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

Chicago, Illinois

For the Year Ended
December 31, 2005

Finance Department
JACQUELINE TORRES, Director of Finance/Clerk

Incorporated May 29, 1889

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I.
INTRODUCTORY
SECTION

The Metropolitan Water Reclamation District created and maintains the Sidestream Elevated Pool Aeration Station (SEPA) to provide vital oxygen to the river systems in addition to restoring and beautifying the park environment.

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Metropolitan Water Reclamation District of Greater Chicago

Board of Commissioners and Principal Officers

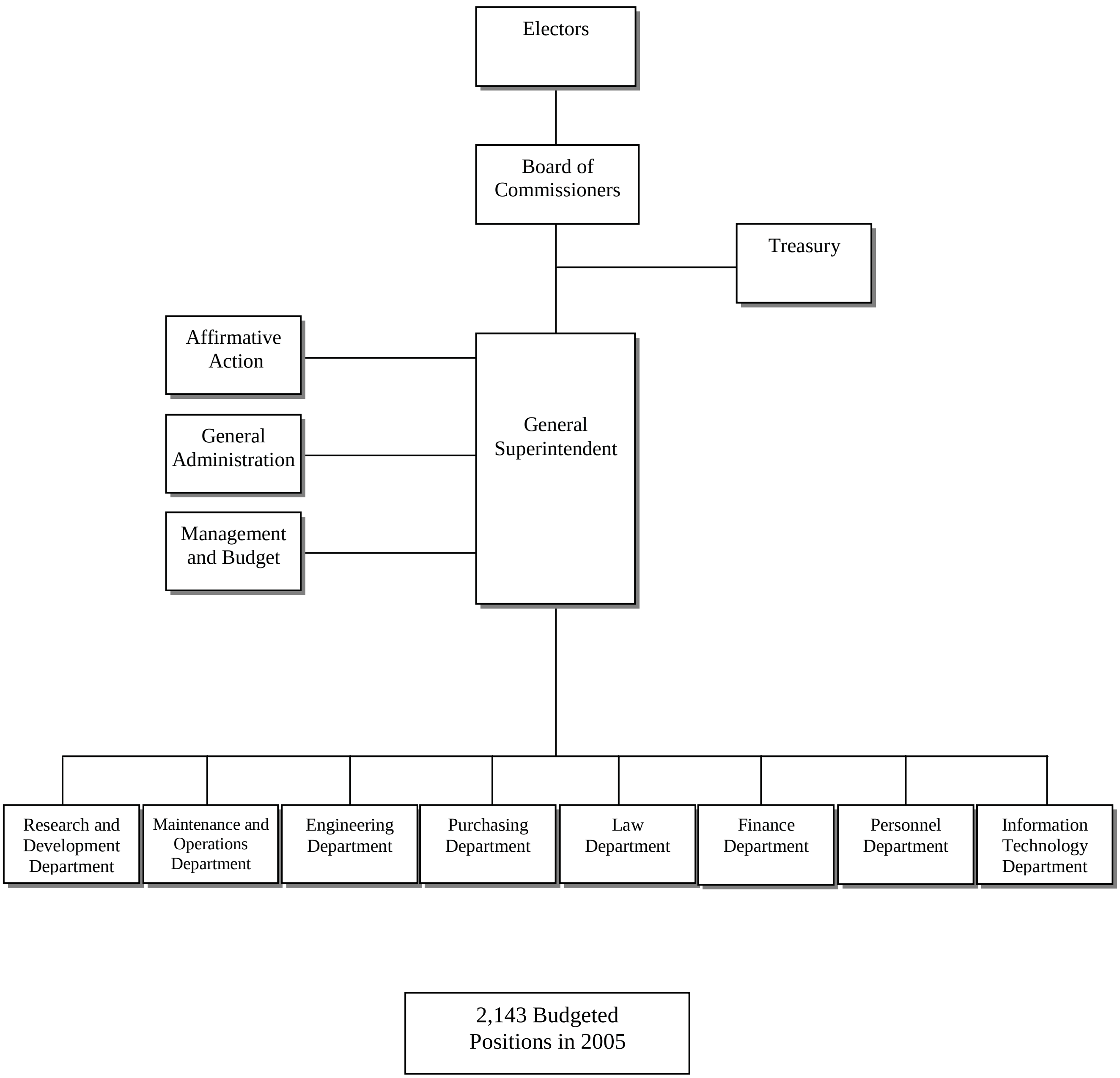
Board of Commissioners:
Honorable Terrence J. O'Brien, President
Honorable Kathleen Therese Meany, Vice President
Honorable Gloria Alitto Majewski, Chairman, Committee on Finance
Honorable Frank Avila
Honorable James C. Harris
Honorable Barbara J. McGowan
Honorable Cynthia M. Santos
Honorable Patricia Young
Honorable Harry "Bus" Yourell

Principal Officers:
John C. Farnan, General Superintendent
Harold G. Downs, Treasurer
Frederick Feldman, Attorney
Patrick J. Foley, Director of Personnel
Osoth Jamjun, Chief of Maintenance and Operations
Richard Lanyon, Director of Research and Development
Darlene A. LoCascio, Purchasing Agent
Keith D. Smith, Director of Information Technology
Joseph P. Sobanski, Chief Engineer
Jacqueline Torres, Director of Finance/Clerk

Main Office
100 East Erie Street
Chicago, Illinois 60611

Metropolitan Water Reclamation District of Greater Chicago

Organization Chart



Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago
100 EAST ERIE STREET CHICAGO, ILLINOIS 60611-3154 312·751·5600

Terrence J. O'Brien
President
312/751-5700
FAX: 312/751-5670

May 1, 2006

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

This letter transmits the Comprehensive Annual Financial Report (CAFR) of the Metropolitan Water Reclamation District of Greater Chicago for the year ended December 31, 2005. This report clearly demonstrates the District's sustained excellent financial condition.

The Board of Commissioners' highest priority is to deliver a vital environmental service at the lowest possible cost to the taxpayers. Consequently, the Board has authorized Infrastructure and Process Needs Feasibility Studies for the three largest plants, Central, Calumet and North Side. The Central and Calumet studies are complete and the North Side study should be completed in 2006. These studies will guide the District in modernizing our largest plants and making them capable of serving our service area for decades to come. Additionally, our Maintenance and Operations personnel have been successful in controlling the cost of electricity and natural gas through an aggressive Energy Management Program and they will continue to pursue and utilize the most reliable and efficient energy services since these services are vital components of our operations.

More than 30 years ago, the Board of Commissioners had the wisdom and foresight to adopt the Tunnel and Reservoir Plan (TARP) as the best and most cost effective solution to the problem of combined sewer overflows in Cook County. Today, with the tunnel phase substantially complete, we are all reaping the benefits of TARP. Backflows to Lake Michigan are extremely rare and flooding in homes and businesses has been significantly reduced. Water quality has improved so much that the Chicago River is now home to more than 60 species of fish and real estate values along the river have never been higher. I salute my predecessors for their good sense in adopting TARP and thank the citizens of Cook County for their patience in seeing the first phase of this project to completion. We look forward to completing the reservoir phase of TARP and will continue to work with the Illinois congressional delegation to provide funding for the remaining two reservoirs at Thornton and McCook. The completion of the reservoirs will greatly increase the holding capacity of TARP.

The District assumed responsibility for stormwater management in Cook County in January 2005 and is completing the governmental and administrative framework required by the enabling legislation. Watershed councils have been formed to provide recommendations for stormwater projects and we look forward to working with the councils to implement the recommendations.

The District's sound financial condition is reflected in its AAA bond ratings and the continuing awards from the Government Finance Officers Association (GFOA). For the 30th consecutive year the District earned the GFOA's Certificate of Achievement for Excellence in Financial Reporting and for the 21st consecutive year the District received GFOA's Distinguished Budget Award.

In February 2006, the Board of Commissioners approved an abatement of $17,755,191 in the 2005 tax levy, resulting in a 2005 total tax levy of $410,744,250, or $2,652,824 less than the 2004 total tax levy. The abatement demonstrates the Board's commitment to the taxpayers to reduce tax levies when other resources are available.

In conclusion, the District is committed to continued excellence in protecting the water environment for the citizens of Cook County and to this end I wish to thank my colleagues on the Board of Commissioners, the General Superintendent and the fine staff of the District in making that commitment a reality.

Respectfully submitted,

Terrence J. O'Brien
President

Metropolitan Water Reclamation District of Greater Chicago

Multi-Year Awards

1975-2004
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting/Comprehensive Annual Financial Report

1993-2004
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

1985-2005
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

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Water Reclamation District of Greater Chicago, Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

100 EAST ERIE STREET CHICAGO, ILLINOIS 60611•3154 312•751•5600

Jacqueline Torres
Director of Finance / Clerk

312·751·6500 FAX 312·751·5965 • 312·894·1104

May 1, 2006

The Honorable Terrence J. O'Brien, President
and Members of the Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago
Chicago, Illinois

Dear Commissioners:

The Comprehensive Annual Financial Report (CAFR), of which this transmittal letter is a component, has been prepared in accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.13 for the fiscal year ended December 31, 2005. The Statutes require that the Director of Finance/Clerk prepare and publish the financial statements, and any other data necessary to reflect the true financial condition and operations of the Metropolitan Water Reclamation District of Greater Chicago (the "District"), within six months of the close of each fiscal year.

The CAFR's basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with Chapter 70, ILCS 2605/5.12 of the Illinois Compiled Statutes, the District's basic financial statements for the period ended December 31, 2005, have been subjected to an audit by independent auditors. The unqualified opinion of McGladrey & Pullen, LLP has been included in the Financial Section of this report.

District management assumes full responsibility for the completeness and reliability of all the information presented in this report. Management has established a comprehensive internal control structure that is designed to compile sufficiently reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's structure of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free of material misstatement. District management and its Internal Audit staff periodically evaluate the internal control structure. In addition, the annual independent audit of the District's basic financial statements disclosed no material weakness in the internal control structure.

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

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report.

MISSION STATEMENT

The mission of the District is to keep sewage pollution out of Lake Michigan, the area's prime drinking water supply, and to properly treat sewage to avoid contamination of the Chicago, Des Plaines, Calumet, and Illinois rivers.

BACKGROUND

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

The District operates primarily within the boundaries of Cook County. Although the District exercises no direct control over wastewater collection and transmission systems maintained by cities, towns and villages in Cook County, it does control municipal sewer construction by permits in suburban Cook County. Furthermore, the District provides the main sewer lines for the collection of wastewater from local sewer systems, together with the treatment and disposal thereof. Combined sewage and stormwater runoff is stored, treated and released using District facilities. The District owns and operates seven water reclamation plants (WRP) and 23 pumping stations that treat an average of 1.5 billion gallons of wastewater each day. The Central (Stickney) WRP is the largest plant in the world. The District controls approximately 76 miles of navigable waterways that serve as headwaters of the Illinois waterway system. Stringent federal and state standards require that the District's wastewater treatment processes keep the waterways free of pollution. The District monitors industries in Cook County to assure that hazardous substances not suitable for a sewer are disposed of in an environmentally responsible way that complies with applicable laws.

The Board of Commissioners set policy and adopt the annual budget for the District. Seated, left to right: Vice President Kathleen Therese Meany, President Terrence J. O'Brien, Chairman of Finance Gloria Allito Majewski. Standing in the back row: Commissioners Patricia Young, Frank Avila, Barbara McGowan, Cynthia Santos, James C. Harris, and Harry "Bus" Yourell.

REPORTING ENTITY

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

The District is a separate legal entity sharing an overlapping tax base with the City of Chicago, the Chicago Board of Education, the Chicago School Finance Authority, the County of Cook, the Cook County Forest Preserve District, the Chicago Park District, the Chicago Public Building Commission, the Cook County Community College District #508, and various municipalities and school districts outside the City of Chicago but within the District's boundaries. However, these governments do not meet the established criteria for inclusion in the reporting entity and are therefore excluded.

MAJOR INITIATIVES

Intercepting Sewers

In order to collect wastewater from local sewer systems for conveyance to its water reclamation plants, the District has constructed approximately 559 miles of intercepting sewers and force mains. These intercepting sewers range in size from 12 inches to 27 feet in diameter. A continuing inspection program and lining of deteriorated sewers ensure a high service level on existing sewers.

The expected construction cost in 2006 for the sewer program is $58 million. This money will primarily be used in the rehabilitation of the 39th Street conduit, to provide bypass for sewage and stormwater during the rehabilitation of the conduit. Once the rehabilitation of the conduit is completed, the tunnel will remain in service to provide additional storm relief.

Water Reclamation Plant Expansions and Improvements

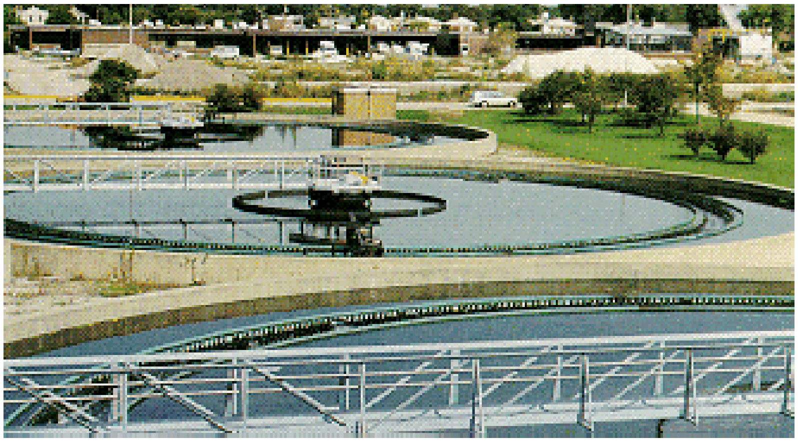
The District has a total secondary treatment capacity of approximately 2 billion gallons per day. To ensure that the District continues to provide high quality service in the future, master planning studies for the major treatment plants have been initiated. The Calumet and Central Master Plans have been completed and the North Side Master Plan is underway. The studies were undertaken to determine the future needs of each plant and to establish a long range plan for each facility that will improve the air and water environment. Award of projects with a construction cost of approximately $1.04 billion is anticipated through 2020.

Biosolids Management

The District collects biosolids from wastewater treatment. The effective dewatering and drying of these biosolids is a major District undertaking. As discussed in the notes to the basic financial statements (Note 9), the District's Board of Commissioners authorized the District to enter into a long-term contract to build and operate a 150 dry ton per day biosolids processing facility at the Central Water Reclamation Plant. The facility should be completed and in operation by 2007.

The Lockport Powerhouse, located on the Main Channel Extension, Lockport, Illinois, was built in 1907. The Powerhouse enables the District to control the outflow of the Sanitary and Ship Canal and limit the diversion of water from the Lake Michigan Watershed into the Des Plaines River. The District received approximately 2 million dollars of credit from Commonwealth Edison for transferring about 60 million kilowatt hours of power safely generated through hydropower at the Lockport Powerhouse.

Each year, the District co-sponsors (with the Illinois Environmental Protection Agency) several Household Hazardous Waste Collections Days. The program has been successful in keeping dangerous chemicals and petroleum products out of the sewer system.



A secondary settling tank: The digested organic residuals clump together, and settle to the bottom of the tank and are removed. The cleaned water flows out of the top of the secondary settling tank to be returned to the waterway or to the tertiary treatment process. Tertiary treatment would involve an additional filtration process. The District uniformly meets its discharge requirements without tertiary treatment.

In the Solids Laboratory laboratory Technicians perform suspended solids analyses on effluent samples to determine discharge compliance.

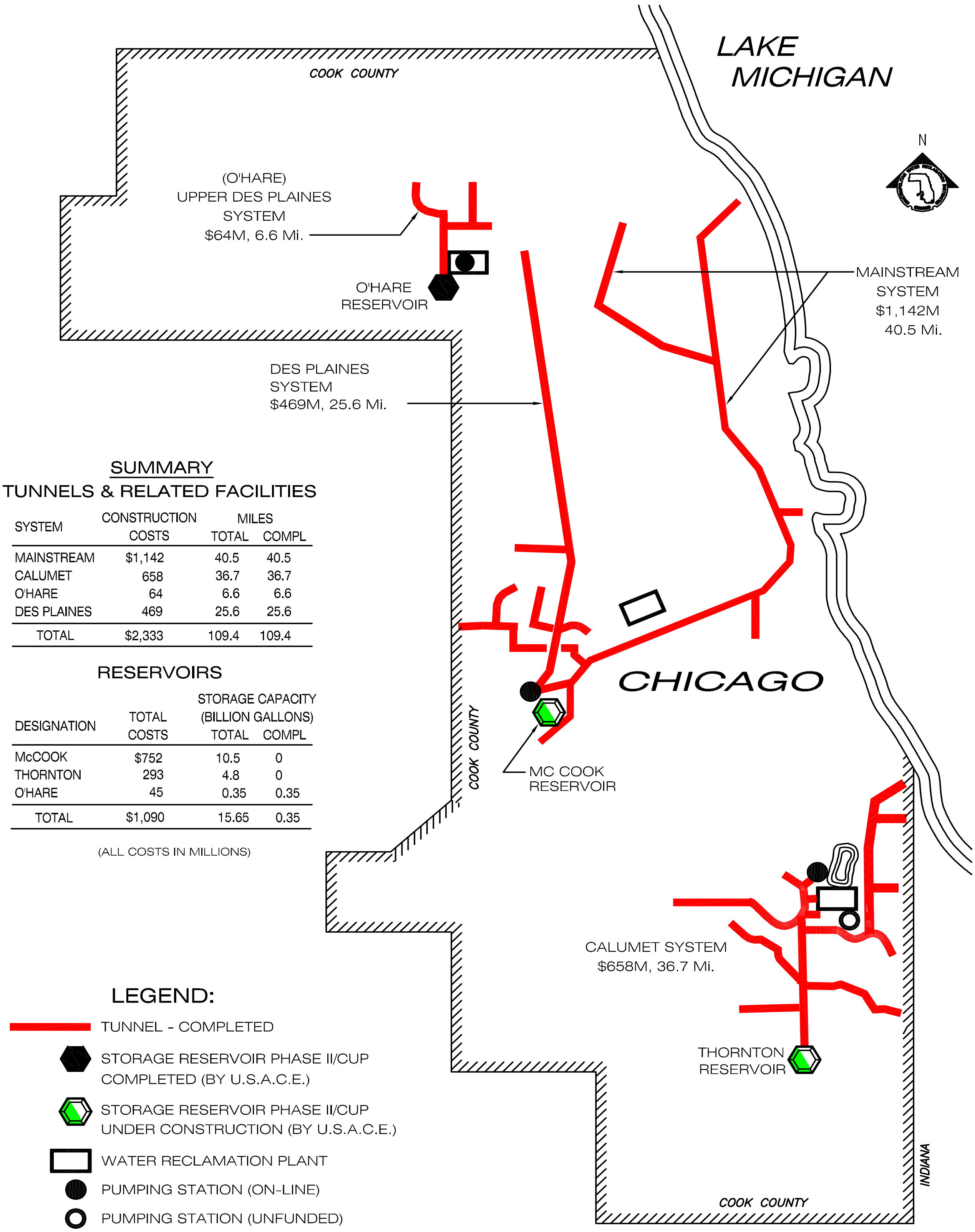
Tunnel and Reservoir Plan – *Phase I*

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 comprises 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 floodwater and rainfall runoff by capturing wastewater before it enters streams and rivers from within the District's service area. TARP Phase I is composed of three tunnel systems that store polluted sewer overflows during wet weather. As of March 2006, all 109.4 miles of tunnels have been constructed and have an approximate value of $2.33 billion.

TARP - by providing an outlet for floodwater and rainfall runoff and by capturing wastewater before it enters streams and rivers - is having a remarkable impact on the water quality in the Chicago rivers, as well as on the quality of life for residents and visitors of the Chicagoland area. Marked visible improvement in water quality of local rivers has increased recreational use and tourism, and has spurred real estate development of riverside hotels, restaurants, promenades, marinas and apartment buildings.

Tunnel and Reservoir Plan – *Phase II*

The flood control segment of TARP consists of three storage reservoirs to serve as outlets for run-off waters. The three Chicago Underflow Plan (CUP) reservoirs – O'Hare, Thornton and McCook – will provide 15.7 billion gallons of combined storage sewage that otherwise would spill into local waterways, degrading the water quality and causing flooding. The District has executed Project Cooperation Agreements (PCA) with the U.S. Army Corps of Engineers (Corps) to construct all three reservoirs. However, the District has assumed responsibility for the design and construction of the Thornton Composite Reservoir from the Corps, and is seeking reimbursement of the federal cost-sharing portion of the reservoir. The combined construction and land rights cost for all three reservoirs is estimated to be $1.09 billion, with the Corps and the District providing approximately $564 million and $525 million, respectively. The O'Hare Reservoir, the smallest of the three, was completed in 1998 at a cost of $45 million. Engineering design and construction for McCook and Thornton reservoirs are currently underway. Three construction contracts for the McCook Reservoir have been completed and another four are currently under construction. Land rights for the Thornton Reservoir have been acquired and mining of the reservoir is ongoing. A Transitional Reservoir has been constructed and will be used until the Thornton Composite Reservoir comes on line. The accompanying exhibit on page 17 shows the status and components of both phases of TARP.



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

Stormwater Management

As a result of the passage of Public Act 93-1049 in 2005, the District assumed responsibility for Stormwater Management in Cook County. The Engineering Department's major focus in 2005 was on establishing the program, chiefly through the development of a Countywide Stormwater Management Plan. This plan is scheduled for completion in 2006, and will pave the way for further expansion of the program. The plan will document the District's approach to evaluating and prioritizing capital improvement projects, and in 2006 the intent is to commit financial support from the Stormwater Management Fund to one or more of the projects that have been identified. The plan will include technical guidance for performing detailed watershed studies, which will begin in 2006 as well. These studies will 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.

Replacement and Maintenance 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 facilities must be replaced through rehabilitation, alteration or expansion. The cost for this portion of the Program is estimated to average approximately $60 million per year. The expected construction cost for the remainder of this program is $255 million.

The District has established a continuing Interceptor Inspection and Rehabilitation Program (IIRP) for the 559 miles of intercepting sewers and force mains it owns and operates. The IIRP is designed to identify and initiate action to make necessary repairs and rehabilitate aging sewers. As discussed in the MD&A, condition assessments required under the modified approach alert management to the need for maintenance and preservation projects for its infrastructure assets.

Means of Financing

The Water Quality Control Act Amendments of 1987 authorized State Revolving Funds (SRF) nationally. The authorization was used to create State Revolving Funds, administered by state agencies, to provide loans to municipal agencies for wastewater construction programs.

The TARP CUP reservoirs qualify for 75% funding by the Corps, while the remaining 25% funding will be provided by the District through bond sales and land acquisition.

BUDGET PROCESS

The Board of Commissioners is required to adopt an annual budget no later than the close of the previous fiscal year. This annual budget serves as the foundation for the Metropolitan Water Reclamation District's financial planning and control. An annual budget is prepared for all funds with the exception of the fiduciary fund (Retirement Fund).

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

ECONOMIC BASE OUTLOOK

The District's service area is sizeable, encompassing 98% of the assessed valuation of Cook County. Property values continue to show growth in Cook County. The equalized assessed valuation for the District has experienced a 5.41% average growth rate over the last ten years and the current equalized assessed valuation of $119,038,560,000 is 8% higher than the previous year. Higher employment and a robust pace of new construction, including the residential market, are positive indicators that the local economy will remain strong. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from the effect of fiscal constraints at the federal and state levels.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Water Reclamation District of Greater Chicago for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004. This was the 30th consecutive year that the Metropolitan Water Reclamation District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District has been presented with the award for Distinguished Budget Presentation by the GFOA for the annual budget for the year beginning January 1, 2005. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, financial plan, communications medium and operations guide. The award, which is valid for a one year period only, has been received for 21 consecutive years.

ACKNOWLEDGMENTS

Preparation of this report reflects the combined efforts of the dedicated professional and support personnel of the Finance Department. Their expertise, enthusiasm and unwavering focus on excellence are gratefully acknowledged. The Board of Commissioners and the general citizenry, in our opinion, may fully rely on the 2005 Comprehensive Annual Financial Report as a fair and accurate presentation, in all material respects, of the financial position and operational results of the Metropolitan Water Reclamation District of Greater Chicago.

Respectfully submitted,

Jacqueline Torres
Director of Finance/Clerk

Matthew Glavas
Comptroller

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

100 EAST ERIE STREET CHICAGO, ILLINOIS 60611-3154 312-751-5600

May 1, 2006

STATEMENT OF RESPONSIBILITY

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

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

- The statements fairly present the financial position and changes in financial position of the Metropolitan Water Reclamation District of Greater Chicago, and its component unit, for the year ended December 31, 2005, in accordance with accounting principles generally accepted in the United States of America;
- The statements contain no untrue statement of material facts; and
- There are no omissions of material fact(s).

Terrence J. O'Brien
President

John C. Farnan
General Superintendent

Jacqueline Torres
Director of Finance/Clerk

Matthew Glavas
Comptroller

II.
FINANCIAL SECTION

Members of the Finance Department of the Metropolitan Water Reclamation District of Greater Chicago accept the Excellence in Financial Reporting Award for 2004 from the Government Finance Officers Association (GFOA). Pictured from left to right are: Mary Jane Tala, Chestina Puralewski, Joseph Rose, Jeffrey Esser, GFOA, Stephen Gauthier, GFOA, Andrew Dziadkowiec, and James Hilliard.

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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

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

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

2005 FINANCIAL HIGHLIGHTS

- The District ended the 2005 fiscal year with assets exceeding liabilities by $4,370,470,000. This amount represents the District's net assets and it includes $27,594,000 of unrestricted net assets that may be used to meet the District's future obligations.

- The District's total net assets increased by $1,794,794,000 in 2005, in large part as a result of the addition of $1,718,231,000 in infrastructure assets at the Central and Waterways networks, following their initial condition assessments, and the $76,563,000 excess of revenues over expenses.

- The District's combined fund balances for its governmental funds at December 31, 2005 totaled $716,529,000, a decrease of $51,140,000 from the prior year based on the excess of expenditures over revenues and other financing sources.

- The District's total long-term liabilities decreased by $89,723,000 in 2005 primarily because of the retirement of general obligation debt.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are provided to give readers a long-term overview of the District's finances, similar to a private-sector business. Government-wide statements consist of the Statements of Net Assets and Statements of Activities, and are prepared using the accrual basis of accounting and the economic resources (long-term) measurement focus. They include all the District's governmental activities; there are no business-type activities. They do not include the Pension Trust Fund, a fiduciary fund, whose resources are not available to finance the District's operations.

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

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

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

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

The fiduciary fund's resources are restricted in use for employee pensions and are not available to support the operations of the District. Therefore, the fiduciary fund is not reported in the government-wide financial statements. The Statements of Fiduciary Net Assets and Statements of Changes in Fiduciary Net Assets report the net assets available for future pension benefits and the change in net assets, respectively. The fiduciary financials use the accrual basis of accounting similar to that used for the government-wide financial statements.

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

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

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

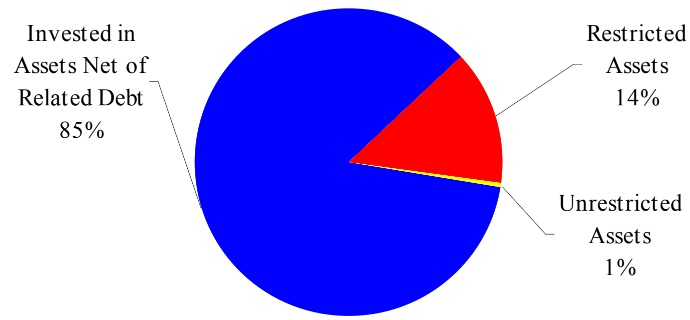
A condensed comparison of the Statements of Net Assets for December 31, 2005 and 2004 is presented in the following schedule (in thousands of dollars):

	2005	2004	Increase (Decrease)	Percent Increase (Decrease)
Current and other assets	$ 1,136,894	$ 1,226,671	$ (89,777)	(7.3)%
Capital assets	4,746,498	2,956,663	1,789,835	60.5
Total assets	5,883,392	4,183,334	1,700,058	40.6
Current liabilities	89,332	94,345	(5,013)	(5.3)
Long-term liabilities	1,423,590	1,513,313	(89,723)	(5.9)
Total liabilities	1,512,922	1,607,658	(94,736)	(5.9)
Invested in capital assets, net of related debt	3,728,581	1,921,730	1,806,851	94.0
Restricted net assets	614,295	645,084	(30,789)	(4.8)
Unrestricted net assets	27,594	8,862	18,732	211.4
Total net assets	$ 4,370,470	$ 2,575,676	$ 1,794,794	69.7 %

The above schedule reports that the District's net assets totaled $4,370,470,000 at December 31, 2005, which represents the amount the District's assets exceed its liabilities. The largest portion of the net assets, $3,728,581,000, is made up of capital assets, net of related debt. This amount represents the cost of the District's capital assets used to provide services to taxpayers, net of the debt related to these assets. These assets include land, buildings, equipment and infrastructure and they are not available for the District's future spending needs. Restricted net assets total $614,295,000 and represent resources that are subject to external or legal restrictions as to how they may be spent, such as federal grants or state loans, capital bond proceeds, or tax levies for working cash, debt service and pension contributions. The remaining balance of net assets of $27,594,000 is unrestricted and may be used to pay for the District's day-to-day operations.

The chart on the right reports the percentage of net assets in the three categories as of December 31, 2005.

2005 Net Assets by Components



Net assets invested in capital assets, net of related debt, increased by $1,806,851,000 in 2005 as a result of the following:

- Capital assets increased by $1,789,835,000 in 2005. This increase consisted of a 2005 opening net asset restatement of $1,718,231,000 for the Central WRP and Waterways infrastructure assets, added following their initial condition assessments, $82,540,000 in additions made during the year and $10,936,000 in reductions caused by transfers from construction in progress, retirements and depreciation.

- Bonded debt related to capital assets decreased by $17,016,000 in 2005.

The decrease in restricted net assets of $30,789,000 resulted from the following:

- Net assets restricted for debt service decreased by $19,582,000.

- Net assets restricted for working cash increased by $8,762,000.

- Net assets restricted for pension decreased by $15,988,000.

- Net assets restricted for capital projects decreased by $3,981,000.

The increase in unrestricted net assets of $18,732,000 resulted from an excess of revenues over expenditures in the Corporate accounts of the General Corporate Fund.

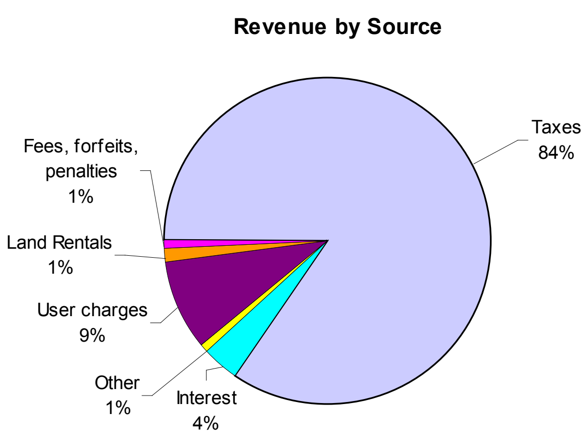
A comparison of the changes in net assets resulting from the District's operations for the years ended December 31, 2005 and 2004 is presented in the following schedule (in thousands of dollars):

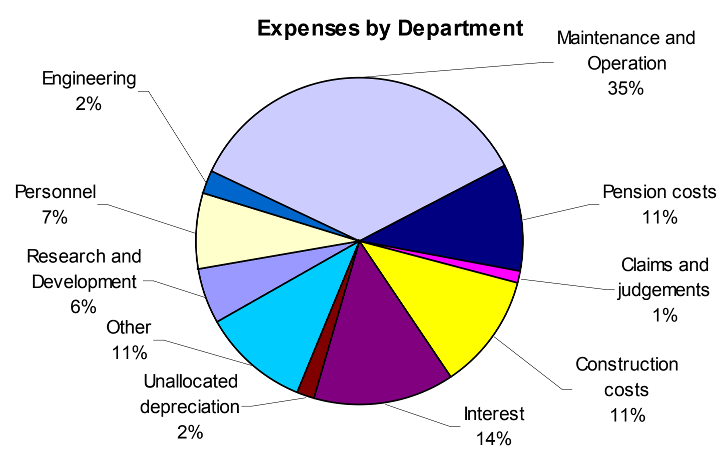
	2005	2004	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
General Revenues:				
Taxes	$ 441,454	$ 421,069	$ 20,385	4.8 %
Interest	19,693	9,943	9,750	98.1
Other	4,104	5,447	(1,343)	(24.7)
Adjustments for non-financial assets	-	35,865	(35,865)	(100.0)
Program Revenues:				
User charges	46,576	46,981	(405)	(0.9)
Land rentals	6,310	6,166	144	2.3
Fees, forfeits and penalties	4,748	3,800	948	24.9
Capital grants and contributions	867	774	93	12.0
Total revenues	523,752	530,045	(6,293)	(1.2)
Expenses				
Board of Commissioners	3,341	3,578	(237)	(6.6)
General Administration	17,807	15,969	1,838	11.5
Research and Development	25,230	24,599	631	2.6
Purchasing	5,170	6,095	(925)	(15.2)
Personnel	32,941	35,931	(2,990)	(8.3)
Information Technology	11,111	10,885	226	2.1
Law	6,199	5,064	1,135	22.4
Finance	3,124	3,065	59	1.9
Engineering	10,160	6,169	3,991	64.7
Maintenance and Operations	158,802	161,903	(3,101)	(1.9)
Pension costs	47,549	35,354	12,195	34.5
Claims and judgments	4,466	12,175	(7,709)	(63.3)
Construction costs	51,145	38,057	13,088	34.4
Loss on sale of capital assets	676	172	504	293.0
Interest	61,872	65,398	(3,526)	(5.4)
Unallocated depreciation	7,596	7,596	-	-
Total expenses	447,189	432,010	15,179	3.5
Change in net assets	76,563	98,035	(21,472)	(21.9)
Total net assets, beginning of year as restated	4,293,907	2,477,641	1,816,266	73.3
Total net assets, end of year	$ 4,370,470	$ 2,575,676	$ 1,794,794	69.7 %

- Revenues totaled $523,752,000 in 2005, down $6,293,000, or 1.2%, from the prior year. The overall decrease can be attributed to a non-recurring 2004 adjustment for non-financial assets of $35,865,000. Property taxes and personal property replacement taxes increased by $20,385,000 because of an increase in the District's 2005 property tax levy and higher than anticipated personal property replacement tax collections. Interest on earnings increased by $9,750,000 in 2005 because of an increase in the average interest rate on investments. Other revenues decreased by $1,343,000 in 2005. User charge revenue had a decrease in 2005 of $405,000 while fees, forfeits and penalty revenues experienced an increase of $948,000. Rental revenue increased by $144,000 based on the District's successful marketing of their rental property. Capital grants and contributions increased slightly, by $93,000.

- Total expenses in 2005 were $447,189,000. This represents a $15,179,000, or 3.5%, increase from the previous year. Higher employee costs and vehicle expenses are responsible for General Administration's increase of $1,838,000, while lower than expected health care costs were responsible for the decrease in Personnel's expenses of $2,990,000. Engineering Department expenses increased in 2005 by $3,991,000 because of repair projects scheduled for WRP facilities. Maintenance and Operations expenses decreased by $3,101,000 in 2005, mostly because of reduced costs for repair parts, waste disposal, infrastructure repairs and electricity. The 2005 pension cost and resulting increase of $12,195,000 is based on the actuarial pension cost calculation. Claims and judgment expenses in 2005 were $7,709,000 lower than 2004 because of decreased estimates for claims and contingent environmental liabilities. Construction expenses increased in 2005 by $13,088,000 partly because of additional preservation costs for modified infrastructure assets, and interest expense was lower by $3,526,000 because of a reduction in the amount of outstanding debt. All other expenses experienced a $1,393,000 increase in 2005.

The following percentage charts show the major sources of revenue and expenses for the year ended December 31, 2005:





ANALYSIS OF DISTRICT'S GOVERNMENTAL FUND FINANCIAL STATEMENTS

As previously discussed, the focus of the District's governmental funds is on short-term inflows, outflows and currently available resources. The difference between assets and liabilities in the governmental funds is fund balance, which is made up of reserved fund balance and unreserved fund balance. Reserved fund balance is not available for new discretionary spending, while the unreserved fund balance serves as a measure of a fund's net resources available for new spending at the end of the year. The emphasis in the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the governmental fund financial statements. For 2005 the District reports four major funds and two non-major funds. The four major governmental funds are the General Corporate Fund, the Construction Fund, the Capital Improvements Bond Fund and the Debt Service Fund. The non-major governmental funds are the Special Revenue Retirement Fund and the Capital Projects Stormwater Management Fund.

The District finished the current fiscal year with combined governmental fund balances of $716,529,000, a decrease of $51,140,000, or 6.7%, from 2004. The decrease is a result of expenditures exceeding revenues by $67,113,000, offset by financing sources of state revolving loan proceeds which totaled $15,973,000. A total of $421,338,000, or 59%, of the fund balances represent unreserved and undesignated fund balances that are available for current spending in accordance with the purposes of the specific funds. The remainder of the fund balances of $295,191,000 is reserved for the Working Cash accounts.

General Corporate Fund. The General Corporate Fund is the principal operating fund of the District and it includes annual property taxes and other revenues, which are used for the payment of general operating expenditures not chargeable to other funds. The General Corporate Fund's fund balance at the end of the current fiscal year totaled $199,209,000. The fund balance represented 72% of the General Corporate Fund expenditures, a good indication of the fund's liquidity. The total fund balance for the General Corporate Fund increased by $31,198,000 in the current year, which was the amount by which expenditures exceeded revenues. The deficit unreserved fund balance of $45,113,000 is a result of the reserve for working cash.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2005 and 2004 is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Revenue Schedule

	2005		2004			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Percent Increase (Decrease)
Revenues:						
Property taxes	$ 210,589	68.8%	$ 172,537	67.6%	$ 38,052	22.1 %
Personal property replacement tax	31,049	10.2	19,546	7.7	11,503	58.9
Total tax revenue	241,638	79.0	192,083	75.3	49,555	25.8
Interest on investments	4,093	1.3	1,715	0.7	2,378	138.7
Land sales	100	0.0	1,874	0.7	(1,774)	(94.7)
Tax increment financing distributions	1,634	0.5	604	0.2	1,030	170.5
Claims and damage settlements	77	0.0	150	0.1	(73)	(48.7)
Miscellaneous	2,207	0.7	1,768	0.7	439	24.8
User charges	45,483	14.9	47,257	18.6	(1,774)	(3.8)
Land rentals	6,310	2.1	6,160	2.4	150	2.4
Fees, forfeits and penalties	4,547	1.5	3,438	1.3	1,109	32.3
Federal grants	-	-	1	-	(1)	(100.0)
Total revenues	$ 306,089	100.0%	$ 255,050	100.0%	$ 51,039	20.0 %

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments and rental income. In 2005, General Corporate Fund revenues totaled $306,089,000, an increase of $51,039,000 or 20%, from the 2004 revenues of $255,050,000. Total tax revenues increased by $49,555,000, or 25.8%, to $241,638,000 for the year 2005 as a result of increases in property taxes of $38,052,000, or 22%, and personal property replacement taxes of $11,503,000, or 59%. The increase in property taxes resulted from a higher General Corporate Fund tax levy collected in 2005 and the timing of the tax collections received from the County Collector during the 60-day accrual period following the year-end. The increase in personal property replacement tax collection resulted from an improvement in the State's economy.

Interest earned on General Corporate Fund investments for 2005 increased to $4,093,000 from $1,715,000 in 2004. The $2,378,000 increase can be attributed to an improvement in the average interest rate on investment purchases. The average interest rate increased to 3.33% in 2005 from 2.20% in 2004. Land sales decreased by $1,774,000 in 2005. All other revenues, including miscellaneous revenue, increased by $880,000 in 2005.

A comparative analysis of the General Corporate Fund expenditures by object class is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Expenditures Schedule

	2005		2004			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Increase (Decrease)
Expenditures:						
Employee cost	$ 167,177	60.8%	$ 168,729	61.6%	$ (1,552)	(0.9)%
Energy cost	31,207	11.4	30,660	11.2	547	1.8
Chemicals	4,185	1.5	3,775	1.4	410	10.9
Solids disposal	15,806	5.8	17,461	6.4	(1,655)	(9.5)
Repair to structures/equipment	24,241	8.8	20,955	7.6	3,286	15.7
Materials, parts & supplies	9,722	3.5	12,691	4.6	(2,969)	(23.4)
Machinery & equipment	3,660	1.3	1,808	0.7	1,852	102.4
Claims and judgments	4,368	1.6	3,829	1.4	539	14.1
All other	14,525	5.3	14,047	5.1	478	3.4
Total expenditures	$ 274,891	100.0%	$ 273,955	100.0%	$ 936	0.3 %

In 2005, General Corporate Fund expenditures totaled $274,891,000, an overall increase of $936,000, or 0.3%, over 2004 expenditures. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2005, accounting for 72% of total expenditures (73% in 2004).

Employee costs, which include salaries and wages, group life and health insurance, Medicare contributions, tuition and training, decreased by $1,552,000, or 0.9%, from 2004. Salaries and wages during 2005 amounted to $136,226,000, which was $1,787,000, or 1%, higher than 2004. This change resulted from cost of living and annual step increases. The District's contribution for employee health insurance decreased by $3,412,000, or 11%, in 2005 to $26,337,000 because of increased employee contributions, plan changes, and cost adjustments.

Repairs of structures and equipment increased by $3,286,000 in 2005, or 15.7%, as a result of the schedule of repair projects for facilities.

Purchases of machinery and equipment were $1,852,000 higher in 2005 because of increased expenditures for vehicles, equipment in labs and process facilities, and computer software.

Expenditures for solids disposal were $1,655,000 less in 2005 because of reduced charges for waste material disposal, while a smaller demand for materials, parts, and supplies resulted in a reduction of $2,969,000 in 2005 expenditures.

Expenditures for all other categories increased by $1,974,000 in 2005 as a result of slight increases in energy, chemical, claims, and professional service costs.

Other Major Funds. The District's Debt Service Fund accounts for property tax revenues and interest earnings used for the payment of principal and interest on bonded debt. The Debt Service Fund's fund balance at the end of the current fiscal year totaled $168,920,000. The fund balance represented 99% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Bond Fund increased by $4,735,000 in the current year, which represented the amount that revenues exceeded debt service costs.

The Construction Fund and Capital Improvements Bond Fund are capital projects funds used by the District for the construction and preservation of capital facilities. The Construction Fund's resources are primarily from property taxes, while the Capital Improvements Bond Fund's resources are bond proceeds, government grants and state revolving loans.

The Construction Fund's fund balance at the end of the current fiscal year totaled $36,841,000, including a reservation for working cash of $25,642,000. The fund balance represented 154% of the total Construction Fund expenditures. The fund balance for the Construction Fund decreased by $29,513,000, representing a transfer of $25,000,000 to the Stormwater Working Cash Fund and expenditures exceeding revenues by $4,513,000 in the current year.

The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled $285,347,000. This amount will provide resources for the 2006 construction program. The fund balance represented 262% of the fund's expenditures, and it decreased by $83,772,000 in the current year as a result of expenditures exceeding revenues by $99,745,000, while other financing sources of state revolving loans totaled $15,973,000.

GENERAL CORPORATE FUND BUDGET ANALYSIS

The General Corporate Fund budget includes the budgetary accounts of the Corporate Fund and Reserve Claim divisions. A comparison of the 2005 original budget to the final amended budget and actual results for the General Corporate Fund is presented in the basic financial statements (Exhibit A-3). A comparison of the General Corporate Fund's 2005 budget and actual results at the appropriation line item level is presented in Combining and Individual Fund Statements and Schedules (Exhibit C-1).

A condensed summary of the 2005 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

	Budget			Actual Variance with Final Budget - Positive
	Original	Final	Actual Amounts	(Negative)
Revenues:				
Property and personal property replacement taxes	$ 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
User charges	47,500	47,500	44,054	(3,446)
Interest on investments	1,938	1,938	3,721	1,783
Land rentals	5,980	5,980	6,348	368
Other	5,387	5,387	7,183	1,796
Total revenues	280,904	280,904	291,245	10,341
Current 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 balance - beginning as adjusted	67,685	67,685	89,746	22,061
Fund balance - ending	$ -	$ -	$ 105,088	$ 105,088

Actual revenues for 2005 in the General Corporate Fund totaled $291,245,000, or $10,341,000 more than budgeted revenues. Property taxes and personal property replacement taxes were the main reason for the variance, ending the year $9,840,000 more than budget. User charge receipts were $3,446,000 less than the budget because of several large commercial users reducing their loadings and associated expenses. Interest on investments had a $1,783,000 positive variance over budget because of increasing rates of return. All other revenues had a $2,164,000 positive variance because of better than expected results for land rentals, fines and revenues from tax increment financing districts.

The 2005 General Corporate Fund final appropriation of $348,589,000 did not change from the original amount. Actual budgetary expenditures totaled $275,903,000, or 79.1%, of the total appropriation. The $72,686,000 excess of appropriations over actual expenditures was primarily in claims and judgments. This is consistent with the Board of Commissioners' policy to accumulate sufficient reserves for payment of future claims without exposing the District to financial risk that could curtail normal operations. Expenditures for the Maintenance & Operations Department were $20,762,000 below appropriations, mainly because of variances for electricity, chemicals, waste disposal costs, repairs and repair parts. The $7,856,000 variance in the Personnel Department is mainly due to the aforementioned increase in the employees' contribution for medical costs and other plan design changes, as well as cost adjustments. Budget versus actual variances of $6,850,000 for Engineering were due to the scheduling of projects for repairs to process facilities and buildings. Management controls placed on staffing and other appropriation accounts also contributed to the total variance.

CAPITAL ASSETS AND MODIFIED APPROACH

Capital Assets. The District's reportable capital assets, net of accumulated depreciation, as of December 31, 2005, amounted to $4,746,498,000. Reportable capital assets, net of accumulated depreciation, for 2005 as compared to 2004 are as follows (in thousands of dollars):

	2005	2004	Increase (Decrease)	Percent Increase (Decrease)
Land	$ 127,260	$ 127,261	$ (1)	(0.0)%
Buildings	9,207	9,392	(185)	(2.0)
Machinery and equipment	20,837	21,076	(239)	(1.1)
Depreciable infrastructure	1,399,663	1,407,259	(7,596)	(0.5)
Modified infrastructure	2,567,125	746,498	1,820,627	243.9
Construction in progress	622,406	645,177	(22,771)	(3.5)
Total	$ 4,746,498	$ 2,956,663	$ 1,789,835	60.5 %

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

- Modified infrastructure assets increased by $1,820,627 in 2005 because the initial condition assessments of the Central WRP and the Waterways networks were completed in 2005, resulting in infrastructure assets totaling $1,718,231,000 being reported in the government-wide financials as a restatement of capital asset and net asset balances at the beginning of 2005. Also, additions exceeded retirements by $102,396,000 in 2005.

- Construction in progress decreased by $22,771,000 from 2004 to 2005 because of on-going construction and completed infrastructure projects that were reclassified out of construction in progress, particularly for the Central WRP. Other projects remain as construction in progress until their corresponding network's initial condition assessment is finished.

In addition to the above, commitments totaling $272,937,000 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

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

The Kirie, Hanover, Egan, and North Side network assets had their initial condition assessments completed between 2002 and 2004. Kirie's second condition assessment was completed in 2005. Eligible infrastructure assets for the Calumet and Lemont networks will be reported in 2006, when the initial condition assessments are finished (see further discussion of the modified approach below).

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

DEBT ACTIVITY

Long-term Debt. The District's long-term liabilities as of December 31, 2005 totaled $1,423,590,000. The breakdown of this debt and changes from 2004 to 2005 are as follows (in thousands of dollars):

	2005	2004	Increase (Decrease)	Percent Increase (Decrease)
Bonds payable, net	$ 1,274,666	$ 1,322,901	$ (48,235)	(3.6)%
Bond anticipation notes including accrued interest	48,238	90,473	(42,235)	(46.7)
Claims payable	73,640	73,542	98	0.1
Compensated absences	27,046	26,397	649	2.5
Total	$ 1,423,590	$ 1,513,313	$ (89,723)	(5.9)%

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

- Bonds payable, net, decreased by $48,235,000 in 2005 as a result of the retirement of $107,767,000 in bonds, offset by the conversion to bonds of $59,213,000 in bond anticipation note principal and interest, and the amortization of $319,000 for issuance costs, premiums, and refunding transactions.

- Bond anticipation notes decreased by $42,235,000 in 2005 as a result of the issuance of $15,809,000 in notes, the accrual of $1,169,000 in interest converted to bonds, and the conversion of $59,213,000 in note principal and interest to bonds payable.

- Claims payable and the liability for compensated absences increased slightly.

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

Moody's Investors Service	Aaa and VMIG 1
Standard & Poor's Corporation	AA+ and A-1+
Fitch, Inc.	AAA and F1+

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

Effective October 1, 1997 the District may fund up to 100% of the aggregate total of the estimated amount of taxes levied or to be levied for corporate purposes, plus the General Corporate Fund portion of the personal property replacement tax, through borrowing from the Corporate Working Cash Fund and issuance of tax anticipation notes or warrants. The maximum prior to 1997 was 90%. The provisions also pertain to the Construction and Construction Working Cash Funds.

The amount of the District's debt may not exceed 5.75% of the last published equalized assessed valuation of taxable real estate within the District, which was $119,038,560,137 for the 2004 property tax levy. At December 31, 2005, the District's statutory debt limit of $6,844,717,208 exceeded the applicable net debt amount of $1,285,687,000 by $5,559,030,000.

The Illinois Compiled Statutes provides authorization for the funding of the District Capital Improvement Program by the issuance of non-referendum capital improvement bonds. Starting in 2003, bonds may be issued during any budget year in an amount not to exceed $150 million ($100 million in prior years), plus the amount of any bonds authorized and unissued during the three preceding budget years. The District has issued various series of bonds since the authorization. Bonds authorized and unissued from the budget years ended December 31, 2005 and 2004 are $465,000,000 and $315,000,000, respectively.

The District has non-referendum bonding authority until the year 2016. When the Property Extension Limitation Law was made applicable to Cook County, the legislature recognized that the completion of the Tunnel and Reservoir Plan (TARP) was such a high priority that it exempted TARP bonds from tax cap limits. In 1995, the Local Government Debt Reform Act was amended to allow governmental entities which already had non-referendum bonding authority to issue limited bonds. The amount which could be levied in any levy year to pay principal and interest on limited bonds was capped at $141,500,000, the amount of the debt service extension base for the 1994 levy year. The Property Tax Extension Limitation Law has been amended so that the issuance of bonds by the District to construct TARP will not reduce the District's ability to issue limited bonds for other major capital projects.

The amount of outstanding non-referendum Capital Improvement Bonds may not exceed 3.35% of the last known equalized assessed valuation of taxable property within the District. At December 31, 2005, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding State Revolving Fund bonds) of $948,000,000 did not exceed the limitation of $3,987,791,765.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2005, are indicated in the following schedule (in millions of dollars):

Capital Improvement and Refunding Bonds
Outstanding and Remaining Authorization

Year of Issue	Total	Capital Improvement	Refunding
1991	$ 27	$ 27	$ -
1992	63	-	63
1993	44	9	35
1997	76	-	76
2001	12	12	-
2002	580	164	416
2003	146	146	-
Total bonds outstanding at December 31, 2005	948	$ 358	$ 590
Remaining bond authorization at December 31, 2005	3,040		
Total bond authorization at December 31, 2005	$ 3,988		

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, 2005, the District's remaining Corporate Working Cash Fund bond authorization is $280,517,869.

At December 31, 2005, the District is authorized to issue $2,200,000 of Calumet-Sag Navigation Bonds.

On December 15, 2005, the Board of Commissioners of the District passed ordinances authorizing the issuance of General Obligation Refunding Bonds, Unlimited Tax Series in an amount not to exceed $425,000,000 and General Obligation Refunding Bonds, Limited Tax Series in an amount not to exceed $75,000,000.

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

ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT

The District's service area is sizeable, including 125 communities, as well as the City of Chicago, and encompassing 91% of the area of Cook County. Population growth has been strong in recent years, leading to a substantial population of nearly 5.4 million people, an increase of 5.3% over the past decade. This reverses the downward population trend from 1970 to 1990.

The District is located in one of the strongest and most economically diverse areas of the country. The equalized assessed valuation for the District has experienced a 6.06% average growth rate over the last ten years. This strong growth reflects continued diversification of the area economy and a relatively healthy pace of new construction projects, including residential. The county's manufacturing sector has declined over the past decade while service-related employment has grown, thus reducing the county's exposure to the cyclical declines associated with heavy manufacturing. The employment picture improved in 2005, with a decline in the unemployment rate for the Chicago metropolitan area to 5.4% in December 2005 from 5.7% a year earlier.

Passage of Public Act 93-1049 in November 2004 gave the District responsibility for stormwater management for all of Cook County, including areas outside of the District's boundaries. The Act provided for the establishment of a Stormwater Management Fund to levy property taxes within the District's corporate limits and impose fees to non-District territories in order to provide resources for stormwater management activities. The Stormwater Management Fund was established in 2005 and a Stormwater Working Cash Fund was authorized by the Illinois General Assembly in 2005 and created through a Board authorized transfer of $25,000,000 from the Construction Working Cash Fund. At the end of 2005, a $9,930,000 working cash borrowing from the Stormwater Working Cash Fund to the Stormwater Management Fund was outstanding with repayment planned from the 2005 property tax levy collected in 2006.

Infrastructure and Process Needs Feasibility Studies were completed in 2005 at the Central, Calumet, and Lemont WRPs to identify major capital improvements needed to continue to provide quality effluent into the year 2040. The goals of the studies are to reduce maintenance and energy costs by 20 percent and operation costs by 30 percent. The final product of the studies will be the development of Master Plans that establish, prioritize and budget the construction contracts needed for each plant over the next 20 years. The primary areas of improvement identified at Central and Calumet were preliminary and primary treatment, sludge thickening and digester gas utilization, while collection and treatment facility improvements were identified at Lemont. A similar study will be completed at the North Side WRP in 2006. Design work will begin in 2006 for a vortex grit removal system at the Calumet WRP, circular primary settling tanks and new biosolids concentration facilities at both Central and Calumet WRPs, and conversion of the West Side Imhoff Tanks to circular primary clarifiers at the Central WRP. Design work will begin in 2006 to expand the Lemont WRP to provide treatment for 10 times the average dry weather flow.

In 2006, the Little Calumet Leg Tunnel of the District's Tunnel and Reservoir Plan (TARP) system will be completed and operational. Once this tunnel goes into operation, it will mark the completion of all 109.4 miles of TARP tunnels culminating thirty years of tunnel construction. In related TARP action, the District's Board of Commissioners has authorized the District to fund the design and construction of the Thornton Composite Reservoir. Design work related to the Thornton Reservoir will start in 2006 on projects with a combined value of $144,400,000. Also, the District will continue to work with the U.S. Army Corps of Engineers (USACE) to fund and construct the McCook Reservoir. To date, the District has paid $39.6 million to USACE toward its estimated $128.6 million local share of the McCook Reservoir costs. Annual flood control benefits from the Thornton and McCook Reservoirs are estimated at $113,000,000.

In spite of additional energy needs with new facilities and increasing natural gas and electrical rates, the District's Maintenance & Operations Department has held energy purchases relatively constant over the last 10 years through an aggressive Energy Management Program. However, the District's current service agreement for bundled electricity rates expires at the end of 2006 and, given current market rates, the District can expect an increase in electrical generation rates of approximately 25%. Also, proposed electrical tariff increases to take effect in 2007 would result in an additional 20% increase in electrical costs. The District will pursue open market purchases of electricity and will attempt to intervene with the Illinois Commerce Commission on the proposed tariff increases to limit electrical cost increases. Reliability of service is critically important and will be a primary consideration in any decisions with this issue.

The District's focus in preparing its 2006 budget continues to be to reduce the growth of expenditures in order to present a balanced budget, while maintaining a strong fund balance. The total appropriation request for 2006 is $1,008.4 million, an increase of $39.3 million over the 2005 adjusted appropriation. Continued increases in health care costs, cost of living adjustments, pension costs, and large construction projects are the main reasons for the increase. Health care costs for employees and retirees in 2006 are estimated at $37.7 million, an increase of $2.6 million, or 7.4%, over 2005. The employees' share of health care costs will increase from 9% to 10% in 2006 while retirees will continue to pay 25% of their health care costs. Deductibles and co-pays for services and pharmaceuticals are also being increased to lessen the growth of health care costs. The 2006 budget includes 2,107 positions, a decrease of 36 positions from 2005 as the District continues its policy of reducing staffing through attrition. The District's 2006 property tax levy is $406 million, a 1.1% decrease over the 2005 adjusted levy. Personal property replacement taxes received from the state are expected to increase in 2006 to $35.6 million, from $32.0 million in 2005. Earnings from investment income are estimated to increase slightly to $20.5 million in 2006, as a result of continuing increases in short-term interest rates.

The General Corporate Fund includes the budgetary accounts of the Corporate Fund and Reserve Claim Fund. The 2006 Corporate Fund appropriation of $316,829,000 represents an increase of $3,240,000, or 1.0%, from 2005. This change is chiefly due to increases in energy, regulatory, and health care costs, plus cost of living adjustments. These increases were partially offset by a transfer of twenty-nine positions to the newly created Stormwater Management Fund. The Corporate Fund's 2006 budget includes a property tax levy of $213,500,000, an increase of $7,539,000, or 3.7%, over 2005's levy. Non-property tax revenues are budgeted to increase moderately over 2005 budgeted amounts. The Corporate Fund's 2006 budget anticipates using $30,000,000 of the 2005 ending budgetary fund balance to finance the 2006 appropriation. It is the District's intent to maintain a sufficient fund balance to protect its operations from economic uncertainty. A fund balance of 10 to 15 percent of the Corporate Fund appropriations is viewed by District management as necessary to maintain financial stability. The 2006 Reserve Claim Fund appropriation is $41,700,000, an increase of $6,700,000 from 2005. The Reserve Claim Fund's 2006 budget includes a property tax levy of $5,957,000 which is $444,000 higher than the previous year. It is the District's intent to levy at the statutory allowable tax rate for the Reserve Claim Fund to accumulate sufficient resources for claims and contingent liabilities, including environmental liabilities.

The 2006 Bond and Interest Fund appropriation to pay principal and interest on bonds of $161,282,000 decreased by $8,727,000 from the 2005 adjusted appropriation. The 2006 appropriation includes equity transfers of $15,000,000 to the Corporate Working Cash Fund and $5,000,000 to the Stormwater Working Cash Fund, made possible from accumulated interest earnings in the Bond and Interest Fund. These transfers will position each working cash fund with the appropriate resources for their respective operating funds and will allow the Corporate Working Cash Fund to avoid tax levies for several years. The 2006 property tax levy decreased by $18,729,000, from the 2005 adjusted levy, to $128,552,000. A decrease was possible because of the elimination of future tax levies for several State Revolving Fund loans that accumulated sufficient resources to cover future payments. Investment income is estimated at $4,618,000 in 2006, slightly higher than the adjusted 2005 budget estimate.

The Construction Fund's appropriation for 2006 is $49,035,000, a decrease of $5,474,000 from 2005. The decrease was possible because of a shift of projects from the Construction Fund to the Capital Improvements Bond Fund. The Construction Fund's budget includes a 2006 property tax levy of $17,766,000, which represents a small decrease of $174,000 from 2005.

The 2006 Capital Improvements Bond Fund appropriation of $389,059,000 represents an increase of $34,319,000 from 2005 reflecting the pattern in the award of major projects. The District expects to issue over $200,000,000 in bonds during 2006 to finance expenditures from the Capital Improvements Bond Fund. State Revolving Loan proceeds to fund construction projects are estimated to be $42,000,000 in 2006, $4,000,000 more than the previous year's budget amount. No grant revenue is budgeted for 2006, but investment income and miscellaneous revenue are estimated at $10,200,000 in 2006, a slight increase from the 2005 adjusted budget amount.

The Stormwater Management Fund's budget includes a 2006 appropriation of $24,498,000, which represents an increase of $14,413,000. The increase is a result of the additional costs from regionally beneficial stormwater projects and the transfer of twenty-nine stormwater reservoir maintenance positions from the Maintenance and Operations department. The Stormwater Management Fund's 2006 tax levy increased by $5,057,000 to $15,508,000 in order to provide resources for the increased appropriation.

The District has six collective bargaining agreements that cover fifteen unions and include approximately 900 of the District's employees for purposes of determining wages and benefits. All six collective bargaining agreements were renegotiated in 2005 and will expire again in June 2008.

REQUESTS FOR ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

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		Debt Service Fund		Capital Improvements Bond Fund	
	2005	2004	2005	2004	2005	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		Other Governmental / Nonmajor Funds		Total Governmental Activities		Adjustments (Note 2a)		Statements of Net Assets	
2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**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		Actual	Actual Variance With Final Budget - Positive
	Original	Final	Amounts	(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

Notes to the Basic Financial Statements

Year ended December 31, 2005

Index to Notes

Note **Page Number**

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 Maturities (in Years)		
Investment Type	Fair Value	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 Improvements Bond	Construction	Other Governmental	Total Governmental	Adjustments	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.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)
OTHER THAN MD&A

Modified Approach for Eligible Infrastructure Assets

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

1. Central WRP Basin	All systems, subsystems and components associated with the Central (Stickney) WRP service area (excluding Waterways Network assets).
2. North Side WRP Basin	All systems, subsystems and components associated with the North Side WRP service area (excluding Waterways Network assets).
3. Calumet WRP Basin	All systems, subsystems and components associated with the Calumet WRP service area (excluding Waterways Network assets and Lemont Network).
4. Egan WRP Basin	All systems, subsystems and components associated with the Egan WRP service area (excluding Waterways Network assets).
5. Kirie WRP Basin	All systems, subsystems and components associated with the Kirie WRP service area (excluding Waterways Network assets).
6. Hanover Park WRP Basin	All systems, sub-systems, and components associated with the Hanover Park WRP service area (excluding Waterways Network assets).
7. Lemont WRP Basin	All systems, subsystems and components associated with the Lemont WRP service area (excluding Waterways Network assets).
8. Waterways	All waterways under the jurisdiction of the District including the Waterways Control System, Lockport Powerhouse and Controlling Works, Chicago River Controlling Works, Wilmette Pumping Station, all District Flood Control Reservoirs and Pump Stations, Sidestream Elevated Pool Aeration Stations, Instream Aeration Stations, Melas Park and Centennial Fountain.

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

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

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

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

Initial condition assessments of the Kirie, Hanover, Egan, North Side, Central and Waterways WRP networks were completed between 2002 and 2005. The initial assessments for the Calumet and Lemont WRP networks are scheduled for 2006.

Condition assessments of each network will continue at least every three years following the initial assessment. The Kirie WRP was re-assessed in 2005.

The condition assessment ratings and the estimated and actual maintenance and preservation costs since 2002 for the Kirie, Hanover, Egan, North Side, Central, and Waterways WRP networks are as follows:

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Condition Assessment Ratings					
Kirie WRP Network					
Initial Condition Assessment - 2002	3	3	2	NA	NA
Subsequent assessments - 2005	3	2	3	NA	NA
Hanover WRP Network					
Initial Condition Assessment - 2003	2	2	2	NA	2
Egan WRP Network					
Initial Condition Assessment - 2004	2	2	2	2	NA
North Side WRP Network					
Initial Condition Assessment - 2004	3	3	3	2	NA
Central WRP Network					
Initial Condition Assessment - 2005	3	3	2	NA	2
Waterways WRP Network					
Initial Condition Assessment - 2005	NA	NA	NA	2	NA
Maintenance/Preservation Costs					
Kirie WRP Network					
Estimated 2005	$ 294,300	$ 3,779,522	$ 1,456,050	NA	NA
Actual 2005	319,306	2,524,861	1,080,823	NA	NA
Estimated 2004	$ 497,904	$ 2,542,711	$ 16,500	NA	NA
Actual 2004	630,803	1,902,280	13,269	NA	NA
Estimated 2003	$ 840,592	$ 1,073,965	$ 56,215	NA	NA
Actual 2003	621,688	622,847	28,338	NA	NA
Estimated 2002	$ 535,283	$ 2,222,180	$ 10,805	NA	NA
Actual 2002	566,934	1,639,330	10,975	NA	NA
Hanover WRP Network					
Estimated 2005	$ 130,450	$ 1,150,850	$ 154,550	NA	$ 40,925
Actual 2005	121,250	767,602	116,440	NA	46,520
Estimated 2004	$ 172,682	$ 1,346,374	$ 179,246	NA	$ 46,700
Actual 2004	176,831	1,106,536	154,638	NA	52,622
Estimated 2003	$ 163,423	$ 680,542	$ 189,289	NA	$ 83,405
Actual 2003	167,317	741,499	168,123	NA	62,570
Egan WRP Network					
Estimated 2005	$ 471,071	$ 2,022,631	$ 816,384	$ 71,900	NA
Actual 2005	470,620	2,035,112	673,924	48,386	NA
Estimated 2004	$ 1,103,505	$ 1,767,877	$ 473,487	$ 72,800	NA
Actual 2004	765,214	1,637,495	676,192	65,681	NA
North Side WRP Network					
Estimated 2005	$ 4,208,167	$ 4,600,789	$ 793,796	$ 39,674	NA
Actual 2005	3,946,173	4,953,214	852,700	25,827	NA
Estimated 2004	$ 3,683,361	$ 4,898,752	$ 783,180	$ 27,600	NA
Actual 2004	3,618,074	4,627,969	881,502	27,358	NA
Central WRP Network					
Estimated 2005	$ 14,369,199	$ 22,514,878	$ 14,566,168	NA	$ 16,002,887
Actual 2005	12,398,675	24,588,624	14,252,397	NA	13,612,168
Waterways WRP Network					
Estimated 2005	NA	NA	NA	$ 3,322,428	NA
Actual 2005	NA	NA	NA	2,558,953	NA

Progress in Funding the Pension Trust Fund

The following schedule presents the progress in funding the Pension Trust Fund over the last three years:

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
12/31/2005	$ 1,171,845	$ 1,654,188	$ 482,344	70.80%	$ 149,246	323.19%
12/31/2004	1,161,779	1,578,367	416,588	73.60%	146,360	284.63%
12/31/2003	1,146,521	1,517,869	371,348	75.53%	142,594	260.42%

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Fund established to account for pension costs as provided by specifically levied annual property taxes. The taxes are collected and recorded in the District's Retirement Fund prior to their payment to the Pension Trust Fund.

CAPITAL PROJECTS FUND

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

Exhibit B-1
Combining Balance Sheets - Nonmajor Governmental Funds

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

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund*	Total Nonmajor Governmental Funds	
	2005	2004	2005	2005	2004
Assets					
Cash	$ -	$ -	$ 14	$ 14	$ -
Investments	-	-	24,743	24,743	-
Taxes receivable, net	25,958	31,631	10,171	36,129	31,631
Total assets	$ 25,958	$ 31,631	$ 34,928	$ 60,886	$ 31,631
Liabilities and Fund Balances					
Liabilities:					
Deferred tax revenue	$ 19,056	$ 24,442	$ 8,635	$ 27,691	$ 24,442
Accounts payable and other liabilities	-	-	72	72	-
Due to Pension Trust Fund	6,902	7,189	-	6,902	7,189
Due to other funds	-	-	9	9	-
Total liabilities	25,958	31,631	8,716	34,674	31,631
Fund balances:					
Reserved for working cash	-	-	25,227	25,227	-
Unreserved					
Undesignated	-	-	985	985	-
Total fund balances	-	-	26,212	26,212	-
Total liabilities and fund balances	$ 25,958	$ 31,631	$ 34,928	$ 60,886	$ 31,631

* There was no Stormwater Management Fund in 2004.

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

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

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund*	Total Nonmajor Governmental Funds	
	2005	2004	2005	2005	2004
Revenues					
General revenues:					
Property taxes	$ 28,375	$ 23,559	$ 1,451	$ 29,826	$ 23,559
Personal property replacement tax	3,186	3,813	86	3,272	3,813
Interest on investments	-	-	298	298	-
Total revenues	31,561	27,372	1,835	33,396	27,372
Expenditures					
Current					
Pension costs	31,561	27,372	-	31,561	27,372
Construction costs	-	-	623	623	-
Total expenditures	31,561	27,372	623	32,184	27,372
Revenues over (under) expenditures	-	-	1,212	1,212	-
Other financing sources (uses):					
Transfers	-	-	25,000	25,000	-
Total other financing sources (uses)	-	-	25,000	25,000	-
Net changes in fund balances	-	-	26,212	26,212	-
Fund balance at beginning of the year	-	-	-	-	-
Fund balance at end of the year	$ -	$ -	$ 26,212	$ 26,212	$ -

* There was no Stormwater Management Fund in 2004.

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GENERAL CORPORATE FUND

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

Exhibit C-1
General Corporate Fund - Corporate and Reserve Claim Fund Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Board of Commissioners:					
Personal services					
Salaries of regular employees	$ 2,942	$ -	$ 2,942	$ 2,631	$ 311
Compensation plan adjustments	64	-	64	24	40
Tuition and training payments	6	-	6	4	2
Payment for professional services	439	-	439	349	90
Personal services n.o.c.*	273	-	273	264	9
Total personal services	3,724	-	3,724	3,272	452
Contractual services					
Travel	8	(3)	5	5	-
Meals and lodging	5	3	8	8	-
Motor vehicle operating services	1	-	1	1	-
Reprographic services	1	-	1	-	1
Communication services	1	-	1	-	1
Subscriptions and membership dues	32	-	32	28	4
Total contractual services	48	-	48	42	6
Materials and supplies					
Office, printing and photographic supplies	25	-	25	4	21
Materials and supplies n.o.c.	3	-	3	-	3
Total materials and supplies	28	-	28	4	24
Board of Commissioners total	3,800	-	3,800	3,318	482
General Administration:					
Personal Services					
Salaries of regular employees	10,376	(180)	10,196	10,181	15
Compensation plan adjustments	478	452	930	919	11
Tuition and training payments	72	(36)	36	33	3
Payment for professional services	584	(203)	381	292	89
Personal services n.o.c.	172	69	241	211	30
Total personal services	11,682	102	11,784	11,636	148
Contractual services					
Travel	20	(1)	19	4	15
Meals and lodging	36	(10)	26	20	6
Postage, freight, and delivery charges	238	-	238	235	3
Compensation for personally owned autos	16	-	16	15	1

(continued)

*n.o.c.=not otherwise classified

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
General Administration (continued):					
Motor vehicle operating expenditures	$ 147	$ -	$ 147	$ 133	$ 14
Reprographic services	127	(25)	102	54	48
Electrical energy	422	-	422	368	54
Natural gas	50	-	50	39	11
Water and water services	3	-	3	3	-
Communications services	5	-	5	3	2
Subscriptions and membership dues	304	(85)	219	219	-
Rental charges	22	-	22	10	12
Administration building operation	669	-	669	656	13
Administrative building operation annex	736	171	907	870	37
Contractual services n.o.c	218	45	263	229	34
Waste material disposal charges	78	10	88	81	7
Repairs to buildings	344	65	409	175	234
Safety repairs and services	255	-	255	196	59
Repairs to office furniture and equipment	134	36	170	161	9
Computer software maintenance	21	-	21	7	14
Repairs to vehicle equipment	455	273	728	624	104
Repairs n.o.c.	5	-	5	-	5
Total contractual services	4,305	479	4,784	4,102	682
Materials and supplies					
Electrical parts and supplies	12	-	12	6	6
Plumbing accessories and supplies	5	(1)	4	2	2
Hardware	6	1	7	7	-
Buildings, grounds, paving materials and supplies	2	-	2	-	2
Office, printing and photographic supplies	215	(15)	200	131	69
Wearing apparel	31	-	31	15	16
Books, maps and charts	66	(15)	51	24	27
Safety and medical supplies	183	-	183	140	43
Computer software	11	-	11	-	11
Computer supplies	5	-	5	1	4
Materials and supplies n.o.c.	44	-	44	23	21
Total materials and supplies	580	(30)	550	349	201
Machinery and equipment					
Office furniture and equipment	231	(127)	104	98	6
Computer equipment	40	-	40	37	3
Vehicle equipment	1,040	(65)	975	939	36
Machinery and equipment n.o.c.	22	36	58	47	11
Total machinery and equipment	1,333	(156)	1,177	1,121	56
General Administration total	17,900	395	18,295	17,208	1,087

(continued)

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

Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Research and Development:					
Personal services					
Salaries of regular employees	$ 20,938	$ -	$ 20,938	$ 20,687	$ 251
Compensation plan adjustments	754	-	754	673	81
Salaries of non-budgeted employees	10	(7)	3	-	3
Tuition and training payments	48	-	48	18	30
Payment for professional services	497	6	503	300	203
Personal services n.o.c.	287	60	347	329	18
Total personal services	22,534	59	22,593	22,007	586
Contractual services					
Travel	18	-	18	11	7
Meals and lodging	50	-	50	49	1
Postage, freight and delivery charges	13	-	13	10	3
Compensation for personally owned autos	27	8	35	34	1
Motor vehicle operating services	3	-	3	1	2
Reprographic services	5	-	5	1	4
Electrical energy	12	-	12	10	2
Natural gas	3	-	3	2	1
Water and water services	2	-	2	2	-
Communication services	2	-	2	-	2
Rental charges	51	(3)	48	23	25
Governmental services charges	84	48	132	111	21
Contractual services n.o.c	522	2	524	347	177
Repairs to buildings	6	-	6	-	6
Repairs to marine equipment	116	(21)	95	52	43
Computer equipment maintenance	1	-	1	-	1
Computer software maintenance	286	23	309	295	14
Communication equipment maintenance	5	-	5	2	3
Repairs to testing and laboratory equipment	593	(57)	536	370	166
Repairs n.o.c.	18	-	18	8	10
Total contractual services	1,817	-	1,817	1,328	489
Materials and supplies					
Electrical parts and supplies	24	-	24	-	24
Office, printing and photographic supplies	35	-	35	20	15
Farming supplies	11	-	11	9	2
Laboratory testing supplies and small equipment	554	4	558	352	206
Wearing apparel	27	-	27	16	11
Books, maps and charts	4	-	4	1	3
Computer software	-	1	1	1	-
Computer supplies	14	-	14	2	12
Fuel	23	7	30	26	4
Communications supplies	20	(6)	14	-	14

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts: Original	Budget Amounts: Net Transfers	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Research and Development (continued):					
Materials and supplies n.o.c.	$ 94	$ -	$ 94	$ 42	$ 52
Total materials and supplies	806	6	812	469	343
Machinery and equipment					
Computer equipment	45	-	45	-	45
Testing and laboratory equipment	1,028	(65)	963	488	475
Total machinery and equipment	1,073	(65)	1,008	488	520
Research and Development total	26,230	-	26,230	24,292	1,938
Purchasing:					
Personal services					
Salaries of regular employees	4,610	-	4,610	4,388	222
Compensation plan adjustments	194	-	194	105	89
Tuition and training payments	15	-	15	4	11
Payments for professional services	13	-	13	5	8
Personal services n.o.c.	59	-	59	49	10
Total personal services	4,891	-	4,891	4,551	340
Contractual services					
Travel	2	-	2	2	-
Meals and lodging	4	-	4	3	1
Compensation for personally owned autos	1	-	1	1	-
Motor vehicle operating services	1	-	1	-	1
Testing and inspection services	2	-	2	2	-
Advertising	254	(4)	250	138	112
Contractual services n.o.c	5	-	5	-	5
Repairs to buildings	3	-	3	1	2
Repairs to office furniture and equipment	5	(1)	4	2	2
Computer software maintenance	5	-	5	-	5
Communication equipment maintenance	2	-	2	1	1
Repairs to vehicle equipment	7	4	11	3	8
Repairs n.o.c.	4	1	5	4	1
Total contractual services	295	-	295	157	138
Materials and supplies					
Metals	123	11	134	129	5
Electrical parts and supplies	335	(52)	283	214	69
Plumbing accessories and supplies	230	5	235	220	15
Hardware	75	2	77	75	2
Buildings, grounds, paving materials and supplies	135	(10)	125	104	21
Fiber, paper and insulation materials	35	-	35	24	11
Paints, solvents, and related materials	40	-	40	36	4
Vehicle parts and supplies	9	-	9	4	5

(continued)

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

Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Purchasing (continued):					
Mechanical and repair parts	$ 110	$ 25	$ 135	$ 127	$ 8
Office, printing and photographic supplies	206	(18)	188	155	33
Laboratory testing supplies and small equipment	431	52	483	461	22
Cleaning supplies	280	-	280	248	32
Tools and supplies	140	-	140	113	27
Wearing apparel	118	-	118	96	22
Safety and medical supplies	60	-	60	35	25
Computer supplies	188	(45)	143	84	59
Fuel	375	30	405	382	23
Gas (in containers)	75	-	75	37	38
Communications supplies	13	-	13	8	5
Lubricants	180	-	180	149	31
Materials and supplies n.o.c.	77	-	77	-	77
Total materials and supplies	3,235	-	3,235	2,701	534
Purchasing total	8,421	-	8,421	7,409	1,012
Personnel:					
Personal services					
Salaries of regular employees	3,912	-	3,912	3,341	571
Compensation plan adjustments	230	-	230	185	45
Social security and medicare contributions	1,680	175	1,855	1,806	49
Salaries of non-budgeted employees	10	-	10	-	10
Employee claims	110	-	110	77	33
Tuition and training payments	587	-	587	198	389
Payment for professional services	1,103	(8)	1,095	705	390
Health and life insurance premiums	32,703	(175)	32,528	26,336	6,192
Personal services n.o.c.	38	8	46	31	15
Total personal services	40,373	-	40,373	32,679	7,694
Contractual services					
Travel	7	-	7	3	4
Meals and lodging	13	-	13	8	5
Postage, freight and delivery charges	9	-	9	5	4
Compensation for personally owned autos	7	-	7	5	2
Court reporting services	41	-	41	20	21
Medical services	199	-	199	134	65
Rental charges	10	-	10	5	5

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Personnel (continued):					
Contractual services n.o.c	$ 22	$ -	$ 22	$ 9	$ 13
Computer software maintenance	16	-	16	6	10
Communication equipment maintenance	3	-	3	-	3
Total contractual services	327	-	327	195	132
Materials and supplies					
Office, printing and photographic supplies	6	-	6	3	3
Books, maps, and charts	16	-	16	10	6
Computer supplies	7	-	7	-	7
Materials and supplies n.o.c.	20	-	20	6	14
Total materials and supplies	49	-	49	19	30
Personnel total	40,749	-	40,749	32,893	7,856
Information Technology:					
Personal services					
Salaries of regular employees	5,339	60	5,399	5,398	1
Compensation plan adjustments	210	(60)	150	120	30
Tuition and training payments	271	(5)	266	180	86
Payment for professional services	875	(175)	700	442	258
Personal services n.o.c.	42	5	47	45	2
Total personal services	6,737	(175)	6,562	6,185	377
Contractual services					
Travel	20	-	20	9	11
Meals and lodging	38	-	38	22	16
Compensation for personally owned autos	6	-	6	3	3
Communication services	782	-	782	716	66
Subscription and membership dues	15	-	15	-	15
Contractual services n.o.c	9	-	9	-	9
Computer equipment maintenance	581	-	581	501	80
Computer software maintenance	1,504	(140)	1,364	1,265	99
Communication equipment maintenance	275	-	275	238	37
Repairs n.o.c.	1	-	1	-	1
Total contractual services	3,231	(140)	3,091	2,754	337
Materials and supplies					
Office, printing and photographic supplies	1	10	11	1	10
Books, maps and charts	1	-	1	1	-
Computer software	319	107	426	234	192
Computer supplies	560	140	700	630	70
Communication supplies	133	3	136	62	74
Total materials and supplies	1,014	260	1,274	928	346

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Information Technology (continued):					
Machinery and equipment					
Computer equipment	$ 580	$ (20)	$ 560	$ 319	$ 241
Computer software	413	75	488	481	7
Total machinery and equipment	993	55	1,048	800	248
Information Technology total	11,975	-	11,975	10,667	1,308
Law:					
Personal Services					
Salaries of regular employees	4,078	25	4,103	4,055	48
Compensation plan adjustments	167	(63)	104	99	5
Tuition and training payments	7	(3)	4	3	1
Payment for professional services	915	344	1,259	949	310
Personal services n.o.c.	31	(7)	24	21	3
Total personal services	5,198	296	5,494	5,127	367
Contractual services					
Travel	6	(1)	5	5	-
Meals and lodging	2	1	3	2	1
Compensation for personally owned autos	3	(1)	2	1	1
Reprographic services	11	19	30	12	18
Communication services	2	(1)	1	1	-
Court reporting services	32	35	67	35	32
Insurance premiums	185	(16)	169	163	6
Contractual services n.o.c	101	(12)	89	89	-
Communication equipment maintenance	3	(1)	2	2	-
Total contractual services	345	23	368	310	58
Materials and supplies					
Office, printing and photographic supplies	3	-	3	2	1
Books, maps and charts	28	16	44	33	11
Materials and supplies n.o.c.	2	(2)	-	-	-
Total materials and supplies	33	14	47	35	12
Fixed and other charges					
Taxes on real estate	500	192	692	691	1
Total fixed and other charges	500	192	692	691	1
Law total	6,076	525	6,601	6,163	438

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Finance:					
Personal services					
Salaries of regular employees	$ 2,650	$ 45	$ 2,695	$ 2,689	$ 6
Compensation plan adjustments	123	(45)	78	19	59
Tuition and training payments	27	-	27	25	2
Payment for professional services	441	-	441	243	198
Personal services n.o.c.	39	-	39	30	9
Total personal services	3,280	-	3,280	3,006	274
Contractual services					
Travel	6	-	6	3	3
Meals and lodging	14		14	7	7
Postage, freight and delivery charges	-	4	4	2	2
Compensation for personally owned autos	2	-	2	-	2
Reprographic services	32	(10)	22	3	19
Court reporting services	48	-	48	41	7
Contractual services n.o.c	4	-	4	1	3
Repairs to office furniture and equipment	4	-	4	3	1
Computer software maintenance	20	6	26	26	-
Total contractual services	130	-	130	86	44
Materials and supplies					
Office, printing and photographic supplies	15	-	15	7	8
Total materials and supplies	15	-	15	7	8
Finance total	3,425	-	3,425	3,099	326
Engineering:					
Personal services					
Salaries of regular employees	2,609	-	2,609	2,548	61
Compensation plan adjustments	159	-	159	83	76
Tuition and training payments	8	-	8	3	5
Payments for professional services	492	(240)	252	7	245
Personal services n.o.c.	36	15	51	26	25
Personal service expenditures for preliminary engineering reports and studies	150	-	150	98	52
Personal service expenditures for construction drawings, specifications and cost estimates	230	-	230	-	230
Total personal services	3,684	(225)	3,459	2,765	694

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Engineering (continued):					
Contractual services					
Travel	$ 4	$ -	$ 4	$ 1	$ 3
Meals and lodging	7	-	7	3	4
Compensation for personally owned autos	2	2	4	2	2
Soil and rock mechanics investigation	128	-	128	123	5
Contractual services n.o.c.	38	116	154	99	55
Repairs to collection facilities	22	-	22	-	22
Repairs to waterway facilities	290	-	290	-	290
Repairs to process facilities	5,796	(398)	5,398	4,159	1,239
Repairs to buildings	7,253	(417)	6,836	2,365	4,471
Communications equipment maintenance	-	2	2	-	2
Repairs to testing and laboratory equipment	1	-	1	-	1
Total contractual services	13,541	(695)	12,846	6,752	6,094
Materials and supplies					
Office, printing and photographic supplies	9	-	9	-	9
Wearing apparel	6	-	6	6	0
Materials and supplies n.o.c.	2	-	2	-	2
Total materials and supplies	17	-	17	6	11
Machinery and equipment					
Office furniture and equipment	43	-	43	7	36
Testing and laboratory equipment	15	-	15	-	15
Total machinery and equipment	58	-	58	7	51
Engineering total	17,300	(920)	16,380	9,530	6,850
Maintenance and Operations:					
Personal services					
Salaries of regular employees	77,520	-	77,520	74,722	2,798
Compensation plan adjustments	3,936	28	3,964	3,351	613
Salaries of non-budgeted employees	100	(68)	32	5	27
Tuition and training payments	135	-	135	71	64
Payment for professional services	397	(42)	355	228	127
Personal services n.o.c.	544	67	611	553	58
Total personal services	82,632	(15)	82,617	78,930	3,687

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Maintenance and Operations (continued):					
Contractual services					
Travel	$ 17	$ -	$ 17	$ 7	$ 10
Meals and lodging	48	6	54	43	11
Compensation for personally owned autos	296	-	296	222	74
Motor vehicle operating services	5	-	5	3	2
Electrical energy	27,979	492	28,471	27,510	961
Natural gas	2,085	1,413	3,498	3,278	220
Water and water services	589	91	680	645	35
Communications services	311	-	311	255	56
Testing and inspection services	237	-	237	126	111
Rental charges	319	10	329	86	243
Governmental service charges	2,409	90	2,499	2,477	22
Maintenance of grounds and pavements	2,558	(350)	2,208	1,395	813
Contractual services n.o.c.	1,049	59	1,108	823	285
Liquid fertilizer application services	365	-	365	348	17
Waste material disposal charges	18,673	(491)	18,182	15,377	2,805
Farming services	12	-	12	12	-
Repairs to collection facilities	5,656	(583)	5,073	3,520	1,553
Repairs to waterway facilities	560	(355)	205	180	25
Repairs to process facilities	9,246	65	9,311	6,831	2,480
Repairs to railroads	506	(10)	496	304	192
Repairs to buildings	3,771	(476)	3,295	2,167	1,128
Repairs to material handling and farm equipment	360	25	385	339	46
Safety repairs and services	257	-	257	205	52
Repairs to marine equipment	50	-	50	50	-
Repairs to office furniture and equipment	3	-	3	2	1
Computer software maintenance	45	-	45	42	3
Communication equipment maintenance	99	(6)	93	57	36
Repairs to vehicle equipment	69	-	69	42	27
Repairs to testing and laboratory equipment	6	-	6	-	6
Repairs n.o.c.	67	-	67	38	29
Total contractual services	77,647	(20)	77,627	66,384	11,243
Materials and supplies					
Metals	50	-	50	31	19
Electrical parts and supplies	2,036	(47)	1,989	1,322	667
Plumbing accessories and supplies	765	-	765	530	235
Hardware	56	-	56	34	22
Buildings, grounds, paving materials and supplies	234	-	234	175	59

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2005

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Maintenance and Operations (continued):					
Fiber, paper and insulation materials	$ 9	$ -	$ 9	$ -	$ 9
Paints, solvents, and related materials	7	-	7	4	3
Vehicle parts and supplies	202	14	216	165	51
Mechanical repair parts	5,066	(40)	5,026	2,915	2,111
Manhole materials	52	-	52	45	7
Office, printing and photographic supplies	70	9	79	48	31
Farming supplies	4	-	4	1	3
Processing chemicals	5,849	(29)	5,820	4,185	1,635
Laboratory testing supplies and small equipment	37	12	49	43	6
Cleaning supplies	27	(2)	25	18	7
Tools and supplies	283	-	283	251	32
Apparel	7	-	7	4	3
Books, maps and charts	13	-	13	7	6
Safety and medical supplies	156	-	156	93	63
Computer software	12	-	12	-	12
Computer supplies	52	1	53	25	28
Fuel	263	35	298	272	26
Gas (in containers)	45	-	45	12	33
Communication supplies	108	(9)	99	39	60
Lubricants	35	1	36	27	9
Materials and supplies n.o.c.	136	-	136	101	35
Total materials and supplies	15,574	(55)	15,519	10,347	5,172
Machinery and equipment					
Equipment for collection facilities	188	(7)	181	101	80
Equipment for process facilities	752	40	792	650	142
Material handling and farming equipment	290	17	307	307	-
Marine equipment	55	48	103	103	-
Vehicle equipment	465	10	475	92	383
Testing and laboratory equipment	45	(8)	37	37	-
Machinery and equipment n.o.c.	15	(10)	5	-	5
Total machinery and equipment	1,810	90	1,900	1,290	610
Fixed and other charges					
Charges n.o.c.	50	-	50	-	50
Total fixed and other charges	50	-	50	-	50
Maintenance and Operations total	177,713	-	177,713	156,951	20,762

(in thousands of dollars)

Corporate Division Total	Budget Amounts: Original	Budget Amounts: Net Transfers	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Total all departments:					
Personal services	$ 184,735	$ 42	$ 184,777	$ 170,158	$ 14,619
Contractual services	101,686	(353)	101,333	82,110	19,223
Materials and supplies	21,351	195	21,546	14,864	6,682
Machinery and equipment	5,267	(76)	5,191	3,707	1,484
Fixed and other charges	550	192	742	691	51
Total Corporate Division	313,589	-	313,589	271,530	42,059
Reserve Claim Division					
Employee claims	8,000	-	8,000	3,500	4,500
General claims and emergency repair and replacement costs over $10,000	27,000	-	27,000	873	26,127
Total Reserve Claim Division	35,000	-	35,000	4,373	30,627
Total General Corporate Fund	$ 348,589	$ -	$ 348,589	$ 275,903	$ 72,686

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

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

	(in thousands of dollars) 2005	2004	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2005
Personal services:					
Salaries and wages	$ 136,226	$ 134,439	$ 1,787	1 %	50%
Employee health and life insurance premiums	26,337	29,749	(3,412)	(11)	10
Payment for professional services	3,613	3,370	243	7	1
Social security and medicare contributions	1,805	1,686	119	7	1
Tuition and training payments	540	528	12	2	0
Other	1,635	1,763	(128)	(7)	1
Total personal services	170,156	171,535	(1,379)	(1)	63
Contractual services:					
Electrical energy	27,888	28,277	(389)	(1)	10
Natural gas	3,319	2,383	936	39	1
Postage freight and delivery charges	252	219	33	15	0
Biosolids application services	348	421	(73)	(17)	0
Waste material disposal charges	15,458	17,041	(1,583)	(9)	6
Administration building operation	1,526	1,450	76	5	1
Communication services	974	1,028	(54)	(5)	0
Farming services	12	11	1	9	0
Court reporting services	95	75	20	27	0
Water and water services	650	673	(23)	(3)	0
Motor vehicle operating services	137	120	17	14	0
Employee travel and transportation	499	484	15	3	0
Medical services	135	126	9	7	0
Rental charges	124	232	(108)	(47)	0
Maintenance of grounds and pavements	1,395	1,709	(314)	(18)	1
Governmental service charges	2,587	2,760	(173)	(6)	1
Repairs to process facilities	10,989	8,887	2,102	24	4
Other repairs	13,252	12,108	1,144	9	5
Other contractual services	2,469	2,314	155	7	1
Total contractual services	82,109	80,318	1,791	2	30
Materials and supplies:					
Processing chemicals	4,185	3,775	410	11	2
Laboratory testing supplies	840	754	86	11	0
Mechanical repair parts	2,115	3,801	(1,686)	(44)	1
Fuels and lubricants	925	727	198	27	0
Electrical parts and supplies	1,553	1,698	(145)	(9)	1
Plumbing accessories and supplies	739	662	77	12	0
Office, printing and photographic supplies	360	346	14	4	0
Buildings, grounds, paving materials and supplies	325	271	54	20	0
Cleaning supplies	263	241	22	9	0
Metals	150	124	26	21	0
Computer supplies	753	862	(109)	(13)	0
Other materials and supplies	1,699	3,205	(1,506)	(47)	1
Total materials and supplies	13,907	16,466	(2,559)	(16)	5

(Continued)

	(in thousands of dollars) 2005	2004	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2005
Machinery and equipment:					
Material handling and farming equipment	$ 307	$ 263	$ 44	17 %	0%
Vehicle equipment	1,032	173	859	497	1
Office furniture and equipment	105	13	92	708	0
Testing and laboratory equipment	525	178	347	195	0
Equipment for collection facilities	63	28	35	125	0
Equipment for process facilities	546	376	170	45	0
Computer equipment	451	420	31	7	0
Computer software	481	96	385	401	0
Communication equipment	-	174	(174)	(100)	0
Other machinery and equipment	150	86	64	74	0
Total machinery and equipment	3,660	1,807	1,853	103	1
Fixed and other charges:					
Taxes on real estate	691	-	691	100	0
Total fixed other charges	691	-	691	100	0
Claims and judgments	4,368	3,829	539	14	1
Total expenditures	$ 274,891	$ 273,955	$ 936	0 %	100%

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SPECIAL REVENUE FUND

Special Revenue Funds are used to account for revenues from specific taxes or other revenue sources which, by law, are designated to finance particular functions or activities of the District. The following fund is included as a Special Revenue Fund:

Retirement Fund

Fund established to account for pension costs as provided by specifically levied annual property taxes. The taxes are collected and recorded in the District's Retirement Fund prior to their payment to the Pension Trust Fund.

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

Year ended December 31, 2005

(in thousands of dollars)

Retirement Fund	**Final Budget**	**Actual on Budgetary Basis**	**Actual Variance with Final Budget - Positive (Negative)**
Revenues:			
Property taxes	$ 27,388	$ 28,034	$ 646
Personal property replacement tax	3,814	3,814	-
Total tax revenue	31,202	31,848	646
Current expenditures:			
Pension costs	31,202	31,848	(646)
Total expenditures	31,202	31,848	(646)
Revenues over (under) expenditures	-	-	-
Fund balances at beginning of the year	-	-	-
Fund balances at end of the year	$ -	$ -	$ -

DEBT SERVICE FUND

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

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

Year ended December 31, 2005

(in thousands of dollars)

Debt Service Fund	Final Budget	Actual on Budgetary Basis	Actual Variance with Final Budget - Positive (Negative)
Revenues:			
Property taxes	$ 161,123	$ 165,192	$ 4,069
Interest on investments	3,468	4,319	851
Miscellaneous	-	1,277	1,277
Total revenues	164,591	170,788	6,197
Expenditures:			
Debt service	156,809	169,019	(12,210)
Revenues over (under) expenditures	7,782	1,769	(6,013)
Fund balances at beginning of the year	145,127	144,189	(938)
Fund balances at end of the year	$ 152,909	$ 145,958	$ (6,951)

CAPITAL PROJECTS FUNDS

Construction Fund

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

Stormwater Management Fund

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

Capital Improvements Bond Fund

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

Exhibit F-1
Capital Projects Funds
Schedule of Appropriations and Expenditures on Budgetary Basis

Year ended December 31, 2005

(in thousands of dollars)

	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Construction Fund:					
Personal services					
Salaries of regular employees	$ 4,842	$ -	$ 4,842	$ 4,286	$ 556
Compensation plan adjustments	264	-	264	53	211
Salaries of non-budgeted employees	100	-	100	-	100
Tuition and training payments	110	-	110	27	83
Payment for professional services	816	-	816	227	589
Health and life insurance	903	-	903	705	198
Personal services n.o.c.	63	53	116	95	21
Preliminary engineering reports and studies	9,477	(53)	9,424	5,129	4,295
Construction drawings, specifications and cost estimates	2,243	-	2,243	281	1,962
Aerial surveys and post construction awards	17	-	17	9	8
Post-award engineering for construction projects	876	-	876	267	609
Total personal services	19,711	-	19,711	11,079	8,632
Contractual services					
Travel	43	-	43	5	38
Meals and lodging	48	-	48	14	34
Postage and delivery charges	2	-	2	1	1
Compensation for personally owned autos	7	-	7	3	4
Motor vehicle operating services	1	-	1	-	1
Reprographic services	131	-	131	27	104
Water and water services	4	-	4	2	2
Testing and inspection services	210	-	210	64	146
Court reporting services	5	-	5	-	5
Rental charges	1	1	2	2	-
Soil and rock mechanics investigation	161	-	161	27	134
Contractual services n.o.c.	2,010	(1)	2,009	594	1,415
Computer software maintenance	46	-	46	44	2
Repairs to testing and laboratory equipment	4	-	4	2	2
Repairs n.o.c.	19	-	19	12	7
Total contractual services	2,692	-	2,692	797	1,895
Materials and supplies					
Office, printing and photo supplies	185	-	185	127	58
Books, maps and charts	6	-	6	4	2
Computer software	13	-	13	8	5
Materials and supplies n.o.c.	16	-	16	4	12
Total materials and supplies	220	-	220	143	77
Machinery and equipment					
Machinery and equipment n.o.c.	32	-	32	29	3
Total machinery and equipment	32	-	32	29	3

(in thousands of dollars)

	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Construction Fund (continued):					
Capital Projects					
Collection facilities structures	$ 4,272	$ -	$ 4,272	$ 2,707	$ 1,565
Process facilities structures	10,471	-	10,471	2,970	7,501
Buildings	2,315	500	2,815	1,510	1,305
Preservation of collection facility structures	6,741	-	6,741	2,206	4,535
Preservation of process facility structures	7,700	(500)	7,200	2,519	4,681
Preservation of buildings	355	-	355	-	355
Total capital projects	31,854	-	31,854	11,912	19,942
Construction Fund Summary:					
Personal services	19,711	-	19,711	11,079	8,632
Contractual services	2,692	-	2,692	797	1,895
Materials and supplies	220	-	220	143	77
Machinery and equipment	32	-	32	29	3
Capital projects	31,854	-	31,854	11,912	19,942
Construction Fund total	54,509	-	54,509	23,960	30,549
Stormwater Management Fund:					
Personal services					
Salaries of regular employees	527	-	527	448	79
Compensation plan adjustments	20	49	69	50	19
Salaries of non-budgeted employees	18	-	18	5	13
Payment for professional services	2,850	(49)	2,801	-	2,801
Health and life insurance	61	-	61	-	61
Preliminary engineering reports and studies	6,500	-	6,500	90	6,410
Total personal services	9,976	-	9,976	593	9,383
Contractual services					
Travel	6	(5)	1	1	-
Meals and lodging	18	(15)	3	3	-
Postage and delivery charges	5	(5)	-	-	-
Compensation for personally owned autos	1	-	1	1	-
Motor vehicle operating services	1	(1)	-	-	-
Reprographic services	12	(12)	-	-	-
Communication services	1	(1)	-	-	-
Court reporting services	-	7	7	3	4
Rental charges	1	(1)	-	-	-
Contractual services n.o.c.	5	33	38	8	30
Repairs to vehicle equipment	1	-	1	-	1
Total contractual services	51	-	51	16	35

Exhibit F-1 (continued)
Capital Projects Fund
Schedule of Appropriations and Expenditures on Budgetary Basis

Year ended December 31, 2005

(in thousands of dollars)

	Budget Amounts				Actual Variance with Final Budget -
	Original	Net Transfers	Final	Actual Amounts	Positive (Negative)
Stormwater Management Fund (continued):					
Materials and supplies					
Office, printing and photo supplies	$ 4	$ -	$ 4	$ -	$ 4
Books, maps and charts	2	-	2	-	2
Computer software	10	-	10	-	10
Computer supplies	5	-	5	-	5
Materials and supplies n.o.c.	2	-	2	-	2
Total materials and supplies	23	-	23	-	23
Machinery and equipment					
Computer software	20	-	20	-	20
Vehicle equipment	15	-	15	13	2
Total machinery and equipment	35	-	35	13	22
Stormwater Management Fund Summary:					
Personal services	9,976	-	9,976	593	9,383
Contractual services	51	-	51	16	35
Material and supplies	23	-	23	-	23
Machinery and equipment	35	-	35	13	22
Stormwater Management Fund total	10,085	-	10,085	622	9,463
Capital Improvements Bond Fund:					
Personal services	44,177	-	44,177	34,672	9,505
Contractual services	735	820	1,555	1,377	178
Machinery and equipment	-	16,600	16,600	12,000	4,600
Capital projects	306,528	(17,420)	289,108	89,513	199,595
Land	2,800	-	2,800	-	2,800
Fixed and other charges	500	-	500	8	492
Capital Improvements Bond Fund total *	354,740	-	354,740	137,570	217,170
Capital Projects Funds total	$ 419,334	$ -	$ 390,767	$ 162,152	$228,615

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

OTHER FINANCIAL INFORMATION

Exhibit G-1
Combined Schedules of Property Tax Levies, Allowances, Collections and Receivables - All Governmental Fund Types

Levy Years 2005-2000

(in thousands of dollars)

	Cumulative as of December 31, 2005		2005		2004	
Gross property tax levy	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
General Corporate Fund:						
Corporate	$ 1,065,828	45.7	$ 205,961	50.1	$ 198,676	48.1
Corporate Working Cash	16,802	0.7	-	-	-	-
Reserve Claim	27,457	1.2	5,513	1.3	5,142	1.3
Total General Corporate Fund	1,110,087	47.6	211,474	51.4	203,818	49.4
Other Governmental Fund:						
Storm Water Management	10,451	0.5	10,451	2.6	-	-
Retirement Fund	150,299	6.4	23,598	5.7	28,247	6.8
Debt Service Fund	895,693	38.4	147,281	35.9	166,152	40.2
Construction Fund:						
Construction	160,474	6.9	17,940	4.4	14,847	3.6
Construction Working Cash	3,838	0.2	-	-	-	-
Total Construction Fund	164,312	7.1	17,940	4.4	14,847	3.6
Total Gross Levy - All Funds	2,330,842	100.0	410,744	100.0	413,064	100.0
Less allowance for uncollectible taxes at December 31, 2005	60,421	2.6	14,377	3.5	14,047	3.4
Estimated property taxes to be collected	2,270,421	97.4	396,367	96.5	399,017	96.6
Collections by year (percent shown is percent of estimated property taxes to be collected):						
First year	1,843,456	81.2	-	-	399,017	100.0
Second year	41,170	1.8	-	-	-	-
Third year	(3,596)	(0.2)	-	-	-	-
Fourth year	(2,322)	(0.1)	-	-	-	-
Fifth year	(4,654)	(0.2)	-	-	-	-
Total collections through December 31, 2005	1,874,054	82.5	-	-	399,017	100.0
Property taxes receivable, net	$ 396,367	17.5	$ 396,367	100.0	$ -	-
Property taxes receivable, net - by fund						
General Corporate Fund:						
Corporate	$ 198,751		$ 198,751		$ -	
Reserve Claim	5,321		5,321		-	
Total General Corporate Fund	204,072		204,072		-	
Other Governmental Funds:						
Storm Water Management	10,085		10,085		-	
Retirement Fund	22,772		22,772		-	
Debt Service Fund	142,126		142,126		-	
Construction Fund	17,312		17,312		-	
Property taxes receivable, net	$ 396,367		$ 396,367		$ -	

Levy Years							
2003		2002		2001		2000	
Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
$ 180,310	45.3	$ 168,279	44.1	$ 158,870	42.6	$ 153,732	43.3
4,645	1.2	4,276	1.1	4,043	1.1	3,838	1.1
4,645	1.2	4,276	1.1	4,043	1.1	3,838	1.1
189,600	47.7	176,831	46.3	166,956	44.8	161,408	45.5
-	-	-	-	-	-	-	-
25,958	6.5	24,825	6.5	24,662	6.6	23,009	6.5
157,334	39.5	149,169	39.1	146,606	39.4	129,151	36.4
25,170	6.3	30,702	8.1	34,325	9.2	37,490	10.5
-	-	-	-	-	-	3,838	1.1
25,170	6.3	30,702	8.1	34,325	9.2	41,328	11.6
398,062	100.0	381,527	100.0	372,549	100.0	354,896	100.0
3,152	0.8	6,032	1.6	6,050	1.6	16,763	4.7
394,910	99.2	375,495	98.4	366,499	98.4	338,133	95.3
375,549	95.1	369,667	98.4	361,145	98.5	338,078	100.0
19,361	4.9	7,459	2.0	7,512	2.0	6,838	2.0
-	-	(1,631)	(0.4)	(749)	(0.2)	(1,216)	(0.3)
-	-	-	-	(1,409)	(0.4)	(913)	(0.3)
-	-	-	-	-	-	(4,654)	(1.4)
394,910	100.0	375,495	100.0	366,499	100.0	338,133	100.0
$ -	-	$ -	-	$ -	-	$ -	-
$ -		$ -		$ -		$ -	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
$ -		$ -		$ -		$ -	

Exhibit G-2
Combined Schedules of Cash Receipts and Disbursements - All Governmental Fund Types (Unaudited)

Year ended December 31, 2005

(in thousands of dollars)

	General Corporate Fund	Debt Service Fund	Capital Improvements Bond Fund	Construction Fund	Other Governmental Funds	Totals
Cash Receipts:						
Property tax collections	$ 202,829	$ 165,191	$ -	$ 14,631	$ 28,034	$ 410,685
Personal property replacement tax collections	29,877	-	-	1,632	3,814	35,323
Government grants:						
Federal	-	-	867	-	-	867
State revolving fund loan proceeds	-	-	20,112	-	-	20,112
Interest on investments	3,961	4,554	9,424	1,781	220	19,940
Investments matured and sold	1,552,782	820,561	737,820	756,564	94,589	3,962,316
User charges	44,054	-	-	500	-	44,554
Working cash advances	214,560	-	-	18,719	-	233,279
Working cash repayments	202,400	-	-	19,687	-	222,087
Transfers from Escrow Agent	-	39,367	-	-	-	39,367
Claim and damage settlements	143	-	-	-	-	143
TIF distributions	1,208	-	-	-	-	1,208
Sewer service agreements and impact fees	733	-	-	201	-	934
Rental income	6,348	-	-	-	-	6,348
Proceeds from sale of land	100	-	-	-	-	100
Proceeds from sale of equipment	24	-	-	-	-	24
Miscellaneous	5,042	1,277	-	30	-	6,349
Total cash receipts	2,264,061	1,030,950	768,223	813,745	126,657	5,003,636
Cash Disbursements:						
Payroll	141,282	-	10,304	4,457	503	156,546
Voucher expenditures	132,510	-	91,489	21,393	-	245,392
Transfers	-	-	-	25,000	-	25,000
Contributions to Retirement Fund	-	-	-	-	47,220	47,220
Bond redemption and related interest	-	167,820	-	-	-	167,820
Transfer to Escrow Agent	-	1,199	-	-	-	1,199
Investment purchases	1,573,699	862,403	665,233	724,409	78,920	3,904,664
Working cash advances	214,560	-	-	18,719	-	233,279
Working cash repayments	202,400	-	-	19,687	-	222,087
Total cash disbursements	2,264,451	1,031,422	767,026	813,665	126,643	5,003,207
Cash and restricted cash receipts in excess of (less than) disbursements	(390)	(472)	1,197	80	14	429
Cash and restricted cash at beginning of the year	1,795	18,752	85	16	-	20,648
Cash and restricted cash at end of the year	$ 1,405	$ 18,280	$ 1,282	$ 96	$ 14	$ 21,077

III. STATISTICAL AND DEMOGRAPHICS SECTION

The Metropolitan Water Reclamation District of Greater Chicago has been protecting the water quality of Lake Michigan since 1889.

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Statistical and Demographics Section (Unaudited)

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

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

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

The District implemented GASB Statement 34 beginning in fiscal year 2002 including comparative information for 2001; exhibits presenting government-wide information include information beginning in 2001.

Exhibit H-1
Net Assets by Component

Years ended December 31, 2005 - 2001

(in thousands of dollars)

	2005	2004	2003	2002	2001 (1)
Invested in capital assets, net of related debt (2)	$ 3,728,581	$ 1,921,730	$ 1,373,683	$ 1,260,463	$ 998,609
Restricted					
Restricted for corporate working cash	244,319	236,294	236,068	196,110	191,639
Restricted for debt service	278,218	297,800	290,794	283,288	249,368
Restricted for capital projects	12,287	16,268	53,931	56,835	30,444
Restricted for construction working cash	25,642	50,132	49,880	84,501	84,184
Restricted for stormwater working cash	25,227	-	-	-	-
Restricted for pension	28,602	44,590	-	-	-
Unrestricted	27,594	8,862	27,441	34,027	62,257
Total net assets	$ 4,370,470	$ 2,575,676	$ 2,031,797	$ 1,915,224	$ 1,616,501

(1) The District implemented GASB Statement 34 beginning in fiscal year 2002 including comparative information for 2001.
(2) Infrastructure under the modified approach is reported in the period the initial condition assessment was completed.

Exhibit H-2
Changes in Net Assets

Years ended December 31, 2005 - 2001

(accrual basis of accounting)

(in thousands of dollars)

	2005	2004	2003	2002	2001
Revenues					
General Revenues:					
Property taxes	$ 405,423	$ 395,108	$ 373,811	$ 365,894	$ 353,709
Personal property replacement tax	36,031	25,961	23,461	15,336	27,349
Interest on investments	19,693	9,943	13,163	15,693	26,770
Tax increment financing distributions	1,634	604	1,097	656	1,077
Claims and damage settlements (2)	77	450	113	131	10,441
Miscellaneous	2,300	1,716	777	1,892	1,856
Gain on sale	93	2,677	233	3,419	228
Adjustments for non-financial assets	-	35,865	-	-	-
Total general revenues	465,251	472,324	412,655	403,021	421,430
Program Revenues:					
Charges for services					
User charges	46,576	46,981	48,038	48,500	48,081
Land rentals	6,310	6,166	5,023	5,115	4,479
Fees, forfeits and penalties	4,748	3,800	3,892	2,892	2,829
Capital grants and contributions					
Federal grants	867	774	4,460	866	3,754
Total program revenues	58,501	57,721	61,413	57,373	59,143
Total revenues	523,752	530,045	474,068	460,394	480,573
Expenses					
Board of Commissioners	3,341	3,578	3,333	3,162	2,970
General Administration	17,807	15,969	15,183	14,543	14,150
Research and Development	25,230	24,599	24,669	24,377	24,256
Purchasing	5,170	6,095	4,659	7,187	4,953
Personnel	32,941	35,931	30,947	27,640	26,167
Information Technology	11,111	10,885	11,626	11,334	11,079
Law	6,199	5,064	4,667	4,942	4,744
Finance	3,124	3,065	3,047	5,508	4,003
Engineering	10,160	6,169	2,986	5,812	8,818
Maintenance and Operations	158,802	161,903	160,309	158,838	165,346
Pension costs	47,549	35,354	29,511	27,044	24,958
Claims and judgments (1)	4,466	12,175	(1,340)	10,644	5,994
Construction costs	51,145	38,057	34,794	28,366	47,932
Loss on sale of capital assets	676	172	440	448	1,320
Depreciation (unallocated)	7,596	7,596	7,596	7,597	7,596
Interest on bonds	61,872	65,398	67,958	55,996	58,307
Refunding transaction costs	-	-	-	1,653	-
Total expenses	447,189	432,010	400,385	395,091	412,593
Change in Net Assets	$ 76,563	$ 98,035	$ 73,683	$ 65,303	$ 67,980

(1) The 2003 decrease resulted from a reduction in the liability estimate for claims and judgments.

(2) In 2001 the District received a significant construction claims settlement.

Exhibit H-3
Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(in thousands of dollars)

	2005	2004	2003	2002	2001
General Corporate Fund					
Reserved	$ 244,322	$ 236,332	$ 231,982	$ 191,967	$ 200,317
Unreserved	(45,113)	(68,321)	(45,066)	(40,902)	(61,204)
Total General Corporate Fund	199,209	168,011	186,916	151,065	139,113
All Other Governmental Funds					
Reserved	50,869	50,121	49,868	84,482	84,116
Unreserved, reported in:					
Capital projects funds	297,531	385,352	427,941	336,606	266,720
Debt service funds	168,920	164,185	174,249	157,957	126,973
Total all other governmental Funds	517,320	599,658	652,058	579,045	477,809
Total Governmental Funds	$ 716,529	$ 767,669	$ 838,974	$ 730,110	$ 616,922

2000	1999	1998	1997	1996
$ 183,296	$ 178,649	$ 174,467	$ 170,307	$ 166,146
(16,187)	(21,198)	(22,452)	(37,039)	(36,189)
167,109	157,451	152,015	133,268	129,957
79,270	73,590	68,889	64,224	59,456
150,355	204,170	277,762	316,248	323,709
134,663	142,210	169,846	186,562	179,134
364,288	419,970	516,497	567,034	562,299
$ 531,397	$ 577,421	$ 668,512	$ 700,302	$ 692,256

Exhibit H-4
Changes in Fund Balances: Governmental Funds

Years ended December 31, 2005 - 1996

(modified accrual basis of accounting)

(in thousands of dollars)

	2005	2004	2003	2002	2001
Revenues					
General Revenues:					
Property taxes	$ 423,941	$ 360,326	$ 397,751	$ 362,036	$ 337,654
Personal property replacement tax	36,031	25,961	24,048	22,285	27,946
Interest on investments	19,693	9,943	13,163	15,693	26,770
Land sales	100	3,608	239	3,395	229
Tax increment financing distributions	1,634	604	1,097	656	1,077
Claims and damage settlements	77	450	113	131	10,441
Miscellaneous	2,573	1,872	1,003	2,080	16,062
Program Revenues:					
Charges for services					
User charges	45,983	47,757	50,222	48,890	49,194
Land rentals	6,310	6,160	5,023	5,115	4,479
Fees, forfeits and penalties	4,748	3,800	3,892	2,892	-
Capital grants and contributions					
Government grants	867	1	4,836	490	3,754
Total revenues	541,957	460,482	501,387	463,663	477,606
Expenditures					
Current::					
Board of Commissioners	3,323	3,552	3,315	3,131	2,930
General Administration	17,259	15,538	14,987	14,318	14,009
Research and Development	24,787	24,030	24,172	23,838	23,781
Purchasing	5,023	5,932	4,510	7,037	4,872
Personnel	32,900	35,877	30,916	27,610	26,155
Information Technology	10,811	10,574	11,417	11,204	10,961
Law	6,168	5,018	4,646	4,923	4,736
Finance	3,102	3,033	3,025	5,483	3,987
Engineering	9,538	6,273	4,095	7,757	10,914
Maintenance and Operations	157,612	160,299	159,079	160,326	165,831
Pension costs	31,561	27,372	29,511	27,044	24,958
Claims and judgments	4,368	3,829	2,972	2,859	3,355
Construction costs	133,599	127,155	164,865	157,076	159,841
Debt service:					
Redemption of bonds	107,767	92,560	91,198	89,572	80,464
Interest on bonds	61,252	63,465	67,428	56,259	57,358
Refunding transaction costs	-	-	-	1,653	-
Total expenditures	609,070	584,507	616,136	600,090	594,152
Revenues over (under) expenditures	(67,113)	(124,025)	(114,749)	(136,427)	(116,546)
Other Financing Sources (Uses)					
Payment to escrow agent	-	-	-	(398,620)	-
State revolving fund loan proceeds	15,973	52,720	77,613	26,667	17,811
Sale of refunding bonds	-	-	-	416,000	-
Proceeds from sale of bonds	-	-	146,000	164,000	175,000
Premium on sale of bonds	-	-	-	14,575	8,614
Net transfers	-	-	-	-	-
Total other financing sources (uses)	15,973	52,720	223,613	222,622	201,425
Net change in fund balance	$ (51,140)	$ (71,305)	$ 108,864	$ 86,195	$ 84,879
Debt service as a percentage of non-capital expenditures *(only available from 2001 forward)*	34.4%	33.4%	32.9%	31.1%	28.1%

2000	1999	1998	1997	1996
$ 342,633	$ 322,683	$ 332,610	$ 339,698	$ 337,341
31,928	27,916	28,755	26,500	23,867
39,836	33,823	38,143	39,026	38,526
110	500	4,456	-	-
549	493	164	459	370
-	-	-	-	-
14,710	13,868	18,222	13,324	10,598
50,902	52,221	48,650	52,629	52,741
4,442	4,465	3,656	2,970	3,196
-	-	-	-	-
6,069	6,366	1,751	16,761	32,633
491,179	462,335	476,407	491,367	499,272
2,696	2,435	2,478	2,414	2,320
13,633	15,722	11,651	9,848	9,541
22,405	21,458	19,698	19,581	19,341
6,917	8,022	7,644	7,230	6,062
22,221	20,232	19,727	18,050	19,394
10,123	8,438	10,382	6,600	4,792
4,670	4,457	4,269	3,487	3,387
4,553	5,220	3,584	6,220	4,886
7,137	6,711	4,568	2,860	2,937
154,679	150,567	143,674	139,943	136,887
29,829	24,830	23,500	22,786	22,655
2,961	4,908	1,143	3,772	1,219
149,455	163,135	139,404	118,397	174,233
84,521	98,688	89,407	80,653	72,160
56,282	60,458	64,648	67,454	73,342
-	-	8	1,249	-
572,082	595,281	545,785	510,544	553,156
(80,903)	(132,946)	(69,378)	(19,177)	(53,884)
-	-	-	(116,841)	-
35,101	42,231	35,377	27,948	32,305
-	-	-	116,325	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
35,101	42,231	35,377	27,432	32,305
$ (45,802)	$ (90,715)	$ (34,001)	$ 8,255	$ (21,579)

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

Last Ten Fiscal Years

(in thousands of dollars, except tax rates)

Fiscal Year Ended December 31,	Chicago Equalized Assessed Value	Suburbs Equalized Assessed Value	Total Equalized Assessed Value	Total Direct Tax Rate (1)	Estimated Full Taxable Value	Equalized Assessed Value as a Percentage of Full Value
1995	$ 30,381,480	$ 38,486,664	$ 68,868,144	0.495	$ 241,704,122	28.5 %
1996	30,765,001	40,411,247	71,176,248	0.492	255,185,529	27.9
1997	33,349,557	40,511,394	73,860,951	0.451	262,426,254	28.1
1998	33,940,146	42,812,917	76,753,063	0.444	271,586,946	28.3
1999	35,354,802	45,509,854	80,864,656	0.419	302,544,770	26.7
2000	40,480,075	45,036,933	85,517,008	0.415	341,294,175	25.1
2001	41,981,912	50,923,178	92,905,090	0.401	370,634,448	25.1
2002	45,330,892	57,506,473	102,837,365	0.371	409,432,622	25.1
2003	53,168,632	57,097,996	110,266,628	0.361	490,564,080	22.5
2004	55,277,096	63,761,464	119,038,560	0.347	490,564,080 (2)	24.3

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

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

(2) Current data not available from Civic Federation

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

Last Ten Years

(rates per $100 of assessed value)

	2005 (1)	2004	2003	2002	2001	2000	1999	1998	1997	1996
District direct rates										
Corporate	$ 0.173	$ 0.167	$ 0.163	$ 0.164	$ 0.171	$ 0.179	$ 0.176	$ 0.190	$ 0.195	$ 0.185
Corporate Working Cash	-	-	0.004	0.004	0.004	0.005	0.005	0.005	0.005	0.005
Reserve Claim	0.005	0.004	0.004	0.004	0.004	0.005	0.005	0.005	0.005	0.005
Retirement	0.020	0.024	0.024	0.024	0.027	0.027	0.033	0.029	0.029	0.028
Debt Service	0.124	0.139	0.143	0.145	0.158	0.151	0.151	0.170	0.173	0.213
Construction	0.015	0.013	0.023	0.030	0.037	0.043	0.044	0.041	0.039	0.051
Stormwater Management (2)	0.008	-	-	-	-	-	-	-	-	-
Construction Working Cash	-	-	-	-	-	0.005	0.005	0.004	0.005	0.005
Total direct rate	$ 0.345	$ 0.347	$ 0.361	$ 0.371	$ 0.401	$ 0.415	$ 0.419	$ 0.444	$ 0.451	$ 0.492
Major local governments' tax rates (3)										
City of Chicago	$ -	$ 1.188	$ 1.262	$ 1.452	$ 1.478	$ 1.498	$ 1.673	$ 1.812	$ 1.832	$ 1.987
Chicago Board of Education	-	3.104	3.142	3.562	3.744	3.714	4.104	4.172	4.084	4.327
Chicago Park District	-	0.431	0.439	0.515	0.546	0.557	0.627	0.653	0.665	0.721
Cook County	-	0.593	0.630	0.690	0.746	0.824	0.854	0.911	0.919	0.989
Cook County Forest Preserve Dist.	-	0.060	0.059	0.061	0.067	0.069	0.070	0.072	0.074	0.074
Community College Dist. #508 (4)	-	0.242	0.246	0.280	0.307	0.311	0.347	0.354	0.356	0.377
Chicago School Finance Authority	-	0.177	0.151	0.177	0.223	0.223	0.255	0.268	0.270	0.291
City of Chicago Library Fund	-	0.114	0.118	0.139	0.159	0.162	0.187	0.186	0.192	0.195
District's tax levies by fund										
Corporate	$205,961	$198,676	$180,310	$168,279	$158,870	$153,732	$142,238	$145,854	$143,735	$131,925
Stormwater Management (2)	10,451	-	-	-	-	-	-	-	-	-
Corporate Working Cash	-	-	4,645	4,276	4,044	3,838	3,693	3,533	3,443	3,315
Reserve Claim	5,513	5,142	4,645	4,276	4,044	3,838	3,693	3,533	3,443	3,316
Retirement	23,598	28,247	25,958	24,825	24,661	23,009	27,079	22,294	21,322	20,033
Debt Service	147,281	166,152	157,334	149,169	146,605	129,151	122,060	130,321	128,228	152,030
Construction	17,940	14,847	25,170	30,702	34,325	37,490	36,367	31,875	29,499	36,248
Construction Working Cash	-	-	-	-	-	3,838	3,693	3,373	3,443	3,316
Total tax levies	$410,744	$413,064	$398,062	$381,527	$372,549	$354,896	$338,823	$340,783	$333,113	$350,183

Source: Cook County Clerk

(1) District's tax rates are estimated based on 2004 equalized assessed valuation of $119.0 billion.

(2) The Stormwater Management Fund was established in 2005.

(3) Major local governments' rates for 2005 are not yet available.

(4) Formerly Chicago City Colleges.

Exhibit H-7
Principal Property Taxpayers

2004 and Nine Years Ago

(in thousands of dollars)

Taxpayer	Type of Business	2004 (1) Equalized Assessed Value	2004 Rank	2004 Percentage of Total Equalized Assessed Value	1995 Equalized Assessed Value	1995 Rank	1995 Percentage of Total City Taxable Assessed Value
Sears Tower	Retail & Office	$ 489,383	1	0.41%	$ 255,330	1	0.37%
Aon Center (3)	Insurance	322,214	2	0.27	196,211	2	0.28
Equity Office (2)	Property Management	321,563	3	0.27	-	-	-
Prudential Plaza	Financial Services	279,002	4	0.23	136,414	5	0.20
Bank One Plaza (4)	Banking	244,202	5	0.21	179,744	3	0.26
Citicorp Center	Banking	194,730	6	0.16	118,731	7	0.17
Three First National Plaza	Retail & Office	179,451	7	0.15	130,547	6	0.19
UBS Building	Investment/banking	150,400	8	0.13	-	-	-
AT & T Corporate Center	Communications	144,651	9	0.12	146,822	4	0.21
311 South Wacker	Investments	134,521	10	0.11	-	-	-
Chicago Mercantile Exchange	Commodities	-	-	-	90,865	10	0.13
900 N. Michigan Ave.	Retail & Office	-	-	-	105,122	8	0.15
Leo Burnett Building	Advertising	-	-	-	102,760	9	0.15
Total		$ 2,460,117		2.06%	$ 1,462,546		2.15%

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

(1) 2005 information is unavailable.

(2) Equity Office owns and manages two adjoining tower office buildings.

(3) Formerly the Amoco Oil Building.

(4) Known as One First National Plaza in 1994.

Exhibit H-8
Property Tax Levies and Collections

Last Ten Fiscal Years

(in thousands of dollars)

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year	Collected within the First Year			Collections in Subsequent Years (1)	Total Collections to Date	
		Amount	Percentage of Levy	Final Due Date		Amount	Percentage of Levy
1996	$ 350,183	$ 339,255	96.9 %	9/19/97	$ 5,997	$ 345,252	98.6 %
1997	333,113	322,874	96.9	9/11/98	594	323,468	97.1
1998	340,783	319,261	93.7	11/1/99	10,360	329,621	96.7
1999	338,823	326,628	96.4	10/2/00	(830)	325,798	96.2
2000	354,896	338,078	95.3	11/1/01	55	338,133	95.3
2001	372,549	361,145	96.9	11/1/02	5,354	366,499	98.4
2002	381,527	369,667	96.9	10/1/03	5,828	375,495	98.4
2003	398,062	375,549	94.3	11/15/04	19,361	394,910	99.2
2004	413,064	399,017	96.6	11/1/05	-	399,017	96.6
2005	410,744	-	-	11/1/06	-	-	-

(1) Negative amounts result from subsequent years' tax refunds in excess of collections.

Exhibit H-9
User Charge Rates

Last Ten Years

	2005 (1)	2004	2003	2002	2001
Large Commercial-Industrial User Rates (2)					
Flow per million gallons	$ 210.91	$ 202.39	$ 217.74	$ 185.09	$ 200.21
5-day BOD per 1,000 lbs. (5)	226.64	215.86	227.39	197.10	216.96
SS per 1,000 lbs. (6)	174.33	168.16	182.75	151.53	158.11
Tax-Exempt User Rates (3)					
Flow per million gallons	$ 219.30	$ 209.31	$ 223.29	$ 190.74	$ 201.98
5-day BOD per 1,000 lbs. (5)	235.65	223.25	233.19	203.22	218.89
SS per 1,000 lbs. (6)	181.26	173.92	187.41	156.16	159.51
OM&R Rate (4)	0.5680	0.5690	0.6240	0.5580	0.5950

(1) The current year's rates are calculated using financial data from the prior year's Budget and operating cost and loading data from two years prior. The increase in the 2005 rates resulted from an increase in the District's recoverable Operations, Maintenance and Replacement (OM&R) costs.

(2) Large commercial - industrial users are nongovernmental, nonresidential users engaged in significant commercial or industrial activities.

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

(4) This rate represents the OM&R costs as a percentage of the District's total tax levy and it is applied to commercial-industrial users' real estate tax credits for determining their final user charge.

(5) BOD - Biological Oxygen Demand

(6) SS - Suspended Solids

2000	1999	1998	1997	1996
$ 215.09	$ 205.63	$ 202.75	$ 189.48	$ 178.64
205.33	196.13	190.60	192.39	183.45
163.43	160.40	156.57	159.62	162.71
$ 181.83	$ 175.13	$ 176.16	$ 165.71	$ 153.07
173.52	167.04	165.60	168.35	157.18
138.14	136.61	136.03	139.72	139.44
0.4880	0.4510	0.4650	0.4710	0.4780

Exhibit H-10
Ratio of Total General Bonded Debt and Net Bonded Debt Outstanding (1)

Last Ten Fiscal Years

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

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes and Interest	Total Debt	Resources Available for Repayment of Debt (2)	Net Debt	Total Debt as a % Personal Income (3)	Total Debt Per Capita (3)	Net Debt as a % of Estimated Full Taxable Value (3)	Net Debt Per Capita (3)
1996	$ 1,238,302	$ 29,256	$ 1,267,558	$ 179,134	$ 1,088,424	0.86%	$ 245.98	0.43%	$ 211.22
1997	1,218,616	2,985	1,221,601	186,562	1,035,039	0.79	240.00	0.39	203.35
1998	1,159,093	4,519	1,163,612	169,847	993,765	0.70	229.33	0.37	195.85
1999	1,060,480	35,686	1,096,166	142,210	953,956	0.65	211.25	0.32	183.84
2000	1,040,096	27,972	1,068,068	134,663	933,405	0.59	198.64	0.27	173.59
2001	1,134,632	46,702	1,181,334	126,973	1,054,361	0.63	218.85	0.28	195.32
2002	1,298,375	26,162	1,324,537	157,957	1,166,580	0.70	246.06	0.28	216.72
2003	1,363,739	94,245	1,457,984	174,249	1,283,735	1.04	268.75	0.26	236.63
2004	1,329,123	90,473	1,419,596	164,185	1,255,411	1.04	264.65	0.26	234.04
2005 (4)	1,280,569	48,238	1,328,807	168,920	1,159,887	0.95	248.98	0.24	217.33

(1) Represents long-term debt for general bonded debt, and bond anticipation notes including interest which are eventually converted to general bonded debt. Details of the District's long-term debt can be found in the notes to the basic financial statements.
(2) Represents the unreserved fund balance in the Debt Service Fund.
(3) See Exhibit H-13 for personal income and population information and Exhibit H-5 for estimated full taxable value information.
(4) The 2005 percentage ratios are estimates based on the 2004 personal income and estimated full taxable value information.

Exhibit H-11
Estimate of Direct and Overlapping Debt

As of December 31, 2005

(in thousands of dollars)

Direct debt				
General obligation bonds				$ 1,280,569

Overlapping bonded debt of major local governments (1)	Net Debt	% Applicable (2)	Applicable Amount	
City of Chicago	$ 5,249,563	100.00%	$ 5,249,563	
Chicago Board of Education	4,339,727 (3)	100.00	4,339,727	
Chicago School Finance Authority	268,075	100.00	268,075	
Chicago Park District	1,085,240 (3)	100.00	1,085,240	
Community College District #508	70,740 (4)	100.00	70,740	
Cook County	3,048,995	97.92	2,985,576	
Cook County Forest Preserve District	132,855	97.92	130,092	
Total overlapping debt				14,129,013
Total direct and overlapping debt				$ 15,409,582

(1) Does not include debt issued by other non-major taxing authorities located in Cook County.
(2) Based on 2004 EAVs; the most recent available.
(3) Includes approximately $3,500,000 and $584,915 of general obligation bonds of the Reform Board 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 Board of Education and the Chicago Park District.
(4) Includes responsibility for Chicago Public Building Commission obligations.

Exhibit H-12
Computation of Statutory Debt Margin

Last Ten Fiscal Years

(in thousands of dollars)

	2005 (1)	2004	2003	2002	2001
Equalized assessed valuation	$ 119,038,560	$ 119,038,560	$ 110,266,628	$ 102,837,365	$ 92,905,090
Statutory debt limit (5.75% of equalized assessed valuation)	6,844,717	6,844,717	6,340,331	5,913,148	5,342,043
Total debt applicable to debt limit:					
General obligation bonds outstanding	1,280,569	1,329,123	1,363,739	1,298,375	1,134,632
Bond anticipation notes outstanding	48,238	90,473	94,245	26,162	46,702
Liabilities of tax financed funds:					
Corporate	25,394	29,112	29,661	29,321	37,658
Debt service	154	212	212	486	-
Reserve claim	124	276	472	149	1,951
Construction	3,949	6,333	4,953	4,161	5,691
Total applicable debt	1,358,428	1,455,529	1,493,282	1,358,654	1,226,634
Less applicable assets:					
Debt service funds unrestricted cash and investments	127,860	125,441	129,600	128,508	114,179
Interest payable in the next twelve months	(55,119)	(60,902)	(63,488)	(62,325)	(58,199)
Total applicable assets	72,741	64,539	66,112	66,183	55,980
Total net debt applicable to debt limit	1,285,687	1,390,990	1,427,170	1,292,471	1,170,654
Statutory debt margin	$ 5,559,030	$ 5,453,727	$ 4,913,161	$ 4,620,677	$ 4,171,389
Total applicable net debt as a percentage of statutory debt limit	18.8%	20.3%	22.5%	21.9%	21.9%

(1) Debt limit calculation based on 2004 equalized assessed valuation since 2005 value is not yet available.

2000	1999	1998	1997	1996
$ 85,517,008	$ 80,864,656	$ 76,753,063	$ 73,860,951	$ 71,176,248
4,917,228	4,649,718	4,413,301	4,247,005	4,092,634
1,040,096	1,060,480	1,159,093	1,218,616	1,238,302
27,972	35,686	4,519	2,984	29,072
30,289	31,064	28,728	26,200	25,831
-	-	-	-	-
1,588	2,676	1,673	-	-
11,187	8,682	9,554	5,004	2,540
1,111,132	1,138,588	1,203,567	1,252,804	1,295,745
121,305	129,143	155,120	170,932	162,542
(53,112)	(55,836)	(60,458)	(64,659)	(69,579)
68,193	73,307	94,662	106,273	92,963
1,042,939	1,065,281	1,108,905	1,146,531	1,202,782
$ 3,874,289	$ 3,584,437	$ 3,304,396	$ 3,100,474	$ 2,889,852
21.2%	22.9%	25.1%	27.0%	29.4%

Exhibit H-13
Demographic and Economic Statistics

Last Ten Calendar Years

(population and dollars in thousands)

Year	Population	Personal Income	Per Capita Personal Income	Median Household Income	Unemployment Rate
2005	5,337	$ 139,159,977	$ 26,075	$ 51,635	5.4 %
2004	5,364	137,820,341	25,692	50,093	5.7
2003	5,425	140,930,862	25,977	51,585	6.8
2002	5,383	189,054,081	35,121	57,214	6.7
2001	5,398	187,091,937	34,659	54,490	5.4
2000	5,377	182,393,699	33,921	40,292	4.1
1999	5,189	169,932,439	32,749	49,081	4.1
1998	5,074	165,072,174	32,533	45,668	4.3
1997	5,090	154,215,540	30,298	40,864	4.5
1996	5,153	146,782,078	28,485	40,827	5.0

Source: Population, personal income and median household income is for Cook County, Illinois. Population, median household income and personal income information is provided by Claritas Data Services, and unemployment information is provided by the U.S. Department of Labor, Bureau of Labor Statistics.
The District service area represents 98% of the assessed valuation of Cook County.

Exhibit H-14
Principal Employers

Current Year and Nine Years Ago

Employer	2005 Employees	2005 Rank	2005 Percentage of Total Employment	1996 Employees	1996 Rank	1996 Percentage of Total Employment
U.S. Government	78,000	1	1.46%	33,712	3	0.65%
Chicago Public Schools	43,783	2	0.82%	45,118	1	0.88%
City of Chicago	39,675	3	0.74%	41,551	2	0.81%
Jewel - Osco	34,037	4	0.64%	24,945	5	0.48%
County of Cook	25,482 (1)	5	0.48%	27,385	4	0.53%
Advocate Health Care	25,279	6	0.47%	19,914	9	-
United Parcel Service of America, Inc.	19,346	7	0.36%	-	-	-
U.S. Postal Service	-	-	-	24,114	6	0.47%
Motorola	-	-	-	23,500	7	0.46%
State of Illinois	17,056	8	0.32%	21,509	8	0.42%
SBC Communications, Inc. (2)	16,500	9	0.31%	19,038	10	0.37%
Wal-Mart Stores Inc.	16,350	10	0.31%	-		-
Total	315,508		5.91%	280,786		5.06%

Source: Crain's Chicago Business. Figures represent the number of employees in the six-county area surrounding Chicago.

(1) As of December 2004
(2) Previous to 2002 takeover by SBC, this was Ameritech

Exhibit H-15
Budgeted Positions by Fund/Department

Last Ten Fiscal Years

	Budgeted Positions									
Fund/Department	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**
Corporate Fund										
Board of Commissioners	46	46	45	45	45	45	45	45	45	45
General Administration	146	147	140	131	128	127	123	122	118	115
Research & Development	321	326	337	347	352	355	353	357	353	353
Purchasing	71	75	71	77	82	79	78	74	75	75
Personnel	56	56	52	51	46	43	44	49	53	59
Information Technology	64	64	64	75	75	73	69	63	61	59
Law	41	41	40	41	41	41	42	41	41	38
Finance	35	37	37	38	40	42	40	40	41	38
Engineering (Corporate Fund)	33	32	32	32	32	31	31	33	33	33
Maintenance & Operations	1,124	1,137	1,163	1,191	1,202	1,193	1,193	1,189	1,194	1,240
Total Corporate Fund	1,937	1,961	1,981	2,028	2,043	2,029	2,018	2,013	2,014	2,055
Engineering (Construction Fund)	130	117	120	130	231	223	227	226	225	238
Engineering (Capital Improvements Bond Fund) (1)	76	83	85	91	-	-	-	-	-	-
Grand Total	2,143	2,161	2,186	2,249	2,274	2,252	2,245	2,239	2,239	2,293

(1) In fiscal year 2002, numerous Engineering Department positions were transferred from the Construction Fund budget to the Capital Improvements Bond Fund budget.

Exhibit H-16
Operating Indicators
Last Ten Years

	Area Served (1)	Communities Served (2)	Number of People Served	Commercial and Industrial Population Equivalent Served	Number of Local Sewer Connections to Intercepting Sewers	Pumping Station Maximum Capacity (3)	Gallons of Sewerage Wastes Processed per Day (4)	Daily Sewerage Treatment Capacity (3)
2005	876	126	5,275,180	4,500,000	10,000	4,000,000	1,406,000 (5)	2,000,000
2004	872	126	5,364,000	4,500,000	10,000	4,000,000	1,243,000	2,000,000
2003	872	126	5,425,000	4,500,000	10,000	4,000,000	1,228,000	2,000,000
2002	872	126	5,383,000	4,500,000	10,000	4,000,000	1,244,000	2,000,000
2001	872	126	5,398,000	4,500,000	10,000	4,000,000	1,425,000	2,000,000
2000	872	126	5,377,000	4,500,000	10,000	4,000,000	1,324,000	2,000,000
1999	872	126	5,189,000	4,500,000	10,000	4,000,000	1,388,000	2,000,000
1998	872	126	5,074,000	4,500,000	10,000	4,000,000	1,443,000	2,000,000
1997	872	126	5,090,000	4,500,000	10,000	4,000,000	1,406,000	2,000,000
1996	872	126	5,153,000	4,500,000	10,000	4,000,000	1,388,000	2,000,000

Source: Claritas Data Service

(1) In square miles.

(2) Including the City of Chicago.

(3) Gallons per day in thousands.

(4) In thousands.

(5) Estimated.

Exhibit H-17
Capital Asset Statistics

Years ended December 31, 2005 - 1996

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Miles of intercepting sewers and force mains operated	559	559	559	559	559	554	554	554	554	554
Miles of waterway water levels controlled	76	76	76	76	76	76	76	76	76	76
Acres of strip-mined land utilized for solids processing	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+
Number of water reclamation plants	7	7	7	7	7	7	7	7	7	7
Number of pumping stations	23	23	23	24	25	24	24	24	24	24
Miles of TARP tunnels constructed for pollution and flood control	101.5	101.5	101.5	93.4	93.4	93.4	93.4	93.4	84.7	84.7
Miles of TARP tunnels under construction	7.9	7.9	7.9	16.0	16.0	8.1	8.1	8.1	8.7	8.7
Number of TARP reservoirs constructed	1	1	1	1	1	1	1	-	-	-
Number of TARP reservoirs under construction	2	2	2	1	1	1	-	-	-	-
Number of flood control reservoirs	32	32	32	31	31	30	30	30	30	30
Instream aeration stations	2	2	2	2	2	2	2	2	2	2
Sidestream elevated pool aeration stations	5	5	5	5	5	5	5	5	5	5

Source: District's Engineering Department

IV.
SINGLE AUDIT SECTION

The District's Sidestream Elevated Pool Aeration Stations have been honored by the American Academy of Environment Engineers for planning, and by the American Society of Civil Engineers as an outstanding achievement in civil engineering.

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the 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, and have issued our report thereon dated April 21, 2006, which collectively comprise the District's basic financial statements. 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. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters that we have reported to management of the District in a separate letter dated April 21, 2006.

Compliance and Other Matters

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

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 21, 2006.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 21, 2006

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INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago
Chicago, Illinois

We have audited the accompanying Schedule of Expenditures of Federal Awards (Schedule) of the Metropolitan Water Reclamation District of Greater Chicago (the District), for the year ended December 31, 2005. The Schedule is the responsibility of the District's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Local Government, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above present fairly, in all material respects, the respective expenditures of federal awards of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, we have also issued a report dated January 20, 2006, on our consideration of the District's compliance with requirements applicable to each major program and internal controls over compliance in accordance with OMB Circular A-133. This report is an integral part of an audit performed in accordance with *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and should be read in conjunction with this report.

Velma Butler & Company, Ltd.

Velma Butler & Company, Ltd.
Chicago, Illinois

April 21, 2006

VB&C VELMA BUTLER & COMPANY, LTD.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Metropolitan Water Reclamation District of Greater Chicago
Chicago, Illinois

Compliance

We have audited the compliance of the Metropolitan Water Reclamation District of Greater Chicago (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the District complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Velma Butler & Company, Ltd.
Chicago, Illinois

April 21, 2006

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

Federal CFDA Number(A)	Grant/ Identifying Number(B)	Award Date(C)	Project Description(D)	Total 2005 Federal Expenditures (E)
Major Programs:				
Federal Grantor: U.S. Environmental Protection Agency				
Construction Grants for Wastewater Treatment Works				
66.606	XP 96573101-0	July, 2005	Dixmoor/Lansing TARP	$ 867,300
	Total U.S. Environmental Protection Agency Construction Grants			867,300
State Revolving Fund Loan Capitalization Grants (passed through Illinois Environmental Protection Agency)				
66.458	L172128	June, 2004	Dixmoor/Lansing TARP	6,554,821
	Total U.S. Environmental Protection Agency Funding of State Revolving Fund Loan Capitalization Grants			6,554,821
			Total Expenditures of Federal Awards	$ 7,422,121

See accompanying notes to the schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

1. **Basis of presentation -** The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the combined financial statements.

2. **Heading and Column Explanation -** Explanations of column headings used on the Schedule of Expenditures of Federal Awards are as follows:

   (A) Catalog of Federal Domestic Assistance Number, if determinable.

   (B) Grant Number of pass-through entity identifying number.

   (C) Date of original award.

   (D) Description/location of project funded.

   (E) Total expenditures represent the lesser of actual expenditures incurred by the District of eligible expenditures, of which a percentage will be reimbursed via grants or loans.

3. **Program Descriptions** - Descriptions of federal programs, funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2005, are as follows:

CFDA #66.606 – Construction Grants for Wastewater Treatment Works:

Grants are provided from the U.S. Environmental Protection Agency, Office of Water, for the construction of municipal wastewater treatment works including privately owned individual treatment systems, if a local government entity applies on behalf of a number of such systems. Such works may serve all or portions of individual communities, metropolitan areas, or regions. A project may include, but may not be limited to, treatment of industrial wastes. The grantee must require pretreatment of any industrial wastes which would be detrimental to the efficient operation and maintenance, or prevent the entry of such waste into the treatment system.

CFDA #66.458 - Capitalization Grants for State Revolving Funds:

Capitalization grants are provided from the U.S. Environmental Protection Agency, Office of Water, to the States to create State Revolving Funds (SRFs) in order to provide a feasible transition to state and local financing of municipal wastewater treatment facilities. The purpose of the SRFs is to provide assistance for the construction of municipal wastewater treatment works, for implementing a nonpoint source management program and for developing and implementing an estuary conservation and management plan. The capitalization grant is deposited in the SRF, which is used to provide loans and other types of financial assistance, but not grants, to local communities and inter-municipal and interstate agencies. The States must agree to enter into binding commitments with recipients to provide financial assistance from the SRF in an amount equal to 16.67 percent (16.67%) of the total SRF loans, with the Federal share being 83.33 percent (83.33%).

Year ended December 31, 2005

4. **Grant and Active Project Descriptions -** Explanation of specific grants funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2005, are as follows:

   U.S. Environmental Protection Agency Grants:

   Grant #XP-96573101-0 was awarded to the District on July 29, 2005, under PL106-377. The grant provided for 55% federal participation for the Dixmoor/Lansing Branch Tarp, Project #75-213-2H. The maximum federal participation is $867,300.

   State Revolving Fund Loans:

   Loan#L172128 was awarded to the District, on June 14, 2004, under PL 95-217. The loan provides for Dixmoor/Lansing Branch Tarp Project #75-213-2H. The maximum SRF loan amount is $57,162,399. Total funds disbursed by IEPA is $41,657,400.

Schedule of Findings and Questioned Costs

Year ended December 31, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

The type of report issued: **Unqualified**

Internal control over finacial reporting:

Material weakness(es) identified? _____Yes __X__No

Reportable condition(s) identified not considered to be material weaknesses?

_____Yes __X__None reported

Noncompliance material to financial statements noted?

_____Yes __X__None reported

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____Yes __X__No

Reportable condition(s) identified not considered to be material weaknesses?

_____Yes __X__None reported

Type of auditors' report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

_____Yes __X__No

Identification of major program:

U.S. Environmental Protection Agency

CFDA Number	Name of Federal Program
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.606	Construction Grants for Wastewater Treatment Works

Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? __X__Yes _____No

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None

John C. "Jack" Farnan, P.E.
General Superintendent of the Metropolitan Water Reclamation District of Greater Chicago

Mr. Farnan joined the District in 1977 as Administrative Aide to the District's President. He was appointed Director of Administrative Services in 1987, Deputy Chief Engineer in 1995 and General Superintendent in April 2001. Prior to his service with the District, Mr. Farnan held engineering positions with DeLeuw Cather & Company, the Illinois Division of Highways, the Chicago Transit Authority, the Chicago Departments of Public Works and Streets and Sanitation.

Mr. Farnan served as Combat Engineer Platoon Leader, Battalion Engineering Officer and Group Construction Planning Officer with the 34th Engineer Group/20th Engineer Brigade in the Mekong Delta, Republic of Vietnam and earned the Bronze Star Medal.

Mr. Farnan received a Bachelor of Science in Civil Engineering from the University of Detroit in 1968, and has done graduate work at the Illinois Institute of Technology. He is an active member of several professional associations and community groups.

Mr. Farnan has been a tremendous asset to this organization, his experience, dedication and ability to manage major District initiatives, political issues, the community and District staff will be truly missed. On behalf of the Board of Commissioners and staff, we express our respect and appreciation to "Jack" for the many years of outstanding service that he has rendered to the District and its taxpayers and extend our best wishes for a long and pleasurable retirement in which he and his lovely wife Maryann, daughter Jeanne, and grandson Jack "wittle guy" will enjoy their varied interest including attending more Chicago White Sox games, of which "Jack" is a huge fan.