be requested to approve an increase in the contract value. The District expects that the facility payment will be made from the Capital Improvements Bond Fund while the processing and utilization costs will be paid from the General Corporate Fund. Under Illinois law this contract will constitute indebtedness includible within the District's 5.75% general debt limit once the facility is completed, but it will not be includable in the District's 3.35% non-referendum bonded debt limit.

As of December 31, 2005, the District had no liability, short-term or long-term, for rebatable arbitrage.

Debt Limits and Borrowing Authority

The Illinois General Assembly establishes the statutory debt limitations and borrowing authority of the District. Currently, such limits and authority are as follows:

Corporate Fund: To defray current operating expenses, 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 Corporate Fund portion of the Personal Property Replacement Tax allocation certified for distribution during the budget year through borrowing from the Corporate Working Cash Fund and issuance of tax anticipation notes or warrants.

Corporate Working Cash Fund: The fund may be used solely for the financing of Corporate Fund operations. The amount of non-referendum Corporate Working Cash Fund Bonds, which 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. At December 31, 2006, the District's remaining Corporate Working Cash Fund bond authorization is $252,862,768.

Construction Fund: The Illinois General Assembly has adopted legislation allowing the District to levy property taxes to fund construction of District facilities. In anticipation of the collection of such taxes, the District may issue tax anticipation notes or warrants in a total amount not to exceed 85% of its Construction Fund levy. In any tax year, the Construction Fund may borrow through the issuance of its tax anticipation notes or warrants plus loans from the Construction Working Cash Fund up to the aggregate total of 100% of its estimated or actual extended tax levy plus 100% of the Construction Fund allocation of the estimated Personal Property Replacement Tax distribution to be received in that tax year.

Construction Working Cash Fund: The fund may be used solely for the financing of Construction Fund operations. The maximum permitted balance, and the maximum amount of bonds which are authorized to be issued to provide such balance, is the total of 90% of the maximum permissible Construction Fund Tax Levy plus 90% of the last known Construction Fund entitlement to the Personal Property Replacement Tax. The District has reached its maximum authority to issue bonds to fund the Construction Working Cash Fund based upon the District’s 2005 equalized assessed valuation.

Capital Improvement Bonds: The maximum amount of non-referendum Capital Improvement Bonds which may be outstanding at any one time is 3.35% of the last known equalized assessed valuation of taxable property within the District. The Act authorizes the District to issue Capital Improvement Bonds through December 31, 2016. At December 31, 2006, the District’s outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding Corporate Working Cash bonds and State Revolving Fund bonds) of $1,216,590,000 did not exceed the limitation of $4,374,661,869.

Storm Water Management Fund: To meet ordinary disbursements for salaries and other storm water purposes, the District may fund up to 100% of the total estimated amount of taxes to be levied for storm water purposes through borrowings from the Storm Water Working Cash Fund. The District may issue bonds under Section 9.6a of the Metropolitan Water Reclamation Act for purposes of funding storm water management projects.

Storm Water Working Cash Fund: The fund may be used solely for the financing of storm water management fund operations. The District may transfer funds into the storm water working cash fund, in an amount not to exceed 100% of the amount produced by multiplying the maximum tax rate permitted for storm water purposes by the last known assessed valuation of all taxable property within the territorial boundaries of the District, as equalized and determined for state and local taxes.

Personal Property Replacement Tax Anticipation Notes: Pursuant to 50 ILCS 420/4.1(e) General Obligation Personal Property Replacement Tax Anticipation Notes may be issued in anticipation of receipt of such taxes, in an amount not to exceed 75% of the last known certified Personal Property Replacement Tax entitlement less the aggregate amount of such entitlement which the governing body estimates will be required to be set aside for the payment of the proportional amount of debt service and pension or retirement obligations as required by Section 12 of "An Act in relation to State revenue sharing with local government entities", approved July 31, 1969, as amended.

District Debt Limitation: The maximum amount of debt which the District may have outstanding at any time is 5.75% of the last known equalized assessed valuation of taxable property within the District. See "Calculation of Statutory Debt Margin" below.

The foregoing are impacted by the Tax Extension Limitation Law. See "REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES – Property Tax Extension Limitation Law and Debt Reform Act."

Calculation of Statutory Debt Margin
(amounts in thousands)

	December 31				
	2006 (4)	2005	2004	2003	2002
Equalized Assessed Valuation	$130,586,921(1)	$130,586,921	$119,038,560	$110,266,628	$102,837,365
Statutory Debt Limit (2)	$7,508,748	$7,508,748	$6,844,717	$6,340,331	$5,913,148
Calculation of Debt Applicable to Debt Limit:					
Principal Amount of Bonds Outstanding	$1,579,401	$1,280,569	$1,329,123	$1,363,739	$1,298,375
Bond Anticipation Notes (3)	48,238	48,238	90,473	94,245	26,162
Liabilities of Tax Financed Funds	31,143	29,621	35,933	35,298	34,117
Total Debt	$1,658,782	$1,358,428	$1,455,529	$1,493,282	$1,358,654
Less: Applicable Assets:					
Debt Service Funds Cash and Investments	$70,027	$127,860	$125,441	$129,600	$128,508
Interest Payable in the Next 12 Months	(69,485)	(55,119)	(60,902)	(63,488)	(62,325)
Total Applicable Assets	$542	$72,741	$64,539	$66,112	$66,183
Net Debt Applicable to Debt Limit	$1,658,240	$1,285,687	$1,390,990	$1,427,170	$1,292,471
Statutory Debt Margin	$5,850,508	$6,223,061	$5,453,727	$4,913,161	$4,620,677

(1) Estimated at 2005 EAV. As of this print the 2006 EAV has not yet been established.
(2) 5.75% of equalized assessed valuation.
(3) Consists of IEPA Preliminary Bonds.
(4) Estimated and unaudited.

CASH MANAGEMENT

Corporate Working Cash Fund

The delay of more than a year between appropriations and tax collections requires the District to provide interim financing for its corporate operations. A 1983 statutory change in the working cash fund's maximum limitation permitted expansion of the fund thereby allowing the District to use it as the sole outside source for funding corporate operating needs and making the future issuance of tax anticipation notes unnecessary. As of the date of this Official Statement, the District has no corporate notes outstanding.

By law, working cash funds are non-appropriable and all loans to the Corporate Fund must be repaid with tax receipts from the year against which such funds were borrowed, and any other available property tax and Personal Property Replacement Tax revenues received in the year. Illinois law provides that working cash fund loans not repaid within the second budget year following the year in which the loans were made shall be general obligations of the Corporate Fund which must be repaid.

Debt Service Funds

For accounting and legal purposes, the District has created and maintains a debt service fund for each issue of its bonds. At the time of the sale of each issue, the applicable fund is credited with accrued interest plus any premium received by the District. Amounts credited to the District's various debt service funds are invested on a consolidated basis; but such investments and earnings thereon are recorded in the appropriate investment inventory of the applicable fund. Payment of principal of and interest on each issue of the District's bonds is made directly from the applicable debt service fund.

Property taxes collected are allocated among the debt service funds to achieve total distribution to each in the proportion of its levy to the total levy in that year for debt service. Distributions of Personal Property Replacement Tax revenue are credited to the Retirement Fund as required by Statute, the Corporate Fund, and certain other funds proportionately as specified by the annual budget.

Investment of District Funds

The District is committed to a policy of maximizing the return on all funds available for investment within the constraints of its Investment Policy. Tax levies necessary for the operation of the District are in effect reduced in direct relation to the income earned on investments.

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 and Prime Funds; and (8) money market mutual funds and certain other instruments. 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 District invests funds in all of these categories over time, depending on their competitive interest rate structures. All certificates of deposit or time deposits are required to be collateralized with securities of the U.S. Government or letters of credit issued by the Federal Home Loan Bank in an amount equal to 110% or 102%, respectively, of the funds on deposit. All investment collateral is held in safekeeping in the District's name by financial institutions acting as the District's agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

The District attempts to match its investment maturities with anticipated cash flow requirements. All funds are invested for periods of one day to three years from date of purchase based upon cash flow requirements and interest rate projections. Investments are placed on the basis of bids received on a daily basis from banks and brokers.

Investments and Interest Income
(amounts in millions)

Fund	2006 (1)	2005	2004	2003	2002
Interest Income:					
Corporate	$ 7.0	$ 3.3	$ 1.4	$ 1.1	$ 1.6
Capital Improvement	16.7	10.1	5.3	7.2	10.1
Debt Service	5.7	5.2	3.0	4.4	3.3
Other	3.1	1.1	0.3	0.5	0.7
Total	$32.5	$19.7	$10.0	$13.2	$15.7
Aggregate Investments Purchased (at Par)	$5,851.2	$3,912.7 (2)	$10,824.7	$14,218.6	$19,403.2
Average Annual Return	5.0%	3.4%	2.2%	2.0%	2.9%

(1) Estimated and unaudited, cash basis only.
(2) Decrease in 2005 relates to change in reporting of money market investment activity. Prior to 2005, the money market balance was calculated as a purchase each day. Beginning in 2005, investment purchases for money market accounts are recorded as incurred.

FINANCIAL OPERATIONS

Description of Accounting Policies

The accounting system of the District is operated and maintained on a fund accounting basis. A "fund" is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, and residual equities or balances and change therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District's General Corporate Fund, Special Revenue Fund, Debt Service Fund, Capital Projects Fund, and Stormwater Management Fund are maintained using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when measurable and available to finance operations. Expenditures, other than interest on long-term debt, are recorded at the time liabilities are incurred. District expenditures for the payment of principal and interest on long-term debt are recognized when such debt is due and payable.

The fiduciary fund of the District is the Pension Trust Fund. Pension Trust Fund assets and liabilities are accounted for on the full accrual basis as capital maintenance is critical. All assets and liabilities of the Pension Trust Fund are recorded at market value.

Property taxes, user charge revenues and personal property replacement taxes are accrued to the extent that they are available to satisfy liabilities relating to the reporting period.

The District uses the modified approach to report its infrastructure assets, with the exception of the TARP deep tunnels and drop shafts which are depreciated. The District has implemented all applicable Governmental Accounting Standards Board (GASB) Statements through Statement No. 44.

District Retirement Fund

Attached hereto as APPENDIX C is an actuarial report relating to the District's Retirement Fund. Further information with respect to the Retirement Fund is contained in Note 7 to the basic financial statements attached hereto as APPENDIX A.

1. The Rule of 80 provides an undiscounted annuity for an eligible employee retiring earlier than the normal age (60) or service (30 years) if the employee's age and service at retirement combine to at least 80. The Rule of 80 replaced the Early Retirement Contribution (ERC) plan which required employees and the District to make significant contributions to the Fund at retirement to avoid the age/service discount for early retirement. No employee or employer contribution to the Fund is required under the Rule of 80. The Rule of 80 will expire on December 31, 2007.

2. The Optional Plan, effective January 1, 2003, allows a 10-year employee to make an additional contribution of 4% of salary to receive an additional benefit at retirement. For each year of optional contributions, the employee's annuity will increase by 1% of the final average salary. No employee may accrue more than 12 years of optional service credit under the plan. Under the plan, the District levies taxes two years later at a rate equal to the employee's optional contributions. The Optional Plan will expire on December 31, 2007.

The Rule of 80 increased the Fund's liability by approximately $3.3 million over the 5-year enactment period. By enacting legislation, however, the District saved approximately $12 million appropriated for ERC contributions in 2002. The new Optional Plan increased the Fund's liability by approximately $1.8 million over the 5-year enactment period. The District realized savings in the tax levy beginning in 2005, reflecting the reduction in the contributions multiplier for optional contributions from 2.19 to 1.0.

Other Post Employment Benefits

The District is required to comply with the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, beginning with fiscal year 2007. As a result the District will switch to an actuarial method of accounting and report the unfunded liability as well as the annual costs for Other Postemployment Benefits (OPEB), specifically retiree healthcare expenses, in its financial statements.

The District contracted with a consultant to perform an OPEB actuarial study. In July 2006, the Board of Commissioners adopted an OPEB Advance Funding Policy that will improve the District's financial position by reducing the amount of future employer contributions and will serve to establish a reserve to help ensure the financial ability to provide healthcare coverage for District retirees and annuitants in the future. The study on a preliminary basis could result in an OPEB actuarial liability of up to $583,000,000 for the Health Plan as of December 31, 2006.

BUDGETARY PROCEDURES

Budgetary Process

The District prepares its budget in conformity with practices prescribed or permitted by the applicable statutes of the State. A summary of the District's budgeting process can be found in the District's Combined Financial Statements attached hereto as APPENDIX A.

Comparative Budget Information

The following table summarizes the appropriations set forth in the annual budgets of the District for fiscal year 2007, as amended through December 31, 2006, and for 2006 as adjusted (in millions of dollars):

Appropriations (in millions)	2007	2006	Increase/ (Decrease)	Percent Change
Corporate Fund	362.3	316.8	45.5	14.4%
Stormwater Management	24.5	24.5	0.0	0.0
Construction Fund	42.6	49.0	(6.4)	(13.1)
Retirement Fund	30.9	26.0	4.9	18.7
Reserve Claim Fund	56.7	41.7	15.0	36.0
Capital Improvements Bond Fund	347.4	389.1	(41.6)	(10.7)
Bond Redemption and Interest Fund	160.2	191.7	(31.5)	(16.4)
Total	1,024.7	1,038.8	(14.2)	(1.4)

The total appropriation request for 2007 is $1,024.7 million, a decrease of $14.2 million. Major changes are presented below.

- The Corporate Fund appropriation, the District's operating fund, is $362.3 million, an increase of $45.5 million or 14.4% from 2006. The major reasons for the increase are increases in energy $(10.0 million), an equity transfer to abate a portion of the 2006 levy

($9.3 million), funding OPEB (Other Post-Employment Benefits) ($15.0 million) and cost of living salary adjustments ($2.3 million).

- The Stormwater Management Fund appropriation of $24.5 million will provide resources to continue work, studies, and investigations to implement Public Act 93-1049 and the development of the countywide stormwater management plan. The District will also be able to provide funding for projects approved by other regional, state and federal agencies.

- The Capital Improvements Bond Fund appropriation of $347.4 million is a decrease of $41.6 million and reflects the award pattern of major projects. Scheduled for award in 2007 are Tunnel and Reservoir Plan projects ($27.0 million), process facilities projects ($61.9 million), intercepting sewer projects ($32.2 million), and solids management projects ($100.2 million).

- The Construction Fund appropriation of $42.6 million, a decrease of $6.4 million, is due to an adjusted project award schedule and the shift of projects to the Capital Improvements Bond Fund, which will be financed by limited bonds. The 2007 appropriation is based on the scheduled award of six projects ($18.8 million), salaries and support requirements ($13.2 million), an equity transfer to abate a portion of the 2006 levy ($2.7 million) and for projects under construction ($7.9 million).

- The decline of $31.5 million in the Bond Redemption and Interest Fund is due to a decline in scheduled annual debt and interest payments.

- The increase of $15.0 million in the Reserve Claim Fund, the District's self insurance fund, to $56.7 million is primarily due to 2006 estimated revenues and 2005 final statements for year-end cash and investments carried forward for fund balance. The Reserve Claim Fund is statutorily authorized to accumulate fund balance to meet claims against the District.

FINANCIAL STATEMENTS

The District's basic financial statements as of December 31, 2005, included in this Official Statement as APPENDIX A, have been audited by McGladrey & Pullen LLP, independent public accountants, as stated in their Independent Auditors' Report dated April 21, 2006. The management's discussion and analysis and the supplementary information referred to in the Independent Auditors' Report are not included in APPENDIX A.

RATINGS

The Bonds and the District's outstanding general obligation bonds are rated "Aaa" by Moody's Investors Service, "AAA" by Standard & Poor's Credit Market Services, a division of the McGraw Hill Companies, and "AAA" by Fitch Ratings.

Certain information and materials concerning the Bonds, the District and certain overlapping entities have been furnished to the rating agencies by the District. There is no assurance that each such rating will be maintained for any given period of time or that one or more of such ratings may not be raised, lowered or withdrawn entirely by the respective rating agency, if in its judgment circumstances so warrant. Any downward change in or withdrawal of any such rating may have an adverse effect on the price at which the Bonds may be resold.

FINANCIAL ADVISOR

The District has engaged Mesirow Financial, Inc. as financial advisor (the "Financial Advisor"), in connection with the authorization, issuance and sale of the Bonds. The Financial Advisor has provided advice on the plan of financing and structure of the Bonds and has reviewed certain legal and disclosure documents, including this Official Statement, with respect to certain financial matters. Under the terms of their engagement, the Financial Advisor is not obligated to undertake any independent verification of or assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the District's compliance with the above-referenced covenants, under present law, in the opinions of Co-Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. The Internal Revenue Code of 1986, as amended (the "Code") includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the District with respect to certain material facts within the District's knowledge and upon the mathematical computation of the yield on the Bonds and the yield on certain investments by Bansley & Kiener, certified public accountants. Co-Bond Counsels' opinions represent their legal judgments based upon their review of the law and the facts that they deem relevant to render such opinions and are not guarantees of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth or the price corresponding to the yield set forth on inside of the cover page hereof.

If the Issue Price of a maturity of the Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of such Bonds (the "OID Bonds") and the principal amount payable at maturity (or earlier redemption) is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the District complies with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Based upon the stated position of the Illinois Department of Revenue under Illinois income tax law, accreted original issue discount on such OID Bonds is subject to taxation as it accretes, even though there may not be a corresponding cash payment until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Co-Bond Counsel express no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Interest on the Bonds is not exempt from present Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel express no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the District at an aggregate purchase price of $204,216,990.84 (which reflects an underwriters' discount of $873,798.11 and an original issue premium of $16,775,788.95). The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The District maintains various banking relationships with certain of the Underwriters. Various officers of the Underwriters hold positions on governing boards of certain overlapping units of government.

The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions set forth in the Bond Purchase Agreement with respect to the Bonds. The Underwriters are obligated to purchase all of the Bonds if they purchase any of the Bonds.

The Underwriters may offer and sell the Bonds to certain dealers (including those dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover page. The initial public offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE

The District will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under "THE UNDERTAKING."

The District represents that it has complied with each continuing disclosure undertaking that it has entered into pursuant to the Rule. A failure by the District to comply with the Undertaking will not constitute a default under the Bond Ordinances and beneficial owners of the Bonds are limited to remedies described in the Undertaking. See "THE UNDERTAKING – Consequences of Failure of the District to Provide Information." A failure by the District to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

THE UNDERTAKING

The following is a brief summary of certain provisions of the Undertaking of the District and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the District.

Annual Financial Information Disclosure

The District covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") then recognized by the Commission for purposes of the Rule and to the repository, if any, designated by the State of Illinois as the state depository (the "SID") and recognized as such by the Commission for purposes of the Rule.

Annual Financial Information, exclusive of the Audited Financial Statements, will be provided to each NRMSIR and to the SID, if any, within 210 days after the last day of the District's fiscal year. Audited Financial Statements, as described below, should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included.

"Annual Financial Information" means the financial information and operating data of the type contained in the Official Statement under the following captions: "TAXATION OF PROPERTY WITHIN THE DISTRICT – STATISTICAL INFORMATION," "DEBT INFORMATION" (excluding information in the table "Overlapping Bonded Debt," and graph and information under the heading "Debt Limits and Borrowing Authority"), "CASH MANAGEMENT – Investment of District Funds" (chart titled "Investment and Interest Income" only), "BUDGETARY PROCEDURES – Comparative Budget Information," APPENDIX B – "CAPITAL IMPROVEMENTS PROGRAM" and APPENDIX C – "METROPOLITAN WATER RECLAMATION DISTRICT RETIREMENT FUND."

"Audited Financial Statements" will be prepared using the accounting standards as follows: Generally Accepted Accounting Principles, as modified by the pronouncements of the Governmental Accounting Standards Board, subject to any express requirements of State law.

Audited Financial Statements shall be provided to each NRMSIR and to the SID, if any, at the time the Annual Financial Information is provided, or within 30 days after availability to the District, if later.

Material Events Disclosure

The District covenants that it will disseminate to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, in a timely manner, the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Exchange Act. The "Events" are:

- Principal and interest payment delinquencies
- Nonpayment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to the rights of security holders
- Bond calls
- Defeasances
- Release, substitution or sale of property securing repayment of the securities
- Rating changes

Some of the foregoing events may be inapplicable to the Bonds.

Consequences of Failure of the District to Provide Information

The District is required to give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any, of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the District to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the District to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Ordinances, and the sole remedy under the Undertaking in the event of any failure of the District to comply with the Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the District by resolution or ordinance authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted;

(b) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the District (such as Bond Counsel).

Termination of Undertaking

The Undertaking shall be terminated if the District shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Ordinances. The District shall give notice to each NRMSIR or to the MSRB and to the SID, if any, in a timely manner if this paragraph is applicable.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking, provided that the District shall have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

Dissemination Agent; DisclosureUSA

The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. So long as such method continues to be approved by the Commission for purposes of the Rule, the District may satisfy its filing and notice obligations under the Undertaking by sending the required information to DisclosureUSA.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinions of Chapman and Cutler LLP, Chicago, Illinois, and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel who have been retained by, and who act as counsel to, the District. Certain legal matters will be passed upon for the District by DLA Piper US LLP, Chicago, Illinois, Special Counsel to the District. Certain legal matters will be passed on for the Underwriters by Katten Muchin Rosenman LLP, Chicago, Illinois, and Golden & Associates, P.C., Chicago, Illinois Co-Underwriters' Counsel. Co-Bond Counsel have reviewed the statements in this Official Statement appearing under the headings "THE BONDS," "SECURITY FOR THE BONDS" and "TAX EXEMPTION" and are of the opinion that the statements contained under such headings are accurate statements or summaries of the matters set forth therein and fairly present the information purported to be shown. Except for the foregoing, however, Co-Bond Counsel have not independently verified the accuracy or completeness of statements and information contained in the Official Statement and do not assume any responsibility for the accuracy or completeness of such statements and information.

ENVIRONMENTAL MATTERS

Under current environmental protection laws, the District may be ultimately responsible for the environmental remediation of some of its properties that have been leased to other parties. The District has developed preliminary estimates of environmental remediation costs for major lease sites needing environmental remediation. The range of estimated remediation costs at December 31, 2005 is between $60 million and $178.5 million. The District's Law Department 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 a significant portion of these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and costs liability issues. A provision of $62.4 million was recognized as of December 31, 2005, as an estimate of potential liability of the District, a decrease of $6.35 million from the previous year.

The District has statutory authority for a Reserve Claim Fund to pay judgments or claims against the District, including environmental liabilities. Statutory authority authorizes an accumulation in this Fund of .05% of the equalized assessed property valuation or about $59.6 million, and for a 0.5-cent annual property tax levy.

The District has appropriated $56.7 million in the 2007 Budget for the Reserve Claim Fund. Total claims paid from this Fund (primarily employee injury) have averaged $4.0 million over the past several years, therefore the unencumbered fund balance is estimated to be approximately $51 million.

LITIGATION

Upon the delivery of the Bonds, the District will furnish a certificate to the effect that there is no litigation pending or threatened to restrain or enjoin the issuance, sale or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds or the pledge of the District's full faith, credit and taxing power for their payment.

The District is involved in various litigation relating principally to claims arising from construction contracts, personal injury and property damage. The majority of any claims and judgments for personal injury and property damage are recovered by insurance or settled and paid from the District's Reserve Claim Fund. Most claims and judgments involving construction contracts are paid by the Capital Projects Funds.

ADDITIONAL INFORMATION - APPENDICES

Included in this Official Statement as APPENDIX A are the District's Combined Financial Statements for the years ended December 31, 2005 and 2004. A description of the District's Capital Improvements Program is included as APPENDIX B. Information regarding the District's Pension Fund is included as APPENDIX C. Economic and demographic information with respect to Cook County is presented as APPENDIX D. The forms of the opinions of Co-Bond Counsel are included in APPENDIX E.

AUTHORIZATION

The District has authorized the distribution of this Official Statement.

At the time of delivery of the Bonds, the District will furnish a certificate executed by the Treasurer stating that to the best of his knowledge the Official Statement does not (as of the date thereof and will not at the date of the delivery of the Bonds) contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

/s/ Harold G. Downs
Treasurer
Metropolitan Water Reclamation District
of Greater Chicago
100 East Erie Street
Chicago, Illinois 60611
Telephone: (312) 751-5150

APPENDIX A

BASIC FINANCIAL STATEMENTS

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

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 (District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's pension trust fund, which represents 95% of the total assets, and 74% of total 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 trust fund is based solely on the report of the other auditors. The prior year summarized comparative information has been derived from the District's 2004 basic financial statements audited by other auditors whose report thereon dated May 4, 2005 expressed unqualified opinion on those statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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, 2005, and the respective changes in financial position and the respective budgetary comparison for the General Corporate Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1k to the basic financial statements, Governmental Accounting Standards Board Statement No. 34 requires that existing infrastructure assets accounted for under the modified approach be reported in the government-wide financial statements when an initial condition assessment is completed for the asset's network. The District has until December 31, 2006 to complete the initial condition assessments of its networks and report all existing assets in the government wide financial statements. During the year ended December 31, 2005, the District completed the condition assessments for the Central and Waterways networks. Accordingly, capital assets and net assets as of January 1, 2005 were restated to include these networks.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information which includes management's discussion and analysis (pages 25 – 40), the modified approach for eligible infrastructure (pages 84 – 86) and pension related information (page 87) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metropolitan Water Reclamation District of Greater Chicago's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical and demographics sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 21, 2006

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

December 31, 2005 (with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund 2005	General Corporate Fund 2004	Debt Service Fund 2005	Debt Service Fund 2004	Capital Improvements Bond Fund 2005	Capital Improvements Bond Fund 2004
Assets						
Cash	$ 233	$ 1,795	$ 101	$ 180	$ 250	$ 85
Deposits with escrow agent	-	-	13,580	13,288	-	-
Certificates of deposit (note 1)	11,841	752	7,067	19,090	73,951	94,016
Investments (note 4)	137,751	133,884	107,112	93,242	230,786	284,340
Taxes receivable, net (note 5)	205,815	201,171	142,126	163,728	-	-
Other receivables, net (note 5)	5,477	3,165	-	-	1,494	5,634
Due from other funds (note 12)	350	275	-	-	-	-
Inventories	35,907	34,914	-	-	-	-
Restricted cash	1,172	-	18,179	18,572	1,032	-
Net pension asset	-	-	-	-	-	-
Capital assets not being depreciated (note 6)	-	-	-	-	-	-
Capital assets being depreciated, net (note 6)	-	-	-	-	-	-
Total assets	$ 398,546	$ 375,956	$ 288,165	$ 308,100	$ 307,513	$ 384,075
Liabilities, Fund Balances / Net assets						
Liabilities:						
Deferred tax revenue (note 5)	$ 171,870	$ 176,159	$ 119,091	$ 143,703	$ -	$ -
Other deferred/unearned revenue (note 5)	1,949	1,898	-	-	-	-
Accounts payable and other liabilities (note 5)	25,518	29,388	154	212	21,974	14,836
Due to Pension Trust Fund (note 12)	-	-	-	-	-	-
Due to other funds (note 12)	-	500	-	-	192	120
Accrued interest payable	-	-	-	-	-	-
Long-term liabilities: (note 11)						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	-	-	-
Total liabilities	199,337	207,945	119,245	143,915	22,166	14,956
Fund balances/net assets						
Fund balances:						
Reserved for working cash	244,322	236,332	-	-	-	-
Unreserved (note 1.p):						
Undesignated	(45,113)	(68,321)	168,920	164,185	285,347	369,119
Total fund balances	199,209	168,011	168,920	164,185	285,347	369,119
Total liabilities and fund balances	$ 398,546	$ 375,956	$ 288,165	$ 308,100	$ 307,513	$ 384,075
Net assets:						
Invested in capital assets, net of related debt						
Restricted for corporate working cash						
Restricted for debt service						
Restricted for capital projects						
Restricted for construction working cash						
Restricted for stormwater working cash						
Restricted for pension						
Unrestricted						
Total net assets						

See accompanying notes to the basic financial statements.

Construction Fund 2005	Construction Fund 2004	Other Governmental / Nonmajor Funds 2005	Other Governmental / Nonmajor Funds 2004	Total Governmental Activities 2005	Total Governmental Activities 2004	Adjustments (Note 2a) 2005	Adjustments (Note 2a) 2004	Statements of Net Assets 2005	Statements of Net Assets 2004
$ 96	$ 16	$ 14	$ -	$ 694	$ 2,076	$ -	$ -	$ 694	$ 2,076
-	-	-	-	13,580	13,288	-	-	13,580	13,288
2,104	-	-	-	94,963	113,858	-	-	94,963	113,858
35,842	70,201	24,743	-	536,234	581,667	-	-	536,234	581,667
17,467	14,947	36,129	31,631	401,537	411,477	-	-	401,537	411,477
-	-	-	-	6,971	8,799	(1,977)	(2,570)	4,994	6,229
-	500	-	-	350	775	(350)	(775)	-	-
-	-	-	-	35,907	34,914	-	-	35,907	34,914
-	-	-	-	20,383	18,572	-	-	20,383	18,572
-	-	-	-	-	-	28,602	44,590	28,602	44,590
-	-	-	-	-	-	3,316,791	1,518,936	3,316,791	1,518,936
-	-	-	-	-	-	1,429,707	1,437,727	1,429,707	1,437,727
$ 55,509	$ 85,664	$ 60,886	$ 31,631	$ 1,110,619	$ 1,185,426	$ 4,772,773	$ 2,997,908	$ 5,883,392	$ 4,183,334
$ 14,570	$ 12,822	$ 27,691	$ 24,442	$ 333,222	$ 357,126	$ (333,222)	$ (357,126)	$ -	$ -
-	-	-	-	1,949	1,898	(35)	(41)	1,914	1,857
3,949	6,333	72	-	51,667	50,769	-	-	51,667	50,769
-	-	6,902	7,189	6,902	7,189	19,056	24,442	25,958	31,631
149	155	9	-	350	775	(350)	(775)	-	-
-	-	-	-	-	-	9,793	10,088	9,793	10,088
-	-	-	-	-	-	90,779	98,923	90,779	98,923
-	-	-	-	-	-	1,332,811	1,414,390	1,332,811	1,414,390
18,668	19,310	34,674	31,631	394,090	417,757	1,118,832	1,189,901	1,512,922	1,607,658
25,642	50,121	25,227	-	295,191	286,453	(295,191)	(286,453)		
11,199	16,233	985	-	421,338	481,216	(421,338)	(481,216)		
36,841	66,354	26,212	-	716,529	767,669	(716,529)	(767,669)		
$ 55,509	$ 85,664	$ 60,886	$ 31,631	$ 1,110,619	$ 1,185,426				
						3,728,581	1,921,730	3,728,581	1,921,730
						244,319	236,294	244,319	236,294
						278,218	297,800	278,218	297,800
						12,287	16,268	12,287	16,268
						25,642	50,132	25,642	50,132
						25,227	-	25,227	-
						28,602	44,590	28,602	44,590
						27,594	8,862	27,594	8,862
						$ 4,370,470	$ 2,575,676	$ 4,370,470	$ 2,575,676

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

Year ended December 31, 2005
(with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund		Debt Service Fund		Capital Improvements Bond Fund	
	2005	2004	2005	2004	2005	2004
Revenues						
General revenues:						
Property taxes	$ 210,589	$ 172,537	$ 168,202	$ 142,916	$ -	$ -
Personal property replacement tax	31,049	19,546	-	-	-	-
Interest on investments	4,093	1,715	5,216	2,957	8,391	4,289
Land sales	100	1,874	-	-	-	-
Tax increment financing distributions	1,634	604	-	-	-	-
Claims and damage settlements	77	150	-	-	-	300
Miscellaneous	2,207	1,768	336	88	-	2
Gain on sale	-	-	-	-	-	-
Adjustments for non-financial assets	-	-	-	-	-	-
Program revenues:						
Charges for services:						
User charges	45,483	47,257	-	-	-	-
Land rentals	6,310	6,160	-	-	-	-
Fees, forfeits and penalties	4,547	3,438	-	-	-	-
Capital grants and contributions:						
Federal grants	-	1	-	-	867	-
Total revenues	306,089	255,050	173,754	145,961	9,258	4,591
Expenditures/Expenses						
Current:						
Board of Commissioners	3,323	3,552	-	-	-	-
General Administration	17,259	15,538	-	-	-	-
Research and Development	24,787	24,030	-	-	-	-
Purchasing	5,023	5,932	-	-	-	-
Personnel	32,900	35,877	-	-	-	-
Information Technology	10,811	10,574	-	-	-	-
Law	6,168	5,018	-	-	-	-
Finance	3,102	3,033	-	-	-	-
Engineering	9,538	6,273	-	-	-	-
Maintenance and Operations	157,612	160,299	-	-	-	-
Pension costs	-	-	-	-	-	-
Claims and judgments	4,368	3,829	-	-	-	-
Construction costs	-	-	-	-	109,003	90,833
Loss on sale of capital assets	-	-	-	-	-	-
Depreciation (unallocated)	-	-	-	-	-	-
Debt service:						
Redemption of bonds	-	-	107,767	92,560	-	-
Interest on bonds	-	-	61,252	63,465	-	-
Total expenditures/expenses	274,891	273,955	169,019	156,025	109,003	90,833
Revenues over (under) expenditures	31,198	(18,905)	4,735	(10,064)	(99,745)	(86,242)
Other financing sources (uses):						
State revolving fund loan proceeds	-	-	-	-	15,973	52,720
Transfers	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	15,973	52,720
Net change in fund balances	31,198	(18,905)	4,735	(10,064)	(83,772)	(33,522)
Change in net assets	-	-	-	-	-	-
Fund balances/net assets:						
Beginning of the year as restated (note 1.p)	168,011	186,916	164,185	174,249	369,119	402,641
End of the year	$ 199,209	$ 168,011	$ 168,920	$ 164,185	$ 285,347	$ 369,119

See accompanying notes to the basic financial statements.

Construction Fund		**Other Governmental / Nonmajor Funds**		**Total Governmental Activities**		**Adjustments (Note 2b)**		**Statements of Activities**	
2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
$ 15,324	$ 21,314	$ 29,826	$ 23,559	$ 423,941	$ 360,326	$ (18,518)	$ 34,782	$ 405,423	$ 395,108
1,710	2,602	3,272	3,813	36,031	25,961	-	-	36,031	25,961
1,695	982	298	-	19,693	9,943	-	-	19,693	9,943
-	1,734	-	-	100	3,608	(100)	(3,608)	-	-
-	-	-	-	1,634	604	-	-	1,634	604
-	-	-	-	77	450	-	-	77	450
30	14	-	-	2,573	1,872	(273)	(156)	2,300	1,716
-	-	-	-	-	-	93	2,677	93	2,677
-	-	-	-	-	-	-	35,865	-	35,865
500	500	-	-	45,983	47,757	593	(776)	46,576	46,981
-	-	-	-	6,310	6,160	-	6	6,310	6,166
201	362	-	-	4,748	3,800	-	-	4,748	3,800
-	-	-	-	867	1	-	773	867	774
19,460	27,508	33,396	27,372	541,957	460,482	(18,205)	69,563	523,752	530,045
-	-	-	-	3,323	3,552	18	26	3,341	3,578
-	-	-	-	17,259	15,538	548	431	17,807	15,969
-	-	-	-	24,787	24,030	443	569	25,230	24,599
-	-	-	-	5,023	5,932	147	163	5,170	6,095
-	-	-	-	32,900	35,877	41	54	32,941	35,931
-	-	-	-	10,811	10,574	300	311	11,111	10,885
-	-	-	-	6,168	5,018	31	46	6,199	5,064
-	-	-	-	3,102	3,033	22	32	3,124	3,065
-	-	-	-	9,538	6,273	622	(104)	10,160	6,169
-	-	-	-	157,612	160,299	1,190	1,604	158,802	161,903
-	-	31,561	27,372	31,561	27,372	15,988	7,982	47,549	35,354
-	-	-	-	4,368	3,829	98	8,346	4,466	12,175
23,973	36,322	623	-	133,599	127,155	(82,454)	(89,098)	51,145	38,057
-	-	-	-	-	-	676	172	676	172
-	-	-	-	-	-	7,596	7,596	7,596	7,596
-	-	-	-	107,767	92,560	(107,767)	(92,560)	-	-
-	-	-	-	61,252	63,465	620	1,933	61,872	65,398
23,973	36,322	32,184	27,372	609,070	584,507	(161,881)	(152,497)	447,189	432,010
(4,513)	(8,814)	1,212	-	(67,113)	(124,025)	143,676	222,060		
-	-	-	-	15,973	52,720	(15,973)	(52,720)	-	-
(25,000)	-	25,000	-	-	-	-	-	-	-
(25,000)	-	25,000	-	15,973	52,720	(15,973)	(52,720)	-	-
(29,513)	(8,814)	26,212	-	(51,140)	(71,305)	51,140	71,305	-	-
-	-	-	-	-	-	76,563	98,035	76,563	98,035
66,354	75,168	-	-	767,669	838,974	-	-	4,293,907	2,477,641
$ 36,841	$ 66,354	$ 26,212	$ -	$ 716,529	$ 767,669	$ -	$ -	$ 4,370,470	$ 2,575,676

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

Year ended December 31, 2005

(in thousands of dollars)

	Budget Original	Budget Final	Actual Amounts	Actual Variance With Final Budget - Positive (Negative)
Revenues:				
Property taxes:				
Gross levy	$ 205,961	$ 205,961	$ 205,961	$ -
Allowance for uncollectible taxes	(7,209)	(7,209)	(7,209)	-
Net property tax levy	198,752	198,752	198,752	-
Property tax collections	4,985	4,985	5,107	122
Personal property replacement tax:				
Entitlement	19,891	19,891	19,891	-
Collections	514	514	564	50
Total tax revenue	224,142	224,142	224,314	172
Adjustment for working cash borrowing	(4,043)	(4,043)	(4,083)	(40)
Adjustment for estimated tax collections	-	-	9,708	9,708
Tax revenue available for current operations	220,099	220,099	229,939	9,840
Interest on investments	1,938	1,938	3,721	1,783
Land sales	100	100	190	90
Tax increment financing distributions	925	925	1,433	508
Miscellaneous	2,037	2,037	2,813	776
User charges	47,500	47,500	44,054	(3,446)
Land rentals	5,980	5,980	6,348	368
Claims and damage settlements	5	5	-	(5)
Fees, forfeits and penalties	2,320	2,320	2,747	427
Total revenues	280,904	280,904	291,245	10,341
Operating expenditures:				
Board of Commissioners	3,800	3,800	3,318	482
General Administration	17,900	18,295	17,208	1,087
Research and Development	26,230	26,230	24,292	1,938
Purchasing	8,421	8,421	7,409	1,012
Personnel	40,749	40,749	32,893	7,856
Information Technology	11,975	11,975	10,667	1,308
Law	6,076	6,601	6,163	438
Finance	3,425	3,425	3,099	326
Engineering	17,300	16,380	9,530	6,850
Maintenance and Operations	177,713	177,713	156,951	20,762
Claims and judgments	35,000	35,000	4,373	30,627
Total expenditures	348,589	348,589	275,903	72,686
Revenues over (under) expenditures	(67,685)	(67,685)	15,342	83,027
Fund balances at beginning of year	71,930	71,930	73,323	1,393
Beginning taxes receivable adjusted to actual collected	-	-	16,423	16,423
Net assets available for future use	(4,245)	(4,245)	-	4,245
Fund balances at beginning of the year as adjusted	67,685	67,685	89,746	22,061
Fund balances at end of year	$ -	$ -	$ 105,088	$ 105,088

See accompanying notes to the basic financial statements.

Exhibit A-4
Pension Trust Fund
Statements of Fiduciary Net Assets

December 31, 2005
(with comparative amounts for prior year)

	(in thousands of dollars)	
	2005	**2004**
Assets		
Cash	$ 157	$ 176
Receivables		
Employer contributions-taxes (net of allowance for uncollectible amounts of $3,877 in 2005; $4,309 in 2004)	25,958	31,632
Securities sold	5,859	763
Accrued interest and dividends	1,605	1,741
Accounts receivable	49	80
Total receivables	33,471	34,216
Investments at fair value		
U.S. Treasuries	29,637	24,002
U.S. Agencies	29,493	39,268
Corporate bonds and notes	33,681	49,827
Mortgage backed securities	5,781	7,228
Asset backed securities	7,040	2,931
Collateralized mortgage obligations	768	605
Pooled funds and mutual funds	633,678	592,905
Common and preferred stocks	375,818	388,146
Short-term investments	20,894	12,628
Total investments	1,136,790	1,117,540
Total assets	$ 1,170,418	$ 1,151,932
Liabilities		
Accounts payable	$ 541	$ 473
Securities purchased	10,564	691
Total liabilities	11,105	1,164
Net assets held in trust for pension benefits	$ 1,159,313	$ 1,150,768

See accompanying notes to the basic financial statements.

Exhibit A-5
Pension Trust Fund
Statements of Changes in Fiduciary Net Assets

Year ended December 31, 2005
(with comparative amounts for prior year)

(in thousands of dollars)

	2005	2004
Additions:		
Contributions:		
Employer contributions	$ 26,174	$ 30,982
Employee contributions	14,468	15,151
Total contributions	40,642	46,133
Investment income:		
Net appreciation in fair value of investments	43,439	85,939
Interest on fixed income investments	6,215	7,162
Interest on short-term investments	714	196
Dividend income	5,492	5,598
Total investment income	55,860	98,895
Less investment expenses	(2,083)	(1,993)
Investment income net of expenses	53,777	96,902
Other	5	4
Total additions	94,424	143,039
Deductions:		
Annuities and benefits		
Employee annuitants	69,740	65,198
Surviving spouse annuitants	12,302	11,920
Child annuitants	80	43
Ordinary disability benefits	992	810
Duty disability benefits	179	142
Total annuities and benefits	83,293	78,113
Refunds of employee contributions	1,288	1,321
Administrative expenses	1,298	1,243
Total deductions	85,879	80,677
Net increase	8,545	62,362
Net assets held in trust for pension benefits		
Beginning of year	1,150,768	1,088,406
End of year	$ 1,159,313	$ 1,150,768

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Index to Notes

Note

1. Summary of Significant Accounting Policies

The significant accounting policies of the Metropolitan Water Reclamation District of Greater Chicago ("District") conform to accounting principles generally accepted in the United States of America (GAAP) 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. As required by GAAP, these financial statements present the District (the primary government) and its component unit, the Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund - Note 7). The Board of Trustees for the Pension Trust Fund is composed of five members. Two of these Trustees are appointed by the Board of Commissioners of the District and three are District employees elected by members of the fund. Although the Pension Trust Fund is a legally separate entity for which the primary government is not financially accountable, it is included in the District's basic financial statements as a fiduciary fund. The nature and significance of the Pension Trust Fund's relationship with the primary government is such that exclusion would render the District's financial statements incomplete or misleading. The Pension Trust Fund is blended with the primary government because it exclusively serves the District by providing annuities and benefits to District employees. Complete financial statements of the Pension Trust Fund can be obtained from their administrative office at 111 East Erie Street, Chicago, Illinois, 60611-2898.

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 Assets and the Statements of Activities and contain information for all the District's governmental activities but excludes the Pension Trust Fund, a fiduciary fund 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 Assets report the financial condition of the District. This statement includes all existing resources and obligations, both current and noncurrent, with the difference between the two reported as net assets. 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 assets. Expenses are reported by function (i.e., department) while revenues are segregated by program revenues and general revenues. Program revenues include charges for services (i.e., user charges, land rentals, fees, forfeitures and 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 governmental funds and the fiduciary fund. 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.

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 Assets (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

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 for the sole purpose of 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 was established 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 and fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions at December 31, 2005, are as follows (in thousands of dollars):

	Total General Corporate Fund	Reclass-ification	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Assets					
Cash	$ 233	$ -	$ 182	$ 3	$ 48
Certificates of deposit	11,841	-	5,630	-	6,211
Investments	137,751	-	76,977	29,530	31,244
Receivables:					
Property taxes	232,757	-	226,368	348	6,041
Allowance for uncollectible taxes	(28,685)	-	(27,617)	(348)	(720)
Net property taxes	204,072	-	198,751	-	5,321
Personal property replacement tax	1,743	-	1,469	226	48
User charges	4,056	-	4,056	-	-
Miscellaneous	1,421	-	1,421	-	-
Inventories	35,907	-	35,907	-	-
Restricted cash	1,172	-	1,172	-	-
Due from Capital Improvements Bond Fund	192	-	192	-	-
Due from Construction Fund	149	-	149	-	-
Due from Stormwater Management Fund	9	-	9	-	-
Due from Corporate Fund	-	-	(214,560)	214,560	-
Total assets	$ 398,546	$ -	$ 111,355	$ 244,319	$ 42,872
Liabilities and Fund Balances					
Liabilities:					
Deferred tax revenue	$ 171,870	$ -	$ 167,398	$ (3)	$ 4,475
Other deferred revenue	1,949	-	1,949	-	-
Accounts payable and other liabilities	25,518	-	25,394	-	124
Total liabilities	199,337	-	194,741	(3)	4,599
Fund balances-reserved:					
Working cash	244,322	-	-	244,322	-
Fund balances-unreserved:					
Designated for payment of future claims (note 13)	-	(38,273)	-	-	38,273
Undesignated	(45,113)	38,273	(83,386)	-	-
Total fund balances	199,209	-	(83,386)	244,322	38,273
Total liabilities and fund balances	$ 398,546	$ -	$ 111,355	$ 244,319	$ 42,872

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, 2005, are as follows (in thousands of dollars):

	Total General Corporate Fund	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Revenues:				
Property taxes	$ 210,589	$ 205,243	$ 8	$ 5,338
Personal property replacement tax	31,049	22,719	7,733	597
Total tax revenue	241,638	227,962	7,741	5,935
Interest on investments	4,093	3,056	249	788
Land sales	100	100	-	-
Tax increment financing distributions	1,634	1,634	-	-
Claims and damage settlements	77	(66)	-	143
Miscellaneous	2,207	2,196	-	11
User charges	45,483	45,483	-	-
Land rentals	6,310	6,310	-	-
Fees, forfeits and penalties	4,547	4,547	-	-
Total revenues	306,089	291,222	7,990	6,877
Current expenditures:				
Board of Commissioners	3,323	3,323	-	-
General Administration	17,259	17,259	-	-
Research and Development	24,787	24,787	-	-
Purchasing	5,023	5,023	-	-
Personnel	32,900	32,900	-	-
Information Technology	10,811	10,811	-	-
Law	6,168	6,168	-	-
Finance	3,102	3,102	-	-
Engineering	9,538	9,538	-	-
Maintenance and Operations	157,612	157,612	-	-
Claims and judgments	4,368	-	-	4,368
Total expenditures	274,891	270,523	-	4,368
Revenues over (under) expenditures	31,198	20,699	7,990	2,509
Fund balance at the beginning of the year	168,011	(104,085)	236,332	35,764
Fund balance at the end of the year	$ 199,209	$ (83,386)	$ 244,322	$ 38,273

Debt Service Fund

Established to account for annual property tax levies and certain other revenues, principally interest on investments, which are 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, all to be used in connection with improvements, replacements and additions to designated environmental improvement projects.

Construction Fund

A capital projects fund established to account for the annual property tax levy and certain other revenues to be used for the acquisition of capital assets used in the principal functions of the District. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the Construction Fund. These accounts were established under Chapter 70, ILCS 2605/9c 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 and fund balances of the Construction Fund, detailed as to the Working Cash and Construction account divisions at December 31, 2005, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Assets			
Cash	$ 96	$ 88	$ 8
Certificates of deposit	2,104	2,104	-
Investments	35,842	29,895	5,947
Receivables:			
Property taxes	21,881	21,700	181
Allowance for uncollectible taxes	(4,569)	(4,388)	(181)
Net property taxes	17,312	17,312	-
Personal property replacement tax	155	155	-
Total assets	$ 55,509	$ 49,554	$ 5,955
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 14,570	$ 14,570	$ -
Accounts payable and other liabilities	3,949	3,949	-
Due to Corporate Fund	149	149	-
Due to Construction Fund	-	19,687	(19,687)
Total liabilities	18,668	38,355	(19,687)
Fund balances-reserved:			
Working cash	25,642	-	25,642
Fund balances-unreserved:			
Undesignated	11,199	11,199	-
Total fund balances	36,841	11,199	25,642
Total liabilities and fund balances	$ 55,509	$ 49,554	$ 5,955

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, 2005, are as follows (in thousands of dollars):

	Total Construction Fund	**Construction Division**	**Construction Working Cash Division**
Revenues:			
Property taxes	$ 15,324	$ 15,363	$ (39)
Personal property replacement tax	1,710	1,710	-
Total tax revenue	17,034	17,073	(39)
Interest on investments	1,695	1,135	560
Miscellaneous	30	30	-
User charge	500	500	-
Fees, forfeits and penalties	201	201	-
Total revenues	19,460	18,939	521
Capital expenditures:			
Personal services	11,079	11,079	-
Contractual services	797	797	-
Materials and supplies	157	157	-
Machinery and equipment	29	29	-
Capital projects	11,911	11,911	-
Total expenditures	23,973	23,973	-
Revenues over (under) expenditures	(4,513)	(5,034)	521
Other financing sources (uses):			
Transfers			
To Stormwater Working Cash Fund	(25,000)	-	(25,000)
Net change in fund balance	(29,513)	(5,034)	(24,479)
Fund balance at the beginning of the year	66,354	16,233	50,121
Fund balance at the end of the year	$ 36,841	$ 11,199	$ 25,642

The District reports the following non-major governmental funds:

Retirement Fund

A special revenue fund established to account for the annual property taxes which are specifically levied to finance pension costs in accordance with statutory requirements. This fund also accounts for personal property replacement taxes received by the District to finance pension costs in accordance with statutory requirements. The taxes are collected and paid to the Pension Trust Fund (see Note 7).

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 for the sole purpose of making temporary loans to the Stormwater Management Fund. These accounts were established under Chapter 70, ILCS 2605/9e 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, and fund balances of the Stormwater Management Fund, detailed as to the Working Cash and Stormwater Management account divisions at December 31, 2005, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Assets			
Cash	$ 14	$ 7	$ 7
Investments	24,743	9,539	15,204
Receivables:			
Property taxes	10,451	10,451	-
Allowance for uncollectible taxes	(366)	(366)	-
Net property taxes	10,085	10,085	-
Personal property replacement tax	86	-	86
Total assets	$ 34,928	$ 19,631	$ 15,297
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 8,635	$ 8,635	$ -
Accounts payable and other liabilities	72	72	-
Due to Corporate Fund	9	9	-
Due to Stormwater Management Fund	-	9,930	(9,930)
Total liabilities	8,716	18,646	(9,930)
Fund balances-reserved:			
Working cash	25,227	-	25,227
Fund balances-unreserved:			
Undesignated	985	985	-
Total fund balances	26,212	985	25,227
Total liabilities and fund balances	$ 34,928	$ 19,631	$ 15,297

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, 2005, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Revenues:			
Property taxes	$ 1,451	$ 1,451	$ -
Personal property replacement tax	86	-	86
Total tax revenue	1,537	1,451	86
Interest on investments	298	157	141
Total revenues	1,835	1,608	227
Capital expenditures:			
Personal services	593	593	-
Contractual services	16	16	-
Materials and supplies	1	1	-
Machinery and equipment	13	13	-
Total expenditures	623	623	-
Revenues over (under) expenditures	1,212	985	227
Other financing sources (uses):			
Transfers			
From Construction Working Cash Fund	25,000	-	25,000
Net change in fund balance	26,212	985	25,227
Fund balance at the beginning of the year	-	-	-
Fund balance at the end of the year	$ 26,212	$ 985	$ 25,227

In addition, the District reports the following fiduciary fund:

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 from the property tax levies authorized by the District's Retirement Fund.

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 susceptible to accrual, i.e., when 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 accrued to the extent that they are measurable and available to satisfy liabilities of the reporting period. In general, the accrual period is limited to amounts collected within sixty days following year-end. Property tax receivables that are unavailable are reported as deferred revenue.

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.

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) Department Heads propose expenditure estimates for the coming year which, if approved by the General Superintendent, become his recommendations for presentation to the Committee on Budget and Employment;

(2) The Committee on Budget and Employment comprises all nine Commissioners and holds hearings with the General Superintendent and with the Department Heads. These hearings are open to the public. After these budgetary reviews, the Committee on Budget and Employment submits its Tentative Budget to the Board of Commissioners;

(3) The Tentative Budget is put on public display for ten to twenty days. A public hearing is held during the ten to twenty day time frame where citizen groups, including civic groups, labor and the press, are invited to critique the tentative budget;

(4) Shortly after the public hearings, the Board of Commissioners adopts the budget for the coming year;

(5) Then, after a minimum five-day waiting period following budget adoption, and at a Regular Board Meeting, the Commissioners consider and approve any budget amendments. The Adopted Budget, along with any approved amendments, is the final budget document. This process must be completed prior to December 31 preceding the year to which the budget applies;

(6) The budget implementation phase, performed by the General Superintendent and department heads, begins January 1;

(7) The legal level of control for the District's appropriations (the level at which the Board of Commissioners must approve any transfers of appropriated amounts) is on a line item (object) basis for the General Corporate Fund, the Construction Fund and the Stormwater Management Fund. The level of control for Capital Improvements Bond Fund is on a line item class basis. (A line item class represents a group of line items. For example, the line item class "personal services" is a grouping of line items such as salaries and wages, group insurance, professional services, Medicare contributions, etc.). For the Debt Service Fund and the Retirement Fund, the level of control is on a fund basis;

(8) The General Superintendent is authorized to transfer appropriations between line items within an object class of expenditure within a department. After March 1st, transfers of appropriations between objects of expenditures or between departments can be made with the approval of the Board of Commissioners;

(9) Budgets are adopted on a basis not consistent with generally accepted accounting principles. In the General Corporate Fund budget, revenues are recognized on a cash basis and expenditures are recognized on a GAAP basis except for inventory expenditures, which are accounted for on the purchase method for budgetary purposes and on the consumption method for GAAP financial reporting purposes, and other miscellaneous expenditures. The Capital Improvements Bond Fund is budgeted on an "obligation" basis of accounting, which records total expenditures and grant revenues in the period in which contracts or grants are awarded. Appropriations lapse at year-end for the General Corporate, Special Revenue, Construction and Debt Service Funds. Appropriations for the Capital Improvements Bond Fund lapse at the end of the year to the extent of the unencumbered balances. Encumbered balances are not reported as reservations of fund balances, as the amounts are re-appropriated in the following year;

(10) All governmental funds have legally adopted budgets;

(11) In 2005, the District, as authorized by the bond ordinance, exercised a call option on the Capital Improvement Bond, Series 1995 to retire the principal amount of $13,200,000 due on December 1, 2006. The payment was approved by the Board of Commissioners in December of 2005. It is the opinion of the District's legal counsel that the bond ordinance provided authorization for the exercise of the call option, and no separate supplemental appropriation ordinance is required for the prepayment of the principal amount of $13,200,000 due on December 1, 2006.

e. Deposits with escrow agent 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 stated at fair value plus accrued interest. The investment with the State Treasurer's Illinois Funds is at fair value, which is the same value as the pool shares. The Illinois Funds and Illinois Prime Funds are not registered with the SEC. State statute requires the State Treasurer's Illinois Funds and Illinois Prime Funds to comply with the Illinois Public Funds Investment Act (30 ILCS 235). Oversight is provided by the Auditor General's Office of the State. Investments of the Pension Trust Fund, other than short-term investments, are stated at fair value. Investments in short-term obligations, principally commercial paper, are carried at cost which approximates fair value.

h. **Inventory**, which consists mainly of materials, supplies, and repair parts which 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 Assets. 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. The District has elected not to reserve a portion of the fund balance for inventory, since the full inventory is available for use (National Council on Governmental Accounting Statement 1).

i. **Restricted assets** represent cash with a trustee set aside for the future payment of administrative costs on debt-related transactions. The assets are reported as restricted cash on the financial statements, since they are maintained in a separate bank account and their use is limited by applicable bond ordinances.

j. **Interfund transactions** represent governmental fund transactions for: 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.

k. **Capital assets** including land (and land improvements), buildings, equipment, infrastructure and construction in progress are recorded at historical cost or estimated historical cost in the government-wide financial statements. Retirements of capital assets are recorded at historical cost. Interest costs are not capitalized. Infrastructure assets include the District's sewers, water reclamation plants (WRP), waterway assets and 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	$5,000 and over

Depreciation 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

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. Pursuant to GASB 34, the District has until its 2006 fiscal year to complete the initial condition assessments of its networks and report existing assets in its government-wide financial statements. Condition assessments of eligible infrastructure assets must be completed at least every three years following the initial assessments. The Kirie, Hanover, North Side and Egan WRPs had their initial condition assessments completed between 2002 and 2004. In 2005 the District completed the initial assessments at the Central and Waterways WRPs. Therefore, the Kirie, Hanover, North Side, Egan, Central and Waterways WRPs infrastructure assets are the only existing assets reported as infrastructure under the modified approach in the government-wide financial statements. The existing Central and Waterway infrastructure assets, totaling $1,718,231,000, are recorded as a restatement to the capital asset and net asset balances at the beginning of the 2005 fiscal year in the government-wide financial statements.

Existing infrastructure assets at the Calumet and Lemont WRPs for which the initial network condition assessments have yet to be completed are not reported in the government-wide financial statements. These assets amounted to $763,387,000 at December 31, 2005. Modified infrastructure assets under construction as of January 1, 2001 are reported in the government-wide financial statements as construction in progress, and are reclassified to infrastructure assets when construction is significantly complete and the corresponding network's initial condition assessment is finished.

l. **Compensated Absences** for accumulated unpaid vacation, holiday, overtime, severance and sick leave are paid to employees at retirement or termination. An employee is paid one hundred percent of accumulated vacation, holiday, overtime and severance pay, and fifty percent 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 Assets at December 31, 2005 are liabilities for compensated absences of $1,895,000, due within one year, and $25,151,000, due in more than one year.

m. **Long-term Obligations** – Long-term debt and other long-term obligations are reported in the government-wide Statements of Net Assets. Bond premiums and issuance costs are reported with bonds payable and amortized over the life of the bonds, using the straight-line 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 with bonds payable 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.

The District enters into interest rate swap agreements to modify interest rates on outstanding, variable rate debt. Net payments under such agreements are reported as interest expenditures/expenses in the financial statements. See Note 11 for further disclosure on the swap agreements.

n. **Fund Balances and Net Assets** - Reserves and designations are portions of the fund balance in the fund financial statements that are segregated for future use and are not available for appropriation or expenditure. Designations of unreserved fund balances in governmental funds indicate management's tentative plans for use of financial resources in a future period. See Note 13 for discussion of the fund balance designated for payment of future claims liabilities. Net Assets are displayed in three components in the government-wide Statements of Net Assets:

- Invested in capital assets, net related debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any debt attributable to capital assets.

- Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. Net assets restricted for working cash and pension are based on legal restrictions while net assets restricted for debt service and capital projects are based on legal restrictions and/or outside parties. The government-wide statement of net assets reports $614,295,000 of restricted net assets, none of which is restricted by enabling legislation.

- Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, and then unrestricted resources when they are needed.

o. User Charge – The District has utilized a User Charge System since January 1, 1980. The system was developed in accordance with Public Law 92-500 which required recipients of grants from the Environmental Protection Agency to charge certain users of waste water treatment services a proportionate share of the cost of operations and maintenance.

p. Comparative data, reclassifications and restatements – 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. Certain reclassifications and restatements have been made to the prior period financial statements in order to conform to the current period presentation. The government-wide capital asset and net asset balances at the beginning of 2005 were restated by an increase of $1,718,231,000. This increase represented existing infrastructure assets at the Central WRP and Waterway networks included in the initial condition assessments completed in 2005, as previously disclosed in Note 1. k.

q. Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

r. New Accounting Pronouncements – In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the District will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired District employees in future years. The District is also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contribution to a plan, including the OPEB liability or asset at transition, if any. The District is currently evaluating the impact that Statement No. 45 will have on the financial statements when adopted. The District will implement Statement No. 45 beginning with the year ended December 31, 2007.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This statement amends Statement No. 34 by clarifying the issue of restricted net assets that result from enabling legislation. The District implemented Statement No. 46 beginning with the year ended December 31, 2005.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This Statement provides guidance for accounting for the costs of providing termination benefits for employees who discontinue service earlier than planned. This statement will be effective for the District for the period ending December 31, 2006, but the District currently offers no termination benefits that would be affected by this statement.

2. Reconciliation of Fund and Government-wide Financial Statements

a. Reconciliation of Total Fund Balances to the Total Net Assets - The following explanations are provided for the reconciling adjustments shown in the Governmental Funds Balance Sheets/Statements of Net Assets at December 31, 2005 (in thousands of dollars):

Total fund balances of governmental funds	$ 716,529
Amounts reported for governmental activities in the Statements of Net Assets 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 Assets. Certain modified infrastructure assets of the District will not be reported until initial condition assessments are completed. The cost of the remaining capital assets and accumulated depreciation is as follows:	
Capital assets	4,889,467
Accumulated depreciation	(142,969)
Capital assets, net	4,746,498
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 Assets. The long-term liabilities consist of:	
Compensated absences	(27,046)
Claims and other liabilities	(73,640)
Bond anticipation notes	(48,238)
General obligation debt	(1,280,569)
Total long-term liabilities	(1,429,493)
Bond issuance costs are recorded as expenditures in governmental funds while bond premiums and discounts are recorded as other financing sources and uses, respectively. These items are deferred and amortized over the life of the bonds for the Statements of Net Assets. They consist of:	
Deferral of bond premium	(15,701)
Deferral of bond issuance costs	21,604
Total deferrals	5,903
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 Assets. The 2005 amount is:	
Accrued interest	(9,793)
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 liabilities in the governmental funds. However, these assets increase net assets in the Statements of Net Assets. They consist of:	
Property taxes and personal property replacement tax deferrals	333,222
Adjustment for pension trust fund	(19,056)
Adjustment to user charge	(1,977)
Deferred charge for net pension asset	28,602
Installment sale	35
Adjustment to deferred revenues	340,826
Interfund transactions are eliminated for government-wide reporting. These transactions consist of:	
Due from other funds	350
Due to other funds	(350)
Total interfund	-
Total net assets of governmental activities	$ 4,370,470

b. Reconciliation of the Change in Fund Balances to the Change in Net Assets - 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, 2005 (in thousands of dollars):

Net change in fund balances of governmental funds	$ (51,140)
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 for capital outlays	82,540
Depreciation expense-allocated to various departments	(2,390)
Depreciation expense-unallocated	(7,596)
Excess of construction costs over depreciation expense	72,554
Debt proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statements of Net Assets. In the current period, debt proceeds and related items were:	
Bond anticipation note proceeds	(15,973)
Debt proceeds total	(15,973)
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 Assets. In the current year, the repayments consists of:	
Bond principal retirement	107,767
Bond principal retirement total	107,767
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:	
(Increase) decrease in compensated absences-allocated to various departments	(649)
(Increase) decrease in claims and judgments	(98)
(Increase) decrease in bond interest	295
(Increase) decrease in bond anticipation notes interest	(1,005)
(Increase) decrease in net pension asset	(15,988)
Amortization of bond issuance /refunding costs	(2,349)
Amortization of bond premium	2,030
Total additional expenses	(17,764)
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 Assets 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	(950)
Revenues are recognized on a modified accrual basis in the governmental funds and on an accrual basis in the statements of activities. The net effect of the recognition differences are:	
Property tax - net	(18,518)
User charge adjustment	593
Grant and rent adjustment	(6)
Total adjustments	(17,931)
Change in net assets of governmental activities	$ 76,563

3. Reconciliation of Budgetary Basis Accounting to GAAP Basis Accounting

In reporting to the public, the District prepares its budget in conformity with practices prescribed or permitted by the applicable statutes of the State of Illinois. Since certain of those practices differ from GAAP, adjustments are required to compare the fund financial statements' actual results on the budgetary basis to GAAP. Significant differences in accounting practices between the General Corporate Fund's budgetary presentation and GAAP are as follows (in thousands of dollars):

	General Corporate Fund
Revenues over (under) expenditures on a budgetary basis	$ 15,342
Adjustment from Budget to GAAP for:	
Tax revenues	11,699
Cash basis other revenues	3,145
GAAP versus budgetary expenditure differences	1,012
Revenues over (under) expenditures on GAAP Basis	$ 31,198

In formulating the annual budgets for the General Corporate and Construction Funds, and in reflecting actual results on a budgetary basis, tax collections relating to prior years are reflected as adjustments to the appropriate fund balance as of the beginning of the year.

4. Deposits and Investments

At December 31, 2005 the Pension Trust Fund had $2,351 in bank deposits that were uninsured and uncollaterized.

Investments (excluding Pension Trust Fund)

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 and Prime Funds; and (8) money market mutual funds and certain other instruments. 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, 2005 (in thousands of dollars):

		Investment Maturities (in Years)	
Investment Type	Fair Value	Less Than 1 Year	1- 3 Years
U.S. Agencies	$ 348,176	$ 214,853	$ 133,323
Commercial Paper	173,155	173,155	-
State Treasurer's Illinois Funds and Prime Funds	14,903	14,903	-
Total Investments	$ 536,234	$ 402,911	$ 133,323

The Illinois Funds and Prime Funds invest a minimum of 75% of its assets in authorized investments of less than one year and no investment shall exceed two years maturity.

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. In addition, the District's policy limits direct investments to securities maturing in three (3) 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 three (3) 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 180 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 and Moody's at December 31, 2005 (excluding investments in U.S. Treasuries, if any which are not considered to have credit risk) are as follows:

Investment Type	Credit Ratings	% of Investment Type	% of Total Investments
U.S. Agencies	AAA/Aaa	100%	65%
Commercial Paper	A-1/P-1	100%	32%
State Treasurer's Illinois Funds and Prime Funds	Aaa	100%	3%

Concentration of Credit Risk

The District limits the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than twenty (20) percent of the amount invested in commercial paper can be invested in any one entity. As of December 31, 2005 there were no individual investments that were greater than five percent of total investments.

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.

Trust Fund's Investments

The Pension Trust Fund is authorized to invest in bonds, notes and other obligations of the U.S. Government; corporate debentures and obligations; insured mortgage notes and loans; common and preferred stocks; stock options; and other investment vehicles as set forth in the Illinois Compiled Statutes. Certain investments are held by a bank-administered trust fund.

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities (using the segmented time distribution method) for the Pension Trust Fund's investments at December 31, 2005 (in thousands of dollars):

Investment Type	Fair Value	Investment Maturities (in Years) 0 - 5 Years	6 - 10 Years	Greater than 10 Years
Fixed income:				
U.S. Treasuries	$ 29,637	$ 7,608	$ 6,993	$ 15,036
U.S. Agencies	29,493	18,948	8,106	2,440
Corporate Bonds and Notes	33,681	15,485	14,331	3,865
Mortgage Backed Securities	5,781	4,089	1,692	-
Asset Backed Securities	7,040	5,705	855	479
Collateralized Mortgage Obligations	768	121	129	518
Pooled Funds and Mutual Funds	382,979	382,979	-	-
Totals	489,379	$ 434,935	$ 32,106	$ 22,338
Equities:				
Common and Preferred Stock	375,818			
Pooled Funds and Mutual Funds	271,593			
Total Investments	$ 1,136,790			

Pooled fund and mutual fund maturities are generally under one year based on the weighted average maturities of the individual pools.

Interest Rate Risk

The Pension Trust Fund does not maintain a policy relative to interest rate risk. The Board of Trustees recognizes that its investments are subject to short-term volatility. However, their goal is to maximize total return within prudent risk parameters. The Pension Trust Fund's policy is to maintain long-term focus on its investment decision-making process. Therefore, the Fund's benefit liabilities extend many years into the future. The Fund's fixed income performance objective is the Lehman Brothers Aggregate Bond Index.

Credit Risk

The Pension Trust Fund's policy requires all fixed income investments to be of investment grade quality or higher at purchase, that is, at the time of purchase, rated no lower than "Baa" by Moody's and no lower than "BBB" by Standard and Poor's. The Trustees, at their discretion, may impose a higher standard on an individual investment manager as circumstances or investment objectives dictate. Also, according to the provisions of the Illinois Compiled Statutes, fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by the U.S. Government, or any agency or instrumentality thereof, or to corporate and municipal issues.

The following reports the credit ratings for the Fund's debt securities at December 31, 2005; excluded are U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government which are classified under the headings U.S. Treasuries and U.S. Agencies:

Disclosure Ratings for Debt Securities (S&P/ Moody's)
(As a percentage of total fair value for debt securities)

	AAA / Aaa	AA / Aa	A / A	BBB / Baa	BB/Bb
Corporate Bonds and Notes	0.97%	2.21%	8.66%	1.83%	0.27%
Mortgage Backed Securities	3.35%	0.84%	0.52%	1.78%	0.06%
Asset Backed Securities	3.64%	0.16%	0.19%	0.23%	0.65%
Collateralized Mortgage Obligations	0.60%	0.00%	0.00%	0.00%	0.00%
Pooled Funds and Mutual Funds	44.05%	10.42%	12.21%	7.36%	0.00%

5. Receivables, Deferred Revenues 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 making up the components.

Receivables

Receivables as of December 31, 2005 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	Construc-tion	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Assets
Receivables at December 31, 2005:								
Property taxes:	$ 232,758	$ 165,046	$ -	$ 21,882	$ 37,100	$ 456,786	$ -	$ 456,786
Allowance for uncollectible taxes	(28,686)	(22,920)	-	(4,570)	(4,243)	(60,419)	-	(60,419)
Net property taxes	204,072	142,126	-	17,312	32,857	396,367	-	396,367
Personal property replacement tax	1,743	-	-	155	3,272	5,170	-	5,170
Total taxes receivable, net	205,815	142,126	-	17,467	36,129	401,537	-	401,537
Other receivables:								
User charges	4,056	-	-	-	-	4,056	(708)	3,348
Allowance for uncollectibles	-	-	-	-	-	-	(1,269)	(1,269)
Total user charges, net	4,056	-	-	-	-	4,056	(1,977)	2,079
State revolving fund loans	-	-	1,494	-	-	1,494	-	1,494
Miscellaneous	1,421	-	-	-	-	1,421	-	1,421
Total other receivables, net	5,477	-	1,494	-	-	6,971	(1,977)	4,994
Total net receivables at 12/31/05	$ 211,292	$ 142,126	$ 1,494	$ 17,467	$ 36,129	$ 408,508	$ (1,977)	$ 406,531

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

Deferred Revenues

Deferred 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. In addition, other deferred revenue is reported in the Governmental Funds Balance Sheets and the government-wide Statements of Net Assets for rental resources that have been received, but not earned. A summary of deferred revenue as of December 31, 2005 is as follows (in thousands of dollars).

	General Corporate	Debt Service	Construction	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Assets
Deferred revenue at December 31, 2005							
Deferred tax revenue	$ 171,870	$ 119,091	$ 14,570	$ 27,691	$ 333,222	$ (333,222)	$ -
Other deferred revenue:							
Rental income	1,949	-	-	-	1,949	(35)	1,914
Total deferred revenue at December 31, 2005	$ 173,819	$ 119,091	$ 14,570	$ 27,691	$ 335,171	$ (333,257)	$ 1,914

Payables

Payables reported as "Accounts payable and other liabilities" as of December 31, 2005 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	Construc-tion	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Assets
Accounts payable and other liabilities at December 31, 2005:								
Vouchers payable and other liabilities	$ 18,703	$ 154	$ 21,974	$ 3,949	$ 72	$ 44,852	$ -	$ 44,852
Accrued payroll and withholdings	3,518	-	-	-	-	3,518	-	3,518
Bid deposits	3,297	-	-	-	-	3,297	-	3,297
Total accounts payable and other liabilities as of December 31, 2005	$ 25,518	$ 154	$ 21,974	$ 3,949	$ 72	$ 51,667	$ -	$ 51,667

6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2005 is as follows (in thousands of dollars):

	Balances January 1, 2005 (as restated)	Additions	Retirements	Balances December 31, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 127,261	$ -	$ 1	$ 127,260
Construction in progress	645,177	81,386	104,157	622,406
Infrastructure under modified approach*	2,464,729	105,855	3,459	2,567,125
Total capital assets not being depreciated	3,237,167	187,241	107,617	3,316,791
Capital assets being depreciated:				
Buildings	13,226	-	-	13,226
Equipment	40,527	2,829	3,199	40,157
Infrastructure	1,519,293	-	-	1,519,293
Total capital assets being depreciated	1,573,046	2,829	3,199	1,572,676
Less accumulated depreciation:				
Buildings	3,834	185	-	4,019
Equipment	19,451	2,205	2,336	19,320
Infrastructure	112,034	7,596	-	119,630
Total accumulated depreciation	135,319	9,986	2,336	142,969
Total capital assets being depreciated, net	1,437,727	(7,157)	863	1,429,707
Governmental activities capital assets, net*	$ 4,674,894	$ 180,084	$ 108,480	$ 4,746,498

* Includes a restatement of the capital assets beginning balance as discussed in Notes 1.k. and 1.p.

Depreciation expense in the government-wide Statements of Activities, for the year ended December 31, 2005, was charged to the District's governmental functions as follows (in thousands of dollars):

Department	Amount
Board of Commissioners and Treasury	$ 11
General Administration	502
Research and Development	357
Purchasing	129
Personnel	20
Information Technology	274
Law	11
Finance	12
Engineering	125
Maintenance and Operations	949
Total allocated depreciation	2,390
Unallocated Infrastructure depreciation	7,596
Total depreciation	$ 9,986

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) established by the State of Illinois. The defined benefits of the Plan, as well as the employer and employee contribution levels of the Plan, are mandated by Illinois State Statutes and may be amended only by the Illinois Legislature. The Pension Trust Fund provides retirement benefits, as well as death and disability benefits, to qualifying employees. Covered employees are required to contribute 9% of their salary to the Plan. The District is required to contribute the remaining amounts necessary to finance the requirements of the Plan on an actuarially funded basis. The District is required to levy a tax at a rate not more than an amount equal to the employee plan contributions made in the calendar year two years prior to that for which the annual applicable tax is levied, multiplied by a factor of 2.19 annually.

The Pension Trust Fund issues a publicly available 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 calling 1-312-751-3222.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Administrative costs are not paid from any specific resource.

Annual Pension Cost and Net Pension Asset

The annual pension cost and net pension obligation (asset) of the Plan for the year ended December 31, 2005 were as follows:

Annual required contribution	$	43,164,572
Interest on net pension asset		(3,455,682)
Adjustment to annual required contribution		2,452,972
Annual pension cost		42,161,862
Contributions made		26,174,492
Decrease in net pension asset		15,987,370
Net pension asset beginning of year		(44,589,446)
Net pension asset end of year	$	(28,602,076)

The net pension asset is reported in the government-wide Statements of Net Assets.

Funding Status and Progress

The annual required contribution for the current year was determined as part of the December 31, 2005 actuarial valuation, using the Entry Age Normal actuarial cost method and the Level Dollar amortization method. The actuarial assumption includes: (a) 7.75% per year rate of return on investments, net of investment expense, compounded annually; (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 1.75% per year, attributable to seniority/merit; (d) post-retirement benefit compound increases of 3.0% per year for employee and surviving spouse annuitants; and (e) 4.00% inflation rate. The actuarial value of assets was determined by using the five-year Smoothed Market method. The unfunded actuarial accrued liability is being amortized as a level percent of payroll on an open basis. The amortization period at December 31, 2005 was 30 years. A schedule of the progress in funding the Pension Trust Fund can be found in Required Supplementary Information immediately following the notes.

Trend Information

The annual pension cost, percentage of annual pension contributed, and net pension asset for the past three years ending December 31, 2005 are presented below:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2005	$ 42,161,862	62.08%	$ (28,602,076)
12/31/2004	38,964,374	79.51%	(44,589,446)
12/31/2003	36,679,621	78.46%	(52,571,588)

8. Other Post-Employment Benefits

Retirees and annuitants receiving a pension through the Pension Trust Fund are eligible for District-sponsored health insurance. Coverage is available through two HMOs, or through the comprehensive major medical program administered by Blue Cross and Blue Shield of Illinois. As of December 31, 2005, 1,876 of the 2,215 eligible annuitants were participating in District-sponsored coverage.

The Board of Commissioners adopted a policy of subsidizing retiree medical insurance costs in 1974. This policy was amended at the Board Meeting of December 20, 1984, and took effect in February 1, 1985. Retirees contribute 25% of the premium and the District pays the remaining 75%. Each year, the Board approves an appropriation to fund retiree medical costs as part of the Personnel Department, General Corporate Fund budget. Thus, employer contributions for Other Post-Employment Benefits (OPEB) are funded on a pay-as-you-go basis. The amount of OPEB expenditures (net of participant contributions) recognized during 2005 by the District was $11,003,860.

9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund contract commitments approximated $8,899,500 at December 31, 2005. Construction, Stormwater Management, and Capital Improvements Bond Funds' contract commitments (encumbrances) were $272,937,000 at December 31, 2005. State Revolving Fund Loan commitments of $56,043,000 at December 31, 2005 are also collectible as contract expenditures are incurred.

In December 2000, the Board of Commissioners authorized the District to enter into a long-term contract with a contractor to design, build, finance, own, operate and maintain a 150 dry ton per day biosolids processing facility at the District's Central Water Reclamation Plant. The contractor shall obtain its own financing to design, build and own the facility and the method of financing shall be determined by and be the sole responsibility of the contractor. Any loan or bonds used to finance the facility shall be non-recourse to the District and shall not use any of the District's bonding capacity to support the financing.

Construction of the project has begun and is expected to be completed in the Spring 2007. Once completed and accepted for operation by the District, a 20-year operational contract will follow. The District will begin payment on the contract only after the facility is completed and accepted for operation.

The payment to the contractor will be divided into two parts. The first is a facility fee estimated at $1.8 million for the first year and approximately $4.4 million for the remaining 19 years to pay for the facility. The facility will become the property of the District at the end of the contract. The second payment is a dollar per ton cost for the processing and disposal of biosolids. The first year's estimated cost is $3.2 million (based on 150 tons of biosolids). This cost is subject to annual adjustments based on the Consumer Price Index and the Producer Price Index.

The District 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. Payments under the contract are estimated at $261,302,540. The District expects that the facility fee will be paid from the Capital Improvements Bond Fund while the processing and disposal costs will be paid from the General Corporate Fund. Under Illinois law this contract will constitute indebtedness includible within the District's 5.75% general debt limit once the facility is completed, but it will not be includible in the District's 3.35% non-referendum bonded debt limit.

As of December 31, 2005, the District had no liability, short-term or long-term, for rebatable arbitrage.

10. Risk Management and Claims

The District is primarily self-insured. 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 accounts for claims, awards, losses, judgments or liabilities which might be imposed on the District under the Workers' Compensation Act or the Workers' Occupational Diseases Act. Additionally, the Reserve Claim Fund accounts for any claim in tort, including but not limited to any claim imposed under the Local Governmental and Governmental Employees Tort Immunity Act, and for the repair or replacement, where the cost thereof exceeds $10,000, of any property owned by the District which is damaged by fire, flood, explosion, vandalism, or other natural or man-made peril. 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.

The District is involved in various litigation relating principally to claims arising from construction contracts, personal injury, sexual discrimination/harassment and property damage. The majority of any claims and judgments for personal injury and property damage would be recovered by insurance or paid from the Reserve Claim Fund accounts. Most of the claims and judgments involving disputed construction contracts would be paid by the Capital Improvements Bond or Construction Funds.

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 needing environmental remediation. The range of such estimated total remediation costs at December 31, 2005 is between $60 million and $178.5 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 of, if not all of, these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. A provision of $62.4 million is recognized at December 31, 2005 in the long term liabilities of the government-wide financial statements as an estimate of probable liability of the District, a decrease of $6.35 million from the previous year.

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. The District estimated a liability of $1,986,000 in the government-wide financial statement at December 31, 2005 for its self-insured plans. This amount is based on 2005 payments for claims incurred in prior periods of $2,039,000 during the year and a $42,000 increase in the estimate.

Additional insurance policies in effect at December 31, 2005 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 four fiscal years.

The current insurance coverage and risk retention related to these policies is as follows:

Automobiles, Trucks, and Trailers
Excess liability $5,000,000
Deductible $1,000,000
Public Employee Dishonesty
Aggregate Limit $6,000,000
Deductible $100,000
Faithful Performance
Aggregate Limit $5,000,000
Deductible $100,000
Public Employee Forgery or Alteration
Each occurrence $500,000
Deductible $500
Marine Liability
Excess liability $10,000,000
Deductible $10,000
Group Travel Accidental
Accidental death benefits. $500,000
Dismemberment benefits. . . . . .sliding scale
Aggregate limits $5,000,000
Non-owned Aircraft Liability
Each occurrence $5,000,000

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

	2005	2004
Claims Payable at January 1:	$ 73,542	$ 65,946
Claims incurred	4,368	3,829
Changes in prior years' claims estimate	98	7,596
Claim payments	(4,368)	(3,829)
Claims Payable at December 31:	$ 73,640	$ 73,542

11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2005 (in thousands of dollars):

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental long-term liabilities:					
Bonds and notes payable:					
General obligation debt	$ 1,329,123	$ 59,213	$ (107,767)	$ 1,280,569	$ 83,692
Deferred amounts:					
Issuance costs	(4,718)	-	409	(4,309)	(409)
Premium	17,731	-	(2,030)	15,701	2,030
Refunding transactions	(19,235)	-	1,940	(17,295)	(1,940)
Bonds payable, net	1,322,901	59,213	(107,448)	1,274,666	83,373
Bond anticipation notes and interest	90,473	16,978	(59,213)	48,238	-
Net bonds and notes payable	1,413,374	76,191	(166,661)	1,322,904	83,373
Other liabilities:					
Claims and judgments	73,542	4,466	(4,368)	73,640	5,511
Compensated absences	26,397	2,426	(1,777)	27,046	1,895
Total governmental long-term liabilities	$ 1,513,313	$ 83,083	$ (172,806)	$ 1,423,590	$ 90,779

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, Capital Improvements Bond, Construction 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, 2005, the annual debt service requirements for general obligation bonds are shown below. The interest requirements for variable rate debt with swaps are based on the District's synthetic fixed rates.

Bonds Payable Maturity Table
(in thousands of dollars)

Maturing	Capital Improvement Bond Series (3.0-6.9%) (Issued 06/91 to 01/03)	Refunding (4.70-6.5%) (Issued 03/93 to 06/02)	State Revolving Funds Series (2.5-3.745%) (Issued 08/90 to 01/05)	Total Principal	Total Interest
2006	$ 34,110	$ 28,475	$ 21,107	$ 83,692	$ 55,119
2007	27,100	39,600	21,677	88,377	50,311
2008	13,800	30,300	22,263	66,363	46,190
2009	14,400	31,600	22,865	68,865	43,177
2010	15,100	200	23,483	38,783	40,026
2011-2015	87,300	43,500	111,190	241,990	175,383
2016-2020	113,300	-	75,815	189,115	131,430
2021-2025	53,000	119,800	34,384	207,184	98,658
2026-2030	-	240,900	-	240,900	48,721
2031-2033	-	55,300	-	55,300	2,610
	$ 358,110	$ 589,675	$ 332,784	$ 1,280,569	$ 691,625

Expenditures for principal and interest made on January 1, 2006 approximated $23,583,000 and $5,900,000, respectively.

2003 Bond Issues

In December 2002, the District entered into an interest rate swap agreement and in January 2003 issued $146,000,000 in Variable Rate General Obligation Capital Improvement Bonds, Unlimited Tax Series E. The bonds mature between 2017 and 2022 and the District's interest on the bonds is based on a synthetic fixed rate of 3.64%. The bonds' variable rate coupon payments are determined by rates established on a weekly basis and interest is paid to bondholders monthly. Additional information on the interest rate swap agreements associated with this bond issue is disclosed in a subsequent section of this note.

2002 Bond Issues

In June 2002, the District issued $416,000,000 of Variable Rate General Obligation Refunding Bonds consisting of $363,000,000 Unlimited Tax Series A and $53,000,000 Limited Tax Series B. The refunding bonds mature between 2023 and 2031 and refunded $374,375,000 of Capital Improvement Bonds maturing 2007 through 2014. Based on an interest rate swap agreement, the District's interest on the bonds is a synthetic fixed rate of 4.785%. The bonds' variable rate coupon payments are determined by rates established on a weekly basis and interest is paid to bondholders monthly. Additional information on the interest rate swap agreements associated with this bond issue is disclosed in a subsequent section of this note.

In December 2002 the District issued $64,000,000 of Fixed Rate General Obligation Capital Improvement Bonds, Unlimited Tax Series C, with maturity dates from 2013 to 2016. The bonds were issued at a premium of $5,896,955. Interest on the bonds accrues at a rate of 5.375%, payable June 1 and December 1. Also in December 2002, the District issued $100,000,000 of Fixed Rate General Obligation Capital Improvement Bonds, Limited Tax Series D, with maturity dates from 2007 to 2013. The bonds were issued at a premium of $8,677,545. Interest on the bonds accrues at rates ranging from 3.00% to 5.375%, payable June 1 and December 1.

2001 Bond Issues

On June 1, 2001, the District issued $75,000,000 of General Obligation Capital Improvement Bonds, Limited Tax Series B with maturity dates from 2002 to 2008. Interest on the bonds accrues at rates ranging from 4.50% to 5.25%, payable December 1 and June 1. Of the $75,000,000 bonds issued, $20,510,000 were defeased by the June 2002 refunding bonds.

Capital Improvement Bonds, IEPA Series

In 2004 the District authorized the issuance of $150,000,000 of Capital Improvement Bonds, 2004 IEPA Series for capital improvements related to sewage treatment works and flood control facilities. The Illinois Environmental Protection Agency (IEPA) has approved partial funding of the costs through the State Water Pollution Control Revolving Fund (SRF). Under the terms of the SRF, the District will issue bond anticipation notes in the amount of interim project loan advances to pay project costs. When advances equal the loan amount (or the project has been completed) the District will refinance the bond anticipation notes, plus accrued interest thereon. Under this authority, the IEPA has subsequently approved the following loan amount:

2005	$20,720,000

In 2001 the District authorized the issuance of $180,000,000 of Capital Improvement Bonds, 2001 IEPA series, to finance the ongoing environmental clean up associated with the Calumet TARP – Little Calumet Leg Tunnel project. The terms and conditions are similar to the 2004 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

2002	$57,000,000
2003	$58,000,000
2004	$57,200,000

In 1997 the District authorized the issuance of $190,000,000 of Capital Improvement Bonds, 1997 IEPA series, to finance the cost of the Calumet TARP – Torrence Avenue Tunnel. The terms and conditions are similar to the 2004 IEPA Series. Under this authority, the IEPA has approved the following approximate loan amounts:

1998	$49,400,000
1999	$10,000,000
2000	$35,500,000
2001	$22,800,000

State Revolving Fund Loan proceeds are recognized as "other financing sources" of the Capital Improvements Bond Fund. The amount recognized is based upon reimbursable expenditures incurred during the fiscal year. The amount recognized as proceeds is also recognized as a long-term liability in the government-wide Statements of Net Assets.

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 thereon. There is no debt service on the bond anticipation notes. Because the bond anticipation note interest that has accrued through the balance sheet date is, in reality, accrued additional principal, the District has included the interest accrued on these bond anticipation notes in the long-term liability reported in the government-wide Statements of Net Assets.

Converted amounts of $59,213,000 in 2005 represented the sum of bond anticipation note principal of $58,000,000 and interest of $1,213,000.

Bond issues and adjustments to existing issues under the IEPA 1990, 1991, 1992, 1994 and 1997 authority, included:

- August 2003 – The District issued $10.5 million of Capital Improvement Bonds – IEPA Series 97DD, through the conversion of the sum of bond anticipation note principal of $10.4 million and interest of $0.2 million with maturity dates from January 1, 2004 to July 1, 2023. Interest on the bonds accrues at a rate of 2.905% payable January 1 and July 1.

- July 2002 – The District issued $11.2 million of Capital Improvement Bonds – IEPA Series 94V, through the conversion of the sum of bond anticipation note principal of $10.5 million and interest of $0.7 million with maturity dates from January 1, 2003 to July 1, 2018. Interest on the bonds accrues at a rate of 2.5% payable January 1 and July 1.

- July 2002 – The District issued $36.5 million of Capital Improvement Bonds – IEPA Series 97CC, through the conversion of the sum of bond anticipation note principal of $ 35.5 million and interest of $1.0 million with maturity dates of July 1, 2003 to July 1, 2022. Interest on the bonds accrues at a rate of 2.535% 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 was $48,238,000 at December 31, 2005. Of the bond anticipation notes outstanding at December 31, 2005, $48,238,000 will be refinanced through IEPA Series 2001 bonds. The conversion of these bond anticipation notes to Capital Improvement Bonds is not expected to occur within the next calendar year; therefore, the notes will be reported as a part of long term-debt.

Refunding Transactions

In prior years, the District defeased certain obligations and other bonds by placing the proceeds of new bonds and additional cash in trust to provide for all future debt service requirements of the refunded debt. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the accompanying financial statements, as the District defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transactions. Bonds outstanding in the amount of $400,875,000 were considered defeased at December 31, 2005.

Refunding Bond Authorization

In December 2005 the Board of Commissioners approved two Ordinances authorizing the issuance of up to $425,000,000 General Obligation Refunding Bonds, Unlimited Tax Series of 2006 and the issuance of up to $75,000,000 General Obligation Refunding Bonds, Limited Tax Series of 2006. These Ordinances would allow the District to act quickly and take advantage of favorable market conditions, should they arise. The District could then refund outstanding Series 2002 A and B bonds with traditional fixed-rate bonds, cancel their associated swap agreements, and restructure the financing into the fixed-rate bond market. This would retain all or most of the structural savings obtained by the use of variable-rate bonds.

Interest Rate Swaps

As a means of lowering its borrowing costs, the District entered into three separate “pay fixed, receive variable” interest rate swap agreements at a cost less than what the District would have paid to issue fixed rate debt. Two of the swap agreements are associated with the $416,000,000 Series A and B bonds issued in June 2002 while the third swap is associated with the $146,000,000 Series E bonds issued in January 2003. The swap agreements effectively changed the variable interest rates on the June 2002 bonds and the bonds issued in January 2003 to synthetic fixed rates of 4.785% and 3.64%, respectively. Significant terms of the swaps are as follows:

	June 2002 Unlimited Tax Series A	June 2002 Limited Tax Series B	December 2002 Unlimited Tax Series E
Notional Amounts	$ 363,000,000	$ 53,000,000	$ 146,000,000
Effective Date	6/12/2002	6/12/2002	1/15/2003
Fixed Rate Paid	4.785%	4.785%	3.640%
Variable Rate Received	BMA	BMA	70% of Libor
Fair Values	$ (37,229,000)	$ (5,436,000)	$ (3,378,000)
Swap Termination Date	12/1/2031	12/1/2031	12/1/2022
Counterparty Credit Rating	See credit risk disclosure for counterparty credit ratings		

The notional amounts of the swaps match the principal amounts of the associated debt. The District’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated “bonds payable” category. For the June 2002 bonds, the District pays the counterparty a fixed rate of 4.785% and receives a variable payment based on the BMA rate. For the bonds issued in January 2003, the District pays the counterparty a fixed rate of 3.64% and receives a variable payment computed at 70% of the LIBOR rate. Conversely, the bonds’ variable rate coupon payments are determined by rates established by the re-marketing agents on a weekly basis.

Fair Value - A decline in long-term interest rates produced negative fair values on swaps at December 31, 2005, of $37,229,000 and $5,436,000, for June 2002 series A and B issues, respectively, and $3,378,000 for January 2003 series E bonds. The swaps’ negative fair values may be countered by a reduction in total interest payments required under the variable rate bonds, creating lower synthetic interest rates. Since the coupons on the District’s variable rate bonds adjust to changing interest rates, the bonds do not have corresponding changes in their fair value. The swaps’ fair values were estimated using a bond pricing model similar to the zero-coupon model which calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit risk - The District was not exposed to counterparty credit risk at December 31, 2005 because the swaps had negative fair values. If changes in interest rates create positive fair values for the swaps in the future, the District would be exposed to credit risk in the amount of the derivatives' fair values. The swap agreements contain varying collateral agreements with the counterparties. The agreements require full collateralization of the fair value of the swaps should the counterparties' credit ratings fall below Standard & Poor's rating of BBB+, or Moody's Investor Services rating of Baa1. Collateral on all swaps is to be held by a third party custodian in the form of cash, debt obligations issued by the U.S. Treasury or debt issued by federally sponsored agencies.

The District has executed the three swap agreements with various counterparties. One counterparty holds 50% of the notional amount of the outstanding swaps and has credit ratings of AA- and Aa2 with Standard & Poor's and Moody's, respectively. A second counterparty holds 44% of the notional amount of the outstanding swaps and has credit ratings of A and A1 with Standard & Poor's and Moody's, respectively. A third counterparty holds 6% of the notional amount of the outstanding swaps and has credit ratings of A+ and A1 with Standard & Poor's and Moody's, respectively.

The District enters into master netting agreements when more than one derivative transaction has been entered into with a counterparty. In accordance with the agreements, the parties may elect to net the amounts of two or more transactions so that a single sum will be payable between the parties.

Basis risk - The District's variable rate bond coupon payments are determined by rates established by re-marketing agents on a weekly basis. If the re-marketing agents fail to determine the rates, then the weekly rates shall be the equivalent of the BMA Municipal Swap Index. For the Series E bond issue, for which the District receives a variable rate payment other than the BMA (i.e., 70 % of the LIBOR rate), the District is exposed to basis risk should the relationship between the LIBOR and BMA converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of December 31, 2005, the interest rates paid to bondholders were 3.5% for the Series A and B issues and 3.53% for the Series E issue. The BMA rate and 70% of the LIBOR rate at December 31, 2005 were 3.51% and 3.07%, respectively.

Termination risk - The District or the counterparties may terminate any of the swaps if the other party fails to perform under terms of the agreements. If a swap agreement is terminated, the associated variable rate bonds would no longer carry synthetic fixed interest rates. Also, if the swap has a negative fair value at the time of termination, the District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt - Using rates as of December 31, 2005, the annual debt service requirements for the District's outstanding variable rate debt, along with the net swap payments, are shown in the schedules that follow. As rates vary, the variable rate interest payments and net swap payments will vary.

Bonds Payable-SWAP Maturity Table - June 2002 Series A&B $416,000,000

(in thousands of dollars)

Fiscal Year Ending December 31	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net *	Total
2006	$ -	$ 14,560	$ 5,304	$ 19,864
2007	-	14,560	5,304	19,864
2008	-	14,560	5,304	19,864
2009	-	14,560	5,304	19,864
2010	-	14,560	5,304	19,864
2011-2015	-	14,560	5,304	19,864
2016-2020	-	14,560	5,304	19,864
2021-2025	119,800	4,193	1,527	125,520
2026-2030	296,200	10,367	3,777	310,344
	$ 416,000	$ 116,480	$ 42,432	$ 574,912

* Computed: (Fixed rate payment - Variable rate payment from counterparty) x Notional amount or (4.785% - 3.51%) x $416,000,000.

Bonds Payable-SWAP Maturity Table - December 2002 Series E $146,000,000

(in thousands of dollars)

Fiscal Year Ending December 31	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net *	Total
2006	$ -	$ 5,154	$ 832	$ 5,986
2007	-	5,154	832	5,986
2008	-	5,154	832	5,986
2009	-	5,154	832	5,986
2010	-	5,154	832	5,986
2011-2015	-	5,154	832	5,986
2016-2020	93,000	3,283	530	96,813
2021-2022	53,000	1,871	302	55,173
	$ 146,000	$ 36,078	$ 5,824	$ 187,902

* Computed: (Fixed rate payment - Variable rate payment from counterparty) x Notional amount or (3.64% - 3.07%) x $146,000,000.

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 Assets. 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.

In January 2005, the Board of Commissioners authorized the Capital Improvements Bond Fund to advance the new Stormwater Management Fund up to $9,500,000 for temporary funding. An advance of $4,000,000 was made in January 2005 and was repaid in November 2005.

Individual interfund receivable and payable balances at December 31, 2005 are as follows (in thousands of dollars):

	Interfund	
	Receivables	Payables
General Corporate Fund	$ 350	$ -
Capital Projects Funds:		
Nonmajor Fund	-	9
Capital Improvements Bond Fund	-	192
Construction Fund	-	149
	$ 350	$ 350

In addition to the above, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2005 that represented earned but uncollected property taxes in the Retirement Fund and the government-wide Statements of Net Assets.

Transfers between funds as authorized in the budget are recorded as “other financing sources (uses)” in the fund operating statements. Transfers are eliminated in the government-wide Statements of Activities. During the year ended December 31, 2005, there was a $25,000,000 transfer authorized by the Board of Commissioners from the Construction Working Cash Fund to the Stormwater Management Fund for the purpose of establishing a Stormwater Working Cash Fund.

13. Designated Fund Balances

The Reserve Claim account division of the General Corporate Fund reports a fund balance designation for payment of future claims liabilities in the amount of $38,273,000 at December 31, 2005. This designation provides resources to meet potential claims liabilities without detrimental impact on future years’ operating budgets and it is reclassified to an undesignated, unreserved fund balance for the overall presentation of the General Corporate Fund, since designations can not exceed the total unreserved fund balance.

14. Property Tax Extension Limitation Act

Effective March 1, 1995, the Property Tax Extension Limitation Act (PTELA) 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 limitation does not apply to the District’s Debt Service and the new Stormwater Management Fund levies.

In addition, the individual tax levies of the Corporate, Construction, Reserve Claim, 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 new Stormwater Management Fund levy cannot exceed .05% of the equalized assessed valuation as a result of statutory changes.

15. Operating Leases

The District leases land to governmental and commercial tenants for periods of up to 99 years. There were no contingent lease rentals for the period. The commercial leases are considered non-cancelable and the following is a summary of the minimum future rentals for these leases at December 31, 2005 (in thousands of dollars):

2006	$ 4,906
2007	4,710
2008	4,579
2009	4,547
2010	4,547
Later Years	133,571

16. Subsequent Events

In February 2006, the Board of Commissioners authorized and approved the abatement of 2005 real estate tax levies in the amount of $17,755,191 for Debt Service Funds. These amounts were reflected in the District's financial statements as of December 31, 2005.

APPENDIX B

CAPITAL IMPROVEMENTS PROGRAM

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Appendix B

CAPITAL IMPROVEMENTS PROGRAM

Overview

The District currently serves the City of Chicago and 125 other municipalities encompassing an area of approximately 883 square miles. In carrying out its responsibilities, the District collects and treats wastewater from a population equivalent of about 10.35 million people; this includes domestic wastewater from approximately 5.25 million people, a commercial and industrial equivalent of approximately 4.5 million people, and a combined sewer overflow equivalent of approximately 0.6 million people. Its operating facilities are estimated to have a present day replacement cost of $28.0 billion.

Treated wastewater, along with runoff from rainfall, enters the rivers and streams of the Cook County area, waterways that serve as headwaters of the Illinois waterway system. Stringent water quality standards imposed by the Federal and State governments require that wastewater treatment result in unpolluted streams for the residents of Cook, DuPage and Will Counties, and other downstream communities. Each of the District's WRPs operates under a National Pollutant Discharge Elimination system (NPDES) permit issued by the Illinois Environmental Protection Agency (EPA). All of the District's WRPs are in compliance with their NPDES permit. In order to maintain compliance, the District's facilities are continuously rehabilitated and upgraded to provide cost effective collection and treatment.

The District's Capital Improvement Program consists of those projects identified as necessary to assure safe and uninterrupted operation of its facilities, meet existing and new statutory and regulatory requirements, and increase efficiency through facility upgrades and modernization. The District anticipates constructing its Capital Improvement Program projects with funding from the Illinois EPA State Revolving Fund, U.S. Army Corps of Engineers, Construction and Storm Water Management Fund tax levy collections, and the District's bonding authority. A description of the major elements in the Capital Improvement Program follows, together with the estimated cost of projects identified to date (based upon current price levels).

Collection System

In order to collect wastewater from local sewer systems for conveyance to its water reclamation plants, the District has constructed or has under construction approximately 22 pump stations and 554 miles of intercepting sewers and force mains ranging in size from 12 inches to 27 feet in diameter.

The District has an ongoing and extensive Interceptor Inspection and Rehabilitation Program with respect to the interceptor sewers and force mains which it owns and operates. The program is designed to identify deterioration and deficiencies and take action to make necessary repairs.

Within the next five years, award of construction projects with a cost of approximately $72 million is currently anticipated for collection system improvements.

Water Reclamation Plant Expansions and Improvements

The District has a total secondary treatment capacity of approximately 2 billion gallons per day. The Capital Improvement Program includes projects for enhancements at all of the District's WRPs. Typically studies are conducted to determine future needs when facilities are operating near or at capacity, or when new facilities are anticipated to be required as a result of pending regulations. At the present time the Engineering Department is near completion of its Master Plan studies for the Stickney, Calumet and North Side WRPs and service areas, which will identify the capital improvements needed to serve wastewater flows projected through the year 2040. Award of construction projects with a cost of approximately $845 million is currently anticipated for WRP expansions and upgrades, within the next five years. This figure includes several projects at the Calumet and Stickney WRPs that have already been identified and added to the program as a result of the ongoing Master Plan studies. Some major projects are highlighted below.

04-823-3P, New Preliminary Treatment Facilities at the Stickney WRP and Calumet WRP, is scheduled to be awarded mid 2008, at an estimated value of $230 million. This project includes the construction of new circular settling tanks and associated appurtenances to relieve existing capacity limits. Circular settling tanks also offer the benefit of lower energy costs and maintenance requirements.

04-128-3P, West Side Circular Primary Settling Tanks – Battery A, at the Stickney WRP, is scheduled to be awarded mid 2009, at an estimated value of $40 million. This project will provide conventional primary treatment to flows through the Westside Plant by converting the existing Imhoff tanks to circular primary tanks. Nine 150 foot diameter tanks will be constructed in existing Battery A of the Imhoff tank area. This project will increase the amount of digester gas used in the plant thus reducing the District's reliance on natural gas.

05-711-3P, Lemont Plant Expansion is scheduled to be awarded in mid 2008, at an estimated value of $35 million. The plant expansion will meet the anticipated future needs for wastewater collection and treatment in the Lemont facility plan area. The project includes construction of coarse screen facilities, a pump station, fine screen facilities, primary settling tanks, aeration tanks, final settling tanks, and an equalization basin.

Biosolids Management

The effective handling of biosolids is a major program of the District. Efficiencies can be gained by improved dewatering facilities. Award of construction projects with a cost of approximately $152 million is currently anticipated for biosolids management.

Improved wastewater treatment and greater plant efficiency will result in the District's collection of increased quantities of biosolids. The Master Plan studies have identified the process of Thermophilic - Mesophilic two-stage digestion to be the favored alternative in providing a Class A biosolids product.

Tunnel and Reservoir Plan

The District's Board of Commissioners adopted the Tunnel and Reservoir Plan (TARP) in 1972 as a comprehensive pollution and flood control program for its 375 square mile combined sewer area. This area includes part or all of 52 communities including the City of Chicago. 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 floodwaters in order to reduce basement sewage flooding. TARP was adopted after years of studies conducted through the Flood Control Coordinating Committee (FCCC). The members of the FCCC represented the State of Illinois, Cook County, the City of Chicago, and the District.

Prior to the startup of TARP, combined sewer overflow (CSO), a mix of raw sewage and stormwater runoff, discharged to the waterways approximately 100 times a year. During periods of heavy rain, the pollution effect of the CSO was equivalent to a polluted wastewater load from a population of about 4.5 million people. The discharge exceeded the capacity of local sewers and waterways and resulted in basement and street flooding in the area and, during the heaviest rains, backflows to Lake Michigan.

TARP Tunnel System. The TARP Tunnel System is comprised of the Upper Des Plaines, Des Plaines, Mainstream and Calumet tunnel systems and the Mainstream and Calumet TARP pumping stations. The TARP tunnel system eliminates about 85% of the pollution load attributable to CSOs by capturing and storing the most polluted fractions until they can be treated in the District's WRPs.

TARP Reservoirs. Three storage reservoirs will serve as outlets for the sewage and stormwater runoff flows from CSOs. The three CUP reservoirs – O'Hare, Thornton and McCook – will provide 15.2 billion gallons of flood control storage when completed. Currently the O'Hare reservoir has been completed. Work on the Thornton and McCook reservoirs is underway. Award of construction projects with a cost of approximately $118 million is currently anticipated for TARP reservoir construction, over the next five years.

Stormwater Management

In 2005, the District assumed responsibility for Stormwater Management in Cook County, following the passage of Public Act 93-1049 (Act). The Engineering Department's major focus in 2006 was on establishing the program, chiefly through the development of a Cook County Stormwater Management Plan (CCSMP). It is anticipated that the CCSMP will be approved and adopted as ordinance by the District's Board of Commissioners in 2007. The CCSMP includes technical guidance for performing detailed watershed plans (DWPs). Six established watersheds for Cook County were identified in the Act and DWPs were initiated for three of the established watersheds in 2006 with work being expected to conclude in 2008. Work on the DWPs for the three remaining watersheds will commence in 2007. The DWPs will ultimately result in comprehensive evaluations of the existing conditions and problems in each of Cook County's watersheds, and include recommendations as to the remedial measures that should be taken. The projects recommended in the studies will then be evaluated to determine the future capital improvement program for the Stormwater Management Fund. Prior to the completion of the DWPs, the intent is to commit financial support from the Stormwater Management Fund in 2007 to one or more of the projects that have been identified from studies conducted by other agencies, such as the U.S. Army Corps of Engineers and the Illinois Department of Natural Resources / Office of Water Resources.

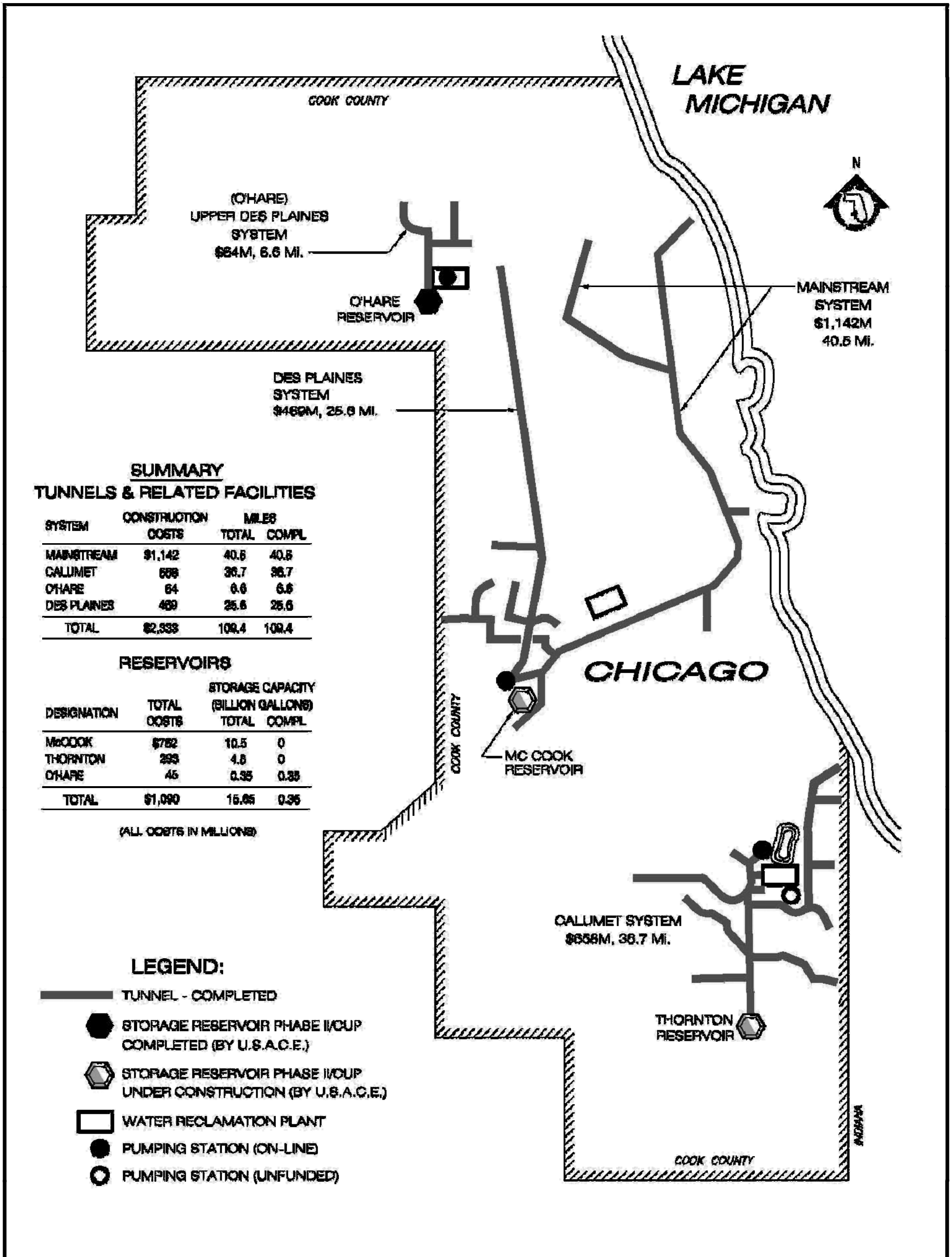
Replacement of Facilities

Many of the District's plants and interceptors were placed in service over 50 years ago. In order to maintain continuous operations, physically deteriorating process facilities must be replaced through major remodeling, alteration or expansion. Award of construction projects with a cost of approximately $395 million is currently anticipated for replacement of facilities.

Means of Financing

The only USEPA grant funding available to the District in recent years has been limited to Congressional earmarks for District TARP projects. Most of the funding of the District's planned improvements of its plants and continued construction of TARP facilities is expected to be accomplished through State Revolving Fund Loans ("SRF Loans") and the issuance of bonds by the District. The District funding needed to complete the Capital Improvement Program is approximately $1.58 billion.

Capital Improvements Program	District Bonds & Construction Fund, and Stormwater Management Fund (millions)
Intercepting Sewers	$ 72
Water Reclamation Plant Expansions & Improvements	845
Biosolids Management	152
Tunnel & Reservoir Plan CUP (District Portion)	118
Stormwater Management	1
Replacement of Facilities	395
Total	**$1,583**



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	STORAGE CAPACITY (BILLION GALLONS) COMPL
McCOOK	$752	10.5	0
THORNTON	293	4.8	0
O'HARE	45	0.35	0.35
TOTAL	$1,090	15.65	0.35

(ALL COSTS IN MILLIONS)

TUNNEL AND RESERVOIR PLAN
PROJECT STATUS

METROPOLITAN WATER RECLAMATION
DISTRICT OF GREATER CHICAGO
ENGINEERING DEPARTMENT
TARP & PROJECT SUPPORT MVL/KMF:JJK

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APPENDIX C

Report of the Consulting Actuary on the District Retirement Fund

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Appendix C

REPORT OF THE CONSULTING ACTUARY ON THE DISTRICT RETIREMENT FUND

The Metropolitan Water Reclamation District has a contributory pension fund which provides coverage for all Water Reclamation District employees and Commissioners. The total number of covered employees in active service at the end of 2005 was 2,025. The total number of beneficiaries was 2,215.

The pension fund is financed by employee contributions and Water Reclamation District contributions. Both are fixed by State Statute. The employee rate is a fixed percentage of salary. The Water Reclamation District contribution is a multiple of the employee contributions made two years prior. The employee rate of contribution was eight and one-half percent of salary until January 1, 1988. Beginning January 1, 1988, the rate was raised to nine percent of salary. The Water Reclamation District multiple was 2.19 for 1988 and each year thereafter. An exception is made to this 2.19 multiplier for all employee contributions made to the Optional Plan beginning in 2003, for which the tax levy is made on dollar-for-dollar basis.

The actuarial funding method used is the Entry Age Normal Method. The Entry Age Normal Method is an immediate gain valuation method. This means that any deviation of plan experience from the actuarial assumptions is reflected immediately in the Unfunded Liability.

This Entry Age Normal Method assigns to each year of employment a constant percentage of an employee's salary, called the Current Service Cost, sufficient to accumulate the necessary funds to provide for the full prospective costs of the employee's projected retirement pension. The amount of pension must be estimated using various assumptions as to future compensation levels, employee turnover, mortality, and pension fund investment earnings, since the actual pension can only be known at the time of retirement. These are called actuarial assumptions and reflect long range expectations of the plan on an ongoing or permanent basis. An annual review of these assumptions is made and appropriate changes are made when required.

The Accrued Liability of the fund at any point in time is the accumulated value of all Current Service Costs which should have been paid to that time for active employees plus full prospective cost of pensions for all retired employees. The extent that the actual Plan Assets are less than the Accrued Liability is called the Unfunded Liability.

An amount of money is required each year to amortize the Unfunded Liability over a span of thirty years. This amount is called the 30-Year Amortization of the Unfunded Liability.

The total required Annual Actuarial Contribution to the fund (financed by the employee and employer) is equal to the Current Service Cost plus 30-Year Amortization of the Unfunded Liability as a level percent of payroll. This conforms to GASB No. 25.

In 2005, employer contributions to the Fund amounted to 60.6% of the actuarially determined contribution requirement.

Financial Position

Year End	Employee Contributions (1)	Employer Contributions (2)	Investment Income (3)	Total Income
1982	$ 6,460,582	$ 9,563,040	$15,295,138	$31,318,760
1983	6,414,035	10,862,820	16,420,032	33,696,887
1984	6,411,941	12,755,070	21,513,095	40,680,106
1985	6,434,970	12,648,060	28,535,244	47,618,274
1986	6,759,007	12,598,470	42,745,421	62,102,898
1987	8,163,128	12,648,060	33,013,009	53,824,197
1988	10,342,392	12,078,210	29,998,459	52,419,061
1989	9,827,954	14,636,010	40,679,380	65,143,344
1990	9,855,430	18,725,010	29,647,678	58,228,118
1991	10,179,776	17,306,040	43,500,015	70,985,831
1992	11,225,282	17,491,350	50,598,051	79,314,683
1993	12,471,164	18,662,412	51,147,300	82,280,876
1994	12,675,109	20,585,604	37,113,201	70,373,914
1995	13,489,654	22,486,337	60,949,701	96,925,692
1996	15,532,480	22,067,934	83,238,392	120,838,807
1997	19,467,663	23,588,927	78,226,986	121,283,576
1998	13,283,910	26,057,744	113,535,607	152,877,261
1999	14,238,418	32,268,460	52,828,196	99,335,074
2000	14,332,384	27,208,901	26,489,809	68,031,094
2001	14,986,546	28,138,415	(13,622,833)	29,502,128
2002	16,308,414	28,663,736	(68,092,272)	(23,120,122)
2003	14,230,224	28,789,850	172,748,408	215,768,482
2004	15,150,846	30,986,177	98,895,448	145,032,471
2005	14,468,188	26,179,018	55,859,896	96,507,102

Year End	Benefits	Administrative and Investment Expenses	Refunds	Total (4)	Income Less Payouts (5)	Return on Invested Assets (6)
1982	$ 7,613,737	$ 504,815	$ 639,353	$ 8,757,905	$22,560,855	12.38%
1983	8,359,571	619,781	404,655	9,384,007	24,312,880	11.30
1984	9,350,655	829,684	580,433	10,760,772	29,919,334	12.76
1985	10,501,440	960,113	506,842	11,968,395	35,649,879	14.46
1986	12,014,183	1,271,392	595,895	13,881,470	48,221,428	18.34
1987	13,200,781	1,311,027	661,121	15,172,929	38,651,268	11.73
1988	16,389,401	1,743,756	606,055	18,739,212	33,679,849	9.42
1989	18,486,744	2,116,868	623,811	21,227,423	43,915,921	11.58
1990	21,535,758	2,109,427	549,382	24,194,567	34,033,551	7.55
1991	23,620,406	2,348,838	723,460	26,692,704	44,293,127	10.28
1992	25,625,511	2,645,653	644,818	28,915,982	50,398,701	10.80
1993	29,057,232	2,865,952	836,893	32,760,077	49,520,799	9.88
1994	32,316,436	2,913,129	852,963	36,082,528	34,291,386	6.56
1995	36,322,288	2,892,250	997,650	40,222,188	56,703,504	10.21
1996	40,677,511	2,923,870	1,496,844	45,098,224	75,740,583	12.78
1997	45,887,945	3,167,580	1,238,978	50,294,503	70,989,073	11.02
1998	49,994,286	3,096,256	1,011,193	54,101,735	98,775,526	12.31
1999	54,801,214	3,053,373	892,443	58,747,030	40,588,044	5.08
2000	58,666,730	2,679,373	872,955	62,219,058	5,812,036	2.40
2001	62,542,156	2,733,296	701,766	65,977,218	(36,475,090)	(1.50)
2002	67,574,253	2,701,495	951,614	71,227,362	(94,347,484)	(6.90)
2003	73,231,227	2,885,338	1,041,560	77,158,125	138,616,357	18.90
2004	78,113,259	3,236,471	1,320,740	82,670,470	62,362,001	9.32
2005	83,293,069	3,381,747	1,287,679	87,962,495	8,544,607	4.85

(1) Includes Deductions in Lieu for Disability, made by the District.
(2) Net Tax Levy and Miscellaneous Income.
(3) Includes realized net gain/loss on sale and exchange of bonds and stocks.
(4) Includes Pensions, Benefits, Refunds and Administrative Expenses.
(5) Does not include Prior Years Tax Adjustments.
(6) Computed on assets shown, less taxes receivable and cash

Distribution of Cash and Security Holdings

Year	Cash	Federal Government Securities	State and Local Government Securities	Corporate Stocks and Bonds	Short Term	Convertible Securities	Other Bonds
1982	0.3%	32.5%	0.0%	45.5%	20.4%	1.3%	0.0%
1983	0.0	36.9	0.0	44.5	18.1	0.5	0.0
1984	0.1	56.5	0.0	33.8	8.8	0.3	0.5
1985	(0.1)	57.2	0.0	29.7	12.6	0.1	0.5
1986	(0.3)	19.6	0.0	60.5	17.2	0.0	3.0
1987	0.2	22.0	0.0	65.0	10.7	0.0	2.1
1988	0.3	17.7	0.0	68.3	11.0	0.3	2.4
1989	0.1	27.9	0.0	62.4	7.1	0.8	1.7
1990	0.3	29.8	0.0	64.9	3.5	0.0	1.5
1991	0.1	37.8	0.0	55.5	4.5	1.0	1.1
1992	0.1	33.1	0.6	62.2	3.1	0.0	0.9
1993	0.0	26.7	0.7	63.4	8.4	0.0	0.8
1994	0.0	33.0	0.5	60.1	5.6	0.1	0.7
1995	0.0	33.1	0.0	60.4	6.5	0.0	0.0
1996	0.1	29.4	0.0	66.2	4.3	0.0	0.0
1997	0.0	21.1	0.0	75.2	0.0	0.0	0.0
1998	0.0	17.3	0.0	81.0	1.7	0.0	0.0
1999	0.0	8.6	0.0	89.4	1.3	0.0	0.7
2000	0.1	6.7	0.0	91.5	1.3	0.0	0.4
2001	0.0	5.2	0.1	93.2	1.5	0.0	0.0
2002	0.0	6.0	0.1	92.7	1.2	0.0	0.0
2003	0.0	5.3	0.3	93.3	1.0	0.0	0.1
2004	0.0	5.2	0.3	93.2	1.1	0.0	0.2
2005	0.0	5.1	0.1	92.8	1.8	0.0	0.2

Schedule of Funding Progress

Year	Accrued Liability (1)	Assets at Actuarial Value (2)	Funded Ratio	Unfunded Accrued Liability	Payroll at Year End	Unfunded Accrued % Payroll (Surplus)
1982 (a)	$222,156,451	$139,675,176	62.9%	$ 82,481,275	$ 72,947,568	113%
1983 (b)	249,838,650	161,194,219	64.5	88,644,431	74,710,224	119
1984	264,660,119	192,992,985	72.9	71,667,134	73,630,944	97
1985 (b)	309,156,699	235,247,736	76.1	73,908,963	73,698,576	100
1986 (a)	313,485,737	293,954,711	93.8	19,531,026	76,854,312	25
1987 (c)	391,175,897	332,541,047	85.0	58,634,850	80,528,592	73
1988 (c)	429,018,394	366,307,954	85.4	62,710,440	83,010,120	76
1989 (c)	463,309,078	413,497,817	89.2	49,811,261	86,038,752	58
1990	504,634,130	440,414,796	87.3	64,219,334	89,549,112	72
1991	549,689,042	487,748,803	88.7	61,940,239	96,340,824	64
1992 (b)	656,033,027	551,203,578	84.0	104,829,449	101,680,704	103
1993 (a)	710,513,440	614,482,235	86.5	96,031,205	107,316,480	90
1994	768,089,962	648,452,502	84.4	119,637,460	109,730,544	109
1995	824,719,564	725,094,323	87.9	99,625,241	109,728,192	91
1996	875,462,004	809,145,160	92.4	66,316,844	109,385,064	61
1997 (c)	1,063,733,052	894,545,980	84.1	169,187,072	111,870,144	151
1998 (a)	1,132,408,470	969,114,418	85.6	163,294,052	118,068,366	138
1999	1,211,787,971	1,046,966,301	86.4	164,821,670	122,536,313	135
2000	1,267,179,677	1,110,337,457	87.6	156,842,220	126,929,425	124
2001	1,346,223,065	1,155,825,153	85.9	190,397,912	136,382,287	140
2002 (c)	1,470,938,987	1,136,907,158	77.3	334,031,829	137,679,573	243
2003 (a)	1,517,868,687	1,146,520,634	75.5	371,348,053	142,593,596	260
2004	1,578,366,508	1,161,778,511	73.6	416,587,997	146,360,302	285
2005	1,654,188,382	1,171,844,612	70.8	482,343,770	149,246,356	323

(a) Change in actuarial assumptions.
(b) Reflects benefit changes.
(c) Changes in both benefits and actuarial assumptions.
(1) The 1982, 1983, 1984 and 1985 valuation results shown hereinbefore are based on 7% interest rate compounded annually and 6.5% salary scale rate compounded annually. The 1986 and 1987 valuation results are based on 7.5% interest and 6.5% salary. The 1988 valuation results are based on 7.5% interest and 6% salary. The 1989, 1990, 1991, 1992, 1993, 1994, 1995 and 1996 valuation results are based on 8% interest and 6% salary. The 1997-2001 results are based on 8% interest and 5.5% salary scale. The 2002-2004 results are based on 7.75% and 5.5% salary scale.
(2) The book value of all funds as of December 31, 1997 was $824,801,489, and the market value was $935,442,920. All asset values shown here have been restated to the actuarial asset value 5-year smoothed average ratio of market over book) to comply with GASB No. 25.

Prioritized Solvency Test

The prioritized solvency test is another means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with actuarial accrued liabilities classified into the following categories: (1) liability for active member contributions on deposit; (2) liability for future benefits to present retired lives; and (3) liability for the employer financed portion of service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing the obligation for active member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the present value of credited projected benefits for present active members (present value 3) will be partially covered by the remainder of present assets. Generally, if the system has been using a level cost financing, the funded portion of present value 3 will increase over time.

Valuation Date 12/31	Aggregate Accrued Liabilities for (1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (ER Financed Portion) (a)	Actuarial Asset Values for GASB (b)	Portion (%) of Present Value Covered by Assets (1)	(2)	(3)
1989(c), (d)	$ 80,559,411	$175,213,324	$207,536,343	$ 407,723,140	100%	100%	73%
1990(c), (d)	87,056,422	207,949,173	209,628,535	441,773,934	100	100	70
1991	93,595,388	225,131,907	230,961,747	486,146,943	100	100	72
1992(d)	100,963,312	279,794,008	275,275,707	536,682,971	100	100	57
1993(d)	107,748,624	302,428,502	300,336,314	586,300,787	100	100	59
1994(c), (d)	111,174,754	350,425,921	306,489,287	620,929,441	100	100	52
1995(d)	115,703,307	394,570,156	314,446,101	677,845,575	100	100	53
1996	119,176,139	443,261,374	313,024,491	753,812,416	100	100	61
1997(c), (d)	122,296,471	540,830,802	400,605,779	894,545,980	100	100	58
1998(c)	126,612,234	612,581,611	393,214,625	969,114,418	100	100	59
1999	130,913,783	676,294,737	404,579,451	1,046,966,301	100	100	59
2000	136,896,791	712,892,554	417,390,332	1,110,337,457	100	100	62
2001	146,917,082	760,159,510	439,146,473	1,155,825,153	100	100	57
2002 (c), (d)	151,994,419	849,986,869	468,975,699	1,136,907,158	100	100	29
2003 (c)	157,910,357	886,174,665	473,783,665	1,146,520,634	100	100	22
2004	163,674,928	929,904,220	484,787,360	1,161,778,511	100	100	14
2005	170,744,447	988,212,377	495,231,558	1,171,844,612	100	100	3

(a) Active Members (ER Financed Portion) was based on credited projected value of benefits prior to 1997.
(b) Assets at book value 1989-1996; 1997 forward 5-year smoothed market value.
(c) Change in actuarial assumptions.
(d) Change in benefits.

Actuarial Requirements

The total required Annual Actuarial Contribution to the Fund (financed by the employee and the Water Reclamation District) is equal to the Current Service Cost plus an amount to amortize the Unfunded Liability over a period of 30 years as required by GASB No. 25. Prior to the December 31, 1998 valuation, a 40-year amortization period had been used. This method of financing has evolved over the years and seeks to give effect to all interested groups including opinions often expressed by the Civic Federation and was the minimum recommended by the former Illinois Public Employees' Pension Laws Commission.

For the year 2005 (based on a tax multiple of 2.19) the Water Reclamation District contributed (after tax levy losses of 13%) $26,179,018 or 17.89% of payroll. For 2005, employee contributions were $14,468,188 or 9.89% of payroll. The total required annual actuarial contribution, consisting of the Current Service Cost plus the amount to amortize the Unfunded Liability over a 30-year period was 39.21% of payroll.

As the Water Reclamation District tax levy is expressed as a multiple of the total salary deductions made two years prior, the Water Reclamation District is effectively contributing a level annual percentage of payroll.

Year	Total Required Actual Actuarial Contribution Rate	Actual Contribution Employer	Actual Contribution Employee	Deficiency (Excess) in Annual Contribution
1987(a)	19.40	16.46	10.62	(7.67)
1988(c)	26.05	15.00	12.84	(1.79)
1989(c)	25.14	17.63	11.84	(4.43)
1990(c)	22.00	21.76	11.45	(11.22)
1991	22.53	19.33	11.37	(8.16)
1992	22.14	18.16	11.65	(8.25)
1993(b)	26.54	18.35	12.27	(4.08)
1994(a)	25.85	19.18	11.81	(5.14)
1995	27.34	20.49	12.29	(5.45)
1996	25.89	20.11	14.16	(8.37)
1997	24.10	24.45	17.80	(15.15)
1998(c)	35.99	22.94	11.87	1.18
1999(a)	34.46	26.91	12.06	4.51
2000	33.59	22.35	11.70	(0.46)
2001	32.55	22.25	11.81	(1.51)
2002	34.51	21.02	11.96	1.53
2003	37.26	20.91	10.34	6.01
2004	37.89	21.73	10.62	5.54
2005	39.21	17.89	9.89	11.43
2006	41.38	18.48 Est	9.64 Est	13.26 Est

(a) Change in actuarial assumptions.
(b) Reflects benefit changes.
(c) Changes in both benefits and actuarial assumptions.
Note: The total required annual contribution rate is calculated as the normal cost plus 40-year amortization of the unfunded liability for 1998 and prior years. For 1999 and later, a 30-year amortization period is used.

GASB Disclosure

The Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans, is effective for periods beginning after June 15, 1996. The Purpose of the Statement is to make the pension information more understandable and more useful. In the past, the measures of a plan's funded status and the employer's required contributions have been reported consistent with GASB Statement No. 5.

The Actuarial Asset Value, a smoothed market related value of assets technique, is calculated by smoothing unexpected gains or losses over a period of 5 years.

A level-percent amortization of the unfunded actuarial liability (level-dollar prior to 2003) with an open amortization period of 30 years (40 years prior to December 31, 1998) is the method used for computing the amortization requirements.

Schedule of Employer Contributions

Fiscal Year	Annual Required Contributions (ARC) (1)	Required Statutory Basis (2)	Actual	Percent of ARC Contributed by Employer
1986	$12,455,167	$12,598,470	$12,598,470	101.15%
1987	8,285,512	12,648,060	12,648,060	152.65
1988	13,469,279	12,078,210	12,078,210	89.67
1989	13,117,803	14,636,010	14,636,010	111.57
1990	10,977,397	18,725,010	18,725,010	170.58
1991	11,885,881	17,306,040	17,306,040	145.60
1992	12,420,304	17,491,350	17,491,350	140.83
1993	17,392,877	18,662,370	18,662,412	107.30
1994	17,623,058	20,582,460	20,585,604	116.81
1995	19,574,366	22,486,020	22,486,337	114.88
1996	17,990,260	22,037,175	22,067,934	122.67
1997	16,513,219	23,464,852	23,464,471	142.10
1998	26,513,219	25,662,082	25,662,082	95.60
1999	28,918,530	29,786,600	31,771,825	109.87
2000	28,905,278	25,310,000	27,390,683	94.76
2001	28,552,646	27,128,300	28,249,866	98.94
2002	33,414,603	27,307,600	28,663,736	85.78
2003	38,039,355	28,554,300	28,789,850	75.68
2004	40,146,454	31,072,100	30,986,177	77.18
2005	43,164,572	25,958,000	26,179,018	60.65

(1) Normal cost plus 40-year level dollar amortization, less expected employee contributions, restated back for all prior years. 30-year amortization starting 1999. Level-percent amortization starting 2003.
(2) Tax levy after a 13% adjustment for loss and cost of collection.

In the Schedule of Funding Progress, analysis of the dollar amount of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Actuarial Assumptions and Cost Method

The actuarial assumptions used for the December 31, 2005 actuarial valuation were based on our experience analysis of the fund for the four-year period 1999 through 2002.

The major actuarial assumptions used for the December 31, 2005 valuation are summarized below:

- **Investment return:** 7.75% per year, compounded annually.
- **Salary increase:** 5.5% per year, compounded annually.

- **Retirement Rates:** Rates of retirement for each age from 50 to 70, based on the recent experience of the fund.

- **Termination Rates:** Termination rates, varying by age and length of service, based on the recent experience of the fund.

- **Mortality Rates:** The 1983 Group Annuity Mortality Table for Males, for male participants. The 1983 Group Annuity Mortality Table for Females, rated up 2 years, for female participants.

In our opinion, the actuarial assumptions used for the valuation are reasonable, in the aggregate, taking into account Fund experience and future expectations and represent our best estimate of anticipated experience.

The entry age actuarial cost method was used for the December 31, 2005 valuation, with costs allocated on the basis of earnings. This is the same actuarial cost method that was used for the December 31, 2004 valuation.

SANDOR GOLDSTEIN, F.S.A.
Consulting Actuary
Goldstein and Associates

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APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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Appendix D

DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and economic developments are best understood in a comparative framework. This section provides material for analyzing and comparing trends in Cook County with those in other major counties in the nation. To maximize the value of the comparisons, the counties utilized in the tables were selected on the basis of several criteria in addition to size. These include:

(1) Governmental functions similar in magnitude and scope to those of Cook County. This requirement resulted in the exclusion of counties that exist in form but perform no, or only minor, government activities. This group includes, among others, the five counties comprising New York City, Middlesex, Massachusetts; and such city-counties as Philadelphia and Baltimore.

(2) A large central city within the county. This requirement led to the exclusion of such populous counties as Orange, California and Nassau and Suffolk in New York State.

Several tables in this section compare economic trends in metropolitan areas rather than in counties, since timely data are available only on a metropolitan area basis.

Extensive revisions have been made to the definitions of U.S. metropolitan areas. These changes have not affected all metropolitan areas equally. For example, Primary Metropolitan Statistical Areas" are now obsolete. Under the 2000 standards, "Metropolitan Statistical Area" ("MSA") is the term used for the basic set of county-based areas defined under this classification. In addition, eleven (11) MSAs were deemed large enough to be subdivided into "Metropolitan Divisions" ("MD"). The MDs are the most comparable in concept to the now obsolete Primary Metropolitan Statistical Area.

Population of Ten Major Counties

County	2005*	2000	1990	1980	1970
Los Angeles, CA	9,935,475	9,519,338	8,863,164	7,477,657	7,041,980
Cook, IL	5,303,683	5,376,741	5,105,067	5,253,190	5,493,766
Harris, TX	3,693,050	3,400,578	2,818,199	2,409,544	1,741,912
Maricopa, AZ	3,635,528	3,072,149	2,122,101	1,508,030	971,228
San Diego, CA	2,933,462	2,813,833	2,498,016	1,861,946	1,357,854
Miami-Dade, FL	2,376,014	2,253,362	1,937,094	1,625,946	1,267,792
Dallas, TX	2,305,454	2,218,899	1,852,810	1,556,549	1,327,695
Wayne, MI	1,998,217	2,061,162	2,111,687	2,337,240	2,670,368
Cuyahoga, OH	1,335,317	1,393,978	1,412,140	1,498,295	1,720,835
Allegheny, PA	1,235,841	1,281,666	1,336,449	1,450,085	1,605,133

Source: U.S. Department of Commerce, Bureau of the Census.
*2005 Population Estimates.

Per Capita Personal Income (1)

County	2004*	2003	2002	2001	2000
Los Angeles, CA	$33179	$31,452	$30,943	$30,499	$29,233
Cook, IL	37,030	35,686	34,772	34,537	33,918
Harris, TX	39,062	37,145	36,009	37,356	35,607
Wayne, MI	30,006	29,557	28,489	28,234	27,514
San Diego, CA	37,965	35,620	34,915	33,933	32,803
Miami-Dade, FL	29,076	27,670	26,995	26,410	25,626
Dallas, TX	38,606	36,837	36,205	36,373	36,047
Cuyahoga, OH	35,463	33,624	33,316	32,739	32,523
Maricopa, AZ	31,757	30,182	29,632	29,267	28,922
Allegheny, PA	39,605	37,558	36,480	35,634	34,613
U.S. Average, Metropolitan Counties	33,050	31,484	30,810	30,575	29,845

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2000-2004 reflect county population estimates available as of April 2006.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.
*Projected.

Nonfarm Payroll Employment in Metropolitan Statistical Areas and Metropolitan Divisions (1)

	2006*	2005	2004	2003	2002	2001
New York, NY	5,127.5	5,070.5	5,007.5	4,991.9	5,035.0	5,165.7
Los Angeles, CA	4,063.0	4,016.5	3,992.1	3,982.9	4,026.8	4,073.6
Chicago, IL	3,834.9	3,790.9	3,748.5	3,756.9	3,799.1	3,887.3
Philadelphia, PA	1,908.8	1,890.1	1,868.3	1,869.9	1,885.5	1,900.3
Detroit, MI	809.9	821.5	836.7	844.0	859.0	893.0
Dallas, TX	2,013.5	1,951.5	1,904.8	1,882.9	1,916.0	1,976.5
Houston, TX	2,420.6	2,350.2	2,287.9	2,273.9	2,288.5	2,293.6
San Francisco, CA	958.4	943.6	938.4	950.1	987.1	1,053.9
Cleveland, OH	1,070.5	1,070.8	1,073.4	1,074.1	1,082.3	1,117.5
Pittsburgh, PA	1,145.9	1,136.9	1,134.7	1,134.0	1,142.1	1,153.9

(1) Number of persons, in thousands, not seasonally adjusted.
Source: U.S. Department of Labor, Bureau of Labor Statistics.
*Projected.

Unemployment Rates in Metropolitan Statistical Areas and Metropolitan Divisions (1)

	2006*	2005	2004	2003	2002	2001
New York, NY (t)	4.6%	4.9%	6.3%	7.4%	7.3%	5.5%
Los Angeles, CA (t)	4.4	4.9	6.6	7.0	6.8	5.7
Chicago, IL (m)	4.5	6.0	6.2	6.9	6.9	5.6
Philadelphia, PA (t)	4.6	4.8	5.4	5.7	5.6	4.5
Detroit, MI (m)	7.1	7.2	8.8	9.0	7.6	6.3
San Francisco, CA (t)	4.0	4.6	4.7	5.8	5.9	4.0
Dallas, TX (t)	4.8	5.1	6.3	7.1	7.2	4.9
Houston, TX (t)	5.0	5.5	6.6	6.9	6.0	4.6
Pittsburgh, PA (t)	4.8	5.2	5.6	5.7	5.4	4.5
Cleveland, OH (m)	5.1	5.7	5.9	6.0	5.4	4.3

(1) Not seasonally adjusted.
(t) Reflects revised inputs, reestimation, and new statewide controls through 2005.
(m) Reflects revised population controls and model re-estimation through 2005.
Source: U.S. Department of Labor, Bureau of Labor Statistics.
*Projected.

Unemployment Rates for the Civilian Labor Force

	2006*	2005	2004	2003	2002	2001
United States	4.6	5.1%	5.5%	6.0%	5.8%	4.7%
State of Illinois (m)	4.6	5.7	6.2	6.7	6.5	5.4
Cook County, IL (t)	4.8	6.5	6.5	7.3	7.4	6.1
Chicago—MD (t)	4.6	5.9	6.2	6.9	6.9	5.6

(m) Reflects revised population controls and model re-estimation through 2005.
(t) Reflects revised inputs, reestimation, and new statewide controls through 2005.
Source: U.S. Department of Labor, Bureau of Labor Statistics and Illinois Department of Employment Security.
*Projected.

Housing Units Authorized by Building Permits

Metropolitan Area – MSA/MD	2006*	2005	2004	2003	2002	2001
Chicago, IL	46,672	53,908	47,541	49,954	44,619	40,586
Cleveland, OH	5,172	6,438	7,409	7,040	7,244	7,170
Dallas, TX	56,546	59,895	53,470	52,813	34,496	35,478
Detroit, MI	8,939	16,392	21,080	19,900	17,779	16,218
Houston, TX	71,257	62,125	53,331	56,571	41,217	32,610
Los Angeles, CA	33,311	30,641	35,785	30,151	16,454	18,294
Miami, FL	34,422	45,562	46,084	39,595	14,606	13,996
New York, NY	60,999	67,207	56,833	49,812	21,423	19,636
Philadelphia, PA	15,257	20,242	21,010	21,080	15,771	15,040
Phoenix, AZ	43,657	62,617	65,259	54,860	47,899	46,100
San Diego, CA	9,194	14,306	15,587	18,031	13,684	15,405
San Francisco, CA	13,494	14,883	15,239	14,828	3,222	2,932

Source: U.S. Department of Commerce, Bureau of the Census, Building Permits Branch, Construction Statistics Division.
*Projected.

Chicago Area's Largest Non-Governmental, Non-Agricultural Employers Ranked by Number of Employees

Company Name	Number of Chicago-Area Employees (1)
Jewel-Osco	34,037
Advocate Health Care	25,279
United Parcel Service	19,346
SBC Communications, Inc	16,500
Wal-Mart Stores, Inc	16,350
United Airlines	15,431
Archdiocese of Chicago	15,371
J.P. Morgan Chase & Co	15,366
Abbott Laboratories	15,200
Motorola, Inc	15,000
Sears Holdings Corp.	14,812
University of Chicago	13,824
Walgreen Co	11,860
Target Corp	11,600
American Airlines	10,482
Allstate Ins Co	10,349
Dominick's Finer Foods, Inc.	10,073
LaSalle Bank Corp	9,038
Hewitt Associates Inc.	8,400
Rush University Medical Center	8,243
Evanston Northwestern Healthcare	7,747
Northwestern University	7,404

(1) As of August 1, 2005.
Source: Crain's Chicago Business, October 3, 2005.

APPENDIX E

FORMS OF OPINIONS OF CO-BOND COUNSEL

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Appendix E

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[To be provided on the letterheads, respectively, of
the law offices of Chapman and Cutler LLP, Chicago, Illinois,
and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois]

We hereby certify that we have examined certified copy of the proceedings (the *"Proceedings"*) of the Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago, County of Cook, State of Illinois (the *"District"*), passed preliminary to the issue by the District of its fully registered General Obligation Refunding Bonds, Unlimited Tax Series A of March, 2007 (the *"Bonds"*), to the amount of $188,315,000, dated March 21, 2007, denomination $5,000 or authorized integral multiple thereof, due and payable (subject to right of prior redemption) on December l of the years and in the amounts and bearing interest at the rates percent per annum as follows:

YEAR	AMOUNT ($)	RATE (%)
2014	4,000,000	4.00
2014	14,760,000	5.00
2015	4,000,000	4.00
2015	15,675,000	5.00
2016	1,000,000	4.00
2016	19,585,000	5.00
2017	2,500,000	4.00
2017	15,455,000	5.00
2018	20,015,000	5.00
2019	21,125,000	5.00
2020	22,250,000	5.00
2021	23,395,000	5.00
2022	24,555,000	5.00

Each of the Bonds bears interest from the later of its dated date as stated above or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of each such Bond, respectively, is paid or duly provided for, such interest (computed upon the basis of a 360-day year of twelve 30-day months) being payable on June 1 and December 1 of each year, commencing on June 1, 2007.

We are of the opinion that the Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.

We further certify that we have examined the form of Bond prescribed and find the same in due form of law; and in our opinion the Bonds, to the amount named, are valid and legally binding direct and general obligations of the District, the payment for which the full faith and credit of the District has been pledged, and all taxable property in the District is subject to the levy of taxes to pay the same without limitation as to rate or amount, all except that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is our opinion that, subject to the District's compliance with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In rendering our opinion on tax exemption, we have relied on the mathematical computation of the yield on the Bonds and the yield on certain investments by Bansley & Kiener, Certified Public Accountants, Chicago, Illinois. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the District with respect to certain material facts within the District's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

AWARDS & ACHIEVEMENTS RECOGNITION

Metropolitan Water Reclamation District of Greater Chicago

Multi-Year Awards

1975-2005
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting/Comprehensive Annual Financial Report

1993-2005
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

1985-2006
Government Finance Officers Association of the United States and Canada
Award for Distinguished Budget Presentation

Individual Year Awards (partial listing)

1999
National Environmental Achievement Award
Research & Technology for Optimization of Conventional Technology Sludge Process to Produce Class A Sludge

International Water Environment Federation
Award for Outstanding Achievement in Water Quality Improvement

Engineering News Record
Construction of the Chicago Sanitary and Ship Canal in 1900 and Tunnel & Reservoir Plan (TARP) in 1995 named as two top 125 engineering projects of the past 125 years.

2000
American Public Works Association
Reversal of the Chicago River, one of the "Top Ten Projects of the Century"

American Public Works Association, Chicago Metro Chapter
TARP Phase 1, "One of the Top Ten Projects of the Century"

American Society of Civil Engineers
District's Wastewater Treatment System "One of the Monuments of the Millennium"

Illinois Safety Council and Greater Chicago Safety Council
Outstanding Safety Performance in Maintaining a Safe and Healthy Working Environment for its Employees

The Mayor's Office for People with Disabilities
Best Practices Award to the District's Personnel Department

2001
National Environmental Achievement Award for Excellence in Research and Technology

Chicago Federation of Labor – AFL CIO
Michael J. Bruton Workplace Safety Award

Individual Year Awards (continued)

2002
Chicago Women-In-Trade Council
Award for District's Women-In-Trade Program

Illinois Safety Council
2001 Transportation Award for Outstanding Safety Performance

2003
American Society of Civil Engineers
Outstanding Civil Engineering Award
Over 5 million Category, for the Thornton Transitional Reservoir

American Public Works Association
Environmental Project of the Year
Over 10 million Category, for the Thornton Transitional Reservoir

Illinois Safety Council and Greater Chicago Safety Council
Health and Safety Award – District-Wide

National Institute of Government Purchasing
Certificate of Achievement for Excellence in Public Procurement

United States Department of Defense
Certificate of Appreciation for Excellence in Public Procurement

United States Environmental Protection Agency
Certificate of Recognition as a Clean Water Partner for the 21st century

2004
Illinois Safety Council and Greater Chicago Safety Council
Outstanding Safety Performance Award

United States Environmental Protection Agency
National Second Place Clean Water Act Recognition Award, Kirie Water Reclamation Plant, for Outstanding Operations and Maintenance, Large-Advanced Plant

2005
National Institute of Government Purchasing
Certificate of Achievement for Excellence in Public Procurement

National Purchasing Institute
Achievement of Excellence in Procurement

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO • GENERAL OBLIGATION REFUNDING BONDS, UNLIMITED TAX SERIES A