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

Chicago, Illinois

For the Year Ended
December 31, 2006

Finance Department
JACQUELINE TORRES, Director of Finance/Clerk **Incorporated May 29, 1889**

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I.
INTRODUCTORY SECTION

In May 2006, the District celebrated the completion of 109.4 miles of tunnels that are part of the Tunnel and Reservoir Plan (TARP) Phase I Project that was 30 years in the making. Celebrating this great achievement are from left to right: Commissioners Patricia Young, Kathleen Therese Meany, Terrence J. O'Brien, Gloria Alitto Majewski, and Frank Avila.

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Metropolitan Water Reclamation District of Greater Chicago

Board of Commissioners and Principal Officers

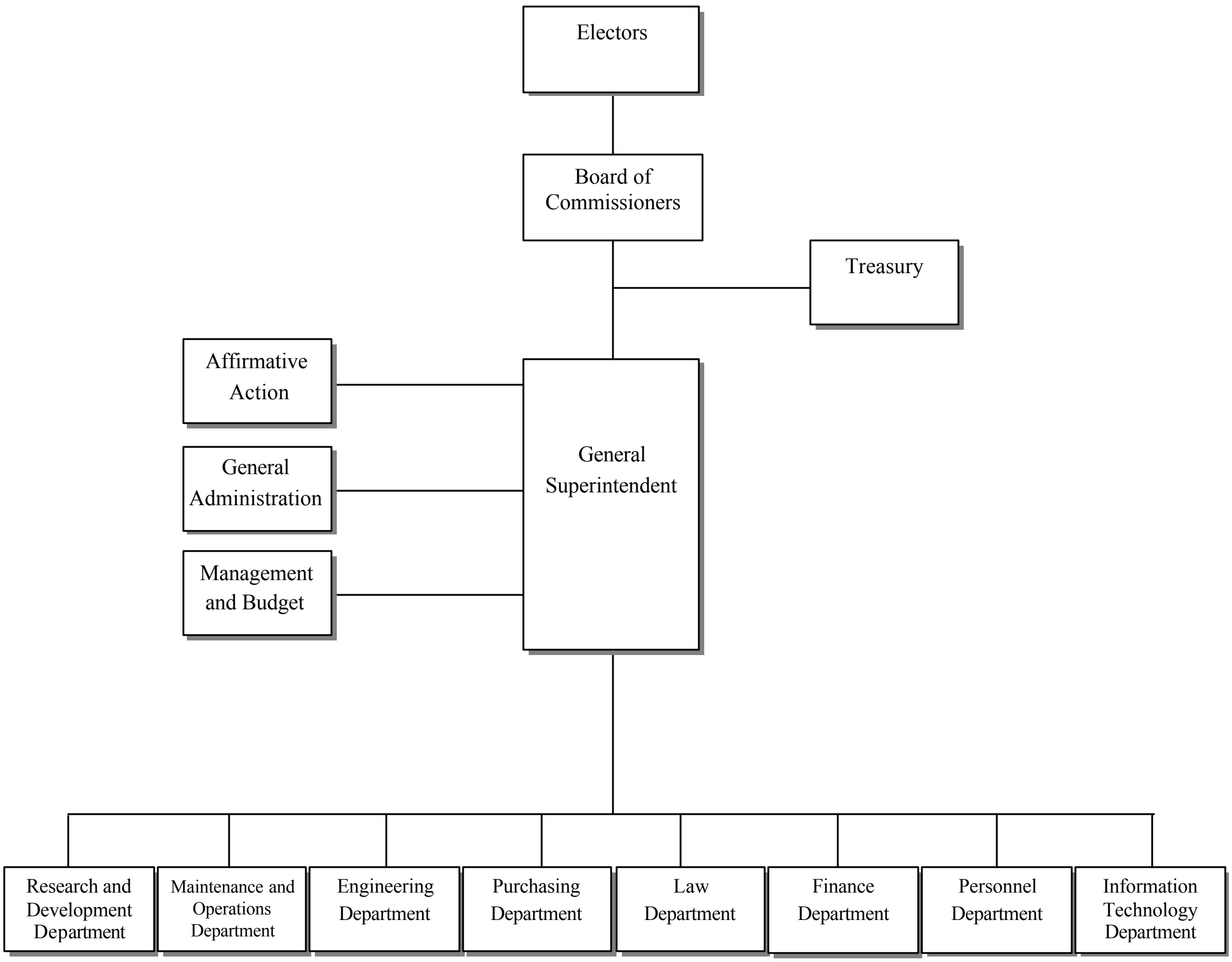
Board of Commissioners:
Honorable Terrence J. O'Brien, President
Honorable Kathleen Therese Meany, Vice President
Honorable Gloria Alitto Majewski, Chairman, Committee on Finance
Honorable Frank Avila
Honorable Patricia Horton
Honorable Barbara J. McGowan
Honorable Cynthia M. Santos
Honorable Debra Shore
Honorable Patricia Young

Principal Officers:
Richard Lanyon, General Superintendent
Harold G. Downs, Treasurer
Frederick Feldman, Attorney
Patrick J. Foley, Director of Personnel
Osoth Jamjun, Chief of Maintenance and Operations
Louis Kollias, 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



2,107 Budgeted
Positions in 2006

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

April 27, 2007

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Metropolitan Water Reclamation District of Greater Chicago for the year ended December 31, 2006. 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, Infrastructure and Process Needs Feasibility Studies for the three largest plants, Central (Stickney), Calumet and North Side have been completed. These long range master plans 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. Phase 1 of TARP was completed in 2006 and we are all reaping the benefits. Backflows to Lake Michigan are extremely rare and flooding in homes and businesses has been substantially 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.

In 2005, the District assumed responsibility for stormwater management in Cook County and, in 2006, completed the governmental and administrative framework required by the enabling legislation. The watershed councils have been formed, and they meet regularly to discuss stormwater issues and move toward decisions on projects they will submit to the District for consideration. The District established a Small Streams Maintenance Program to maintain adequate discharge capacity of approximately 1000 miles of streams within Cook County. Regular maintenance and removal of trees and debris will provide some welcome relief to those areas that experience overbank flooding. Our 2007 budget increased funding for this program.

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 31st consecutive year, the District earned the GFOA's Award for Excellence in Financial Reporting and for the 22nd consecutive year, the District received GFOA's Distinguished Budget Award.

In March 2007, the Board of Commissioners approved an abatement of $21,900,674 in the 2006 levy resulting in a total adjusted 2006 tax levy of $401,411,010. In 2005, the District had abated $17,755,191. This action demonstrates the Board's commitment to the taxpayers to reduce tax levies when other resources are available.

In concluding, 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

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

1993-2005
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting Award for Retirement Fund's Comprehensive Annual Financial Report

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

Individual Year Awards (partial listing)

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

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

Engineering News Record
Construction of the Chicago Sanitary and Ship Canal in 1900 and Tunnel & Reservoir Plan (TARP) in 1995 named as two of 125 top 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, 2005

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.

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

April 27, 2007

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

The Comprehensive Annual Financial Report (CAFR), of which this transmittal letter is a component, has been prepared in accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.13 for the fiscal year ended December 31, 2006. 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 conformance with generally accepted accounting principles (GAAP) 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, 2006, have been subject to an audit by independent accountants. The unqualified opinion of McGladrey & Pullen, LLP, has been included in the Financial Section of this report.

District's 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 designed to compile sufficient reliable information for the preparation of the District's financial statements. District management and its Internal Audit staff periodically evaluate 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. Taxpayers can, with full confidence, assess the level, efficiency, and effectiveness of the services provided and the related costs.

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

MISSION STATEMENT

The District will protect the health and safety of the public in its service area, protect the quality of the water supply source (Lake Michigan), improve the quality of water in watercourses in its service area, protect businesses and homes from flood damages, and manage water as a vital resource for its service area.

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, Cynthia M. Santos, Frank Avila, Barbara J. McGowan, Debra Shore, and Patricia Horton.

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, 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 over the next five years for the sewer program is $72 million. This money will primarily be used in the rehabilitation of the 39th street conduit. Once the rehabilitation is completed, the tunnel will remain in service to provide additional storm relief.

Water Reclamation Plant (WRP) 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, Central (Stickney) and North Side Master Plans have been completed. 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. Over the next five years, approximately $845 million in construction projects will be awarded.

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 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 (Stickney) WRP. The facility should be completed and in operation in 2007.

District Personnel perform channel maintenance to remove large tree branches and other debris from inland waterways, providing relief to areas affected by overbank flooding.

Twice each year, the District co-sponsors a Household Hazardous Waste Collection Day, so citizens can rid their homes of potentially hazardous materials and keep these items out of sewage systems.

SEPA stations are not only beautiful, but also provide habitat for the abundant wildlife. The cascading waterfalls are environmentally friendly and provide vital oxygen to the waterways.

Biosolids are transported from the Central (Stickney) Water Reclamation Plant to nearby drying beds. Once the drying is complete, the biosolids are recycled into landfill.

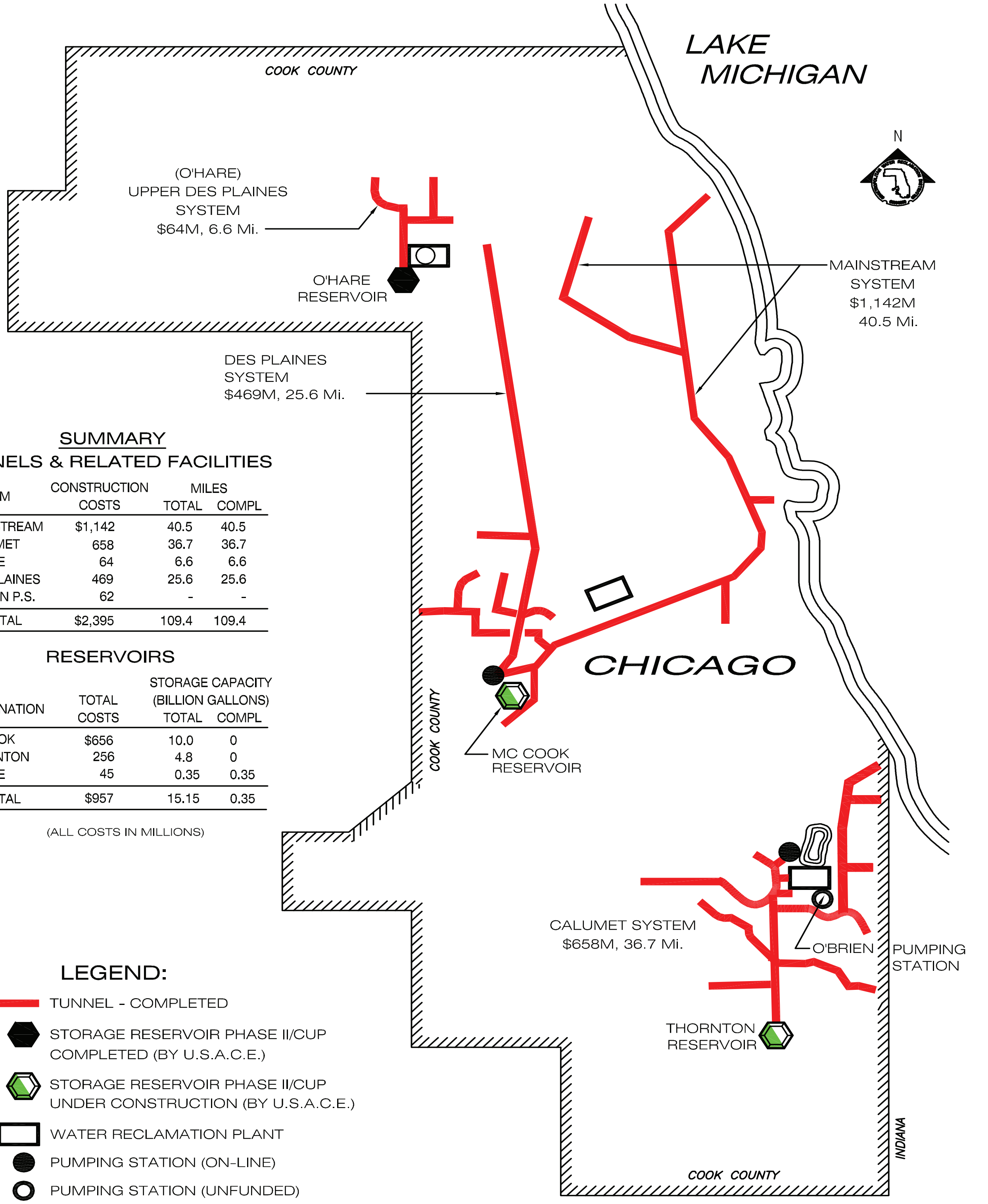
Tunnel and Reservoir Plan – Phase I

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 of and visitors to 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 CUP reservoirs – O'Hare, Thornton, and McCook – will provide 15.2 billion combined gallons of storage for 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 Army Corps of Engineers, (the 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 costs sharing portion of the reservoir. The combined construction and land rights cost for all three reservoirs is estimated to be $960 million, with the Corps and the District providing approximately $507 million and $453 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. Some construction contracts for the McCook Reservoir have been completed and others are currently in progress. Approximately 50 percent of the overburden removal for the Thornton Reservoir has been completed and mining will begin next year. 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
O'BRIEN P.S.	62	-	-
TOTAL	$2,395	109.4	109.4

RESERVOIRS

DESIGNATION	TOTAL COSTS	STORAGE CAPACITY (BILLION GALLONS) TOTAL	COMPL
McCOOK	$656	10.0	0
THORNTON	256	4.8	0
O'HARE	45	0.35	0.35
TOTAL	$957	15.15	0.35

(ALL COSTS IN MILLIONS)

LEGEND:

- TUNNEL - COMPLETED
- STORAGE RESERVOIR PHASE II/CUP COMPLETED (BY U.S.A.C.E.)
- STORAGE RESERVOIR PHASE II/CUP UNDER CONSTRUCTION (BY U.S.A.C.E.)
- WATER RECLAMATION PLANT
- PUMPING STATION (ON-LINE)
- PUMPING STATION (UNFUNDED)

TUNNEL AND RESERVOIR PLAN PROJECT STATUS

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

Stormwater Management

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

Replacement 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 the Master Plan improvements is estimated to average approximately $60 million per year. The expected construction cost for the remainder is $395 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 as 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 by 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 working cash funds and 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 6.06% average growth rate over the last ten years and the current equalized assessed valuation of $130,586,921,450 is 9% 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 economically sensitive revenues stemming from fiscal constraints at the federal and state levels.

FINANCIAL POLICIES

The following policies were adopted by the Board of Commissioners on December 21, 2006.

General Corporate Fund

- Corporate Fund undesignated fund balance as of January 1 of each budget year is to be kept between 12% and 15% of appropriations, approximately $40 to $50 million. The fund balance may be maintained by not fully appropriating prior year fund balances. This level of fund balance will ensure the District's ability to maintain all operations even in the event of unanticipated revenue shortfalls, and provide time to adjust budget and operations;

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

- Reserve Claim Fund is to be kept at the maximum level permitted by statute, or 0.05% of the Equalized Assessed Valuation. This will be financed through tax levies and transfers of accumulated interest from other funds. This level of funding will protect the District in the event that environmental remediation costs cannot be recovered from former industrial tenants of District properties, catastrophic failure of District operational infrastructure or other claims. As the District is primarily self-insured, adequate reserves are crucial.

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

Capital Improvements Bond Fund Investment Income

Investment earnings from the Capital Improvements Bond Fund resulting from the proceeds of the July 2006 bond issue and all future bond issues will be transferred to the Reserve Claim Fund to help bolster the balance toward the statutory limit. If the Reserve Claim Fund is at its statutory limit, these earnings will be transferred to the Debt Service Fund and used to abate property tax levies. This practice will also limit the payment of arbitrage rebates.

Bond & Interest Funds Investment Income

Fund balances in the Debt Service Fund that might accumulate due to investment income will be identified and used to abate Debt Service property tax levies. This is being done to appropriately reduce property tax levies by the amount earned on invested balances above what is necessary to pay principal and interest due over the following 12 months, while still maintaining appropriate fund balances. This policy, and the subsequent tax abatements, will assist in compliance with the Board's overall tax levy policy (not to exceed a 5% increase over prior year, excluding the Stormwater Management Fund tax levy).

Capital Improvements Bond Fund Accumulated Income

Revenues that have accumulated in the Capital Improvements Bond Fund (CIBF) from investment income, grants, or State Revolving Fund revenues will be used primarily for capital projects. Capital projects are generally in the CIBF; however, critically important capital projects in the Construction or Corporate Funds may be financed by transfers from this revenue source. Excess funds may be transferred to the Debt Service Funds to be used to abate property taxes, or may be used for other corporate needs as necessary.

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, 2005. This was the 31st 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, 2006. 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 22 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 unswerving focus on excellence are gratefully acknowledged. The Board of Commissioners and the general citizenry, in our opinion, may fully rely on the 2006 Comprehensive Annual Financial Report as a fair and accurate presentation, in all material aspects, of the financial position and operational results of the Metropolitan Water Reclamation District of Greater Chicago.

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

April 27, 2007

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 fiscal year ended December 31, 2006, 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
Terrence J. O'Brien
President

R Lanyon
Richard Lanyon
General Superintendent

Jacqueline Torres
Jacqueline Torres
Director of Finance/Clerk

Matt Glavas
Matthew Glavas
Comptroller

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II. FINANCIAL SECTION

Although protecting our water environment is the District's primary goal, the District's effort to help keep Lake Michigan a clean and healthy waterway for all to enjoy continues to benefit the Great Lakes Region and encourage ecological renewal.

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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, 2006, 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 94% of the total assets, and 78% of total revenues (additions) of the aggregate remaining fund information of the District. 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 District's financial statements include partial prior-year comparative information. Such information does not include notes to the basic financial statements which are required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2005, from which such partial information was derived.

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, 2006, 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. As of December 31, 2006, the District has completed all initial condition assessments of its networks and has reported all existing assets in the government-wide financial statements. During the year ended December 31, 2006, the District completed the condition assessments for the Calumet and Lemont networks. Accordingly, capital assets and net assets as of January 1, 2006 were restated to include these networks.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007 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 27 – 42), the modified approach for eligible infrastructure (pages 86 – 89) and pension related information (page 89) 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 by us and the other auditors 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 25, 2007

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

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

2006 FINANCIAL HIGHLIGHTS

- ♦ The District ended the 2006 fiscal year with assets exceeding liabilities by $5,179,528,000. This amount represents the District's net assets and it includes $95,357,000 of unrestricted net assets, of which $79,004,000 may be used to meet the District's future obligation while remaining balance of $16,353,000 represents net pension assets.

- ♦ The District's total net assets increased by $809,058,000 in 2006, in large part as a result of the addition of $741,686,000 in infrastructure assets at the Calumet and Lemont networks, following their initial condition assessments, and the $67,372,000 excess of revenues over expenses.

- ♦ The District's combined fund balances for its governmental funds at December 31, 2006 totaled $995,167,000, an increase of $278,638,000 from the prior year, based on the excess of revenues and other financing sources over expenditures and other financing uses.

- ♦ The District's total long-term liabilities increased by $289,918,000 in 2006, primarily due to the sale of new general obligation bonds.

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 in 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 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 financial statements utilize the accrual basis of accounting, similar to that used for the government-wide financial statements.

Reconciliation of governmental fund financial statements to government-wide financial statements. Because the short-term focus of governmental fund financial statements is narrower than the long-term government-wide financial statement focus, reconciliations are required to explain the differences between the fund and government-wide financial statements. As a special purpose government, the District has elected to present the reconciliation by combining the presentation of the governmental fund statements with the government-wide statements. The Governmental Funds Balance Sheets are reconciled to the Statements of Net 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, 2006 and 2005 is presented in the following schedule (in thousands of dollars):

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Current and other assets	$ 1,460,145	$ 1,136,894	$ 323,251	28.4 %
Capital assets	5,565,932	4,746,498	819,434	17.3
Total assets	7,026,077	5,883,392	1,142,685	19.4
Current liabilities	133,041	89,332	43,709	48.9
Long-term liabilities	1,713,508	1,423,590	289,918	20.4
Total liabilities	1,846,549	1,512,922	333,627	22.1
Invested in capital assets, net of related debt	4,541,778	3,728,581	813,197	21.8
Restricted net assets	542,393	585,693	(43,300)	(7.4)
Unrestricted net assets	95,357	56,196	39,161	69.7
Total net assets	$ 5,179,528	$ 4,370,470	$ 809,058	18.5 %

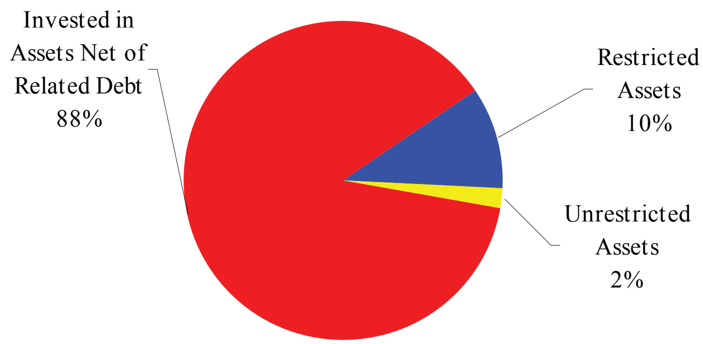
The above schedule reports that the District's net assets totaled $5,179,528,000 at December 31, 2006, which represents the amount by which the District's assets exceed its liabilities. The largest portion of the net assets, $4,541,778,000, is made up of capital assets, net of related debt. This amount 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 $542,393,000 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, and debt service. The remaining balance of net assets of $95,357,000 is unrestricted.

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2006

The chart on the right reports the percentage of net assets in the three categories as of December 31, 2006.

2006 Net Assets by Components



Investment in capital assets, net of related debt, increased by $813,197,000 in 2006 as a result of the following:

- Capital assets increased by $819,434,000 in 2006. This increase consisted of a 2006 opening net asset restatement of $741,686,000 for the Calumet WRP and Lemont WRP's infrastructure assets, that were added following their initial condition assessments, $93,563,000 in additions made during the year and $15,815,000 in reductions caused by transfers from construction in progress, retirements and depreciation.

- Bonded debt related to capital assets increased by $6,237,000 in 2006 due to the issuance of new debt.

The decrease in restricted net assets of $43,300,000 resulted from the following:

- Net assets restricted for debt service decreased by $57,912,000 due to the increase in General Obligation Bonds in 2006 as well as transfers of $15,000,000 to Corporate Working Cash and $5,000,000 to Stormwater Working Cash Funds.

- Net assets restricted for working cash increased by $25,855,000 due to the transfers of funds from the Debt Service Fund.

- Net assets restricted for capital projects decreased by $11,243,000 due to a reclassification of unspent bond proceeds from the July 2006 bond issues.

The increase in unrestricted net assets of $39,161,000 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, 2006 and 2005 is presented in the following schedule (in thousands of dollars):

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
General Revenues:				
Taxes	$ 430,518	$ 441,454	$ (10,936)	(2.5)%
Interest	43,659	19,693	23,966	121.7
Other	4,365	4,104	261	6.4
Program Revenues:				
User charges	53,986	46,576	7,410	15.9
Land rentals	7,972	6,310	1,662	26.3
Fees, forfeits and penalties	4,693	4,748	(55)	(1.2)
Capital grants	-	867	(867)	(100.0)
Total revenues	545,193	523,752	21,441	4.1
Expenses				
Board of Commissioners	3,422	3,341	81	2.4
General Administration	17,293	17,807	(514)	(2.9)
Research and Development	25,317	25,230	87	0.3
Purchasing	5,480	5,170	310	6.0
Personnel	35,216	32,941	2,275	6.9
Information Technology	11,312	11,111	201	1.8
Law	5,748	6,199	(451)	(7.3)
Finance	3,218	3,124	94	3.0
Engineering	4,519	10,160	(5,641)	(55.5)
Maintenance and Operations	156,984	158,802	(1,818)	(1.1)
Pension costs	42,320	47,549	(5,229)	(11.0)
Claims and judgments	876	4,466	(3,590)	(80.4)
Construction costs	70,594	51,145	19,449	38.0
Loss on disposal of capital assets	4,430	676	3,754	555.3
Unallocated depreciation	9,216	7,596	1,620	21.3
Interest	81,876	61,872	20,004	32.3
Total expenses	477,821	447,189	30,632	6.8
Increase in net assets	67,372	76,563	(9,191)	(12.0)
Total net assets, beginning of year as restated	5,112,156	4,293,907	818,249	19.1
Total net assets, end of year	$ 5,179,528	$ 4,370,470	$ 809,058	18.5 %

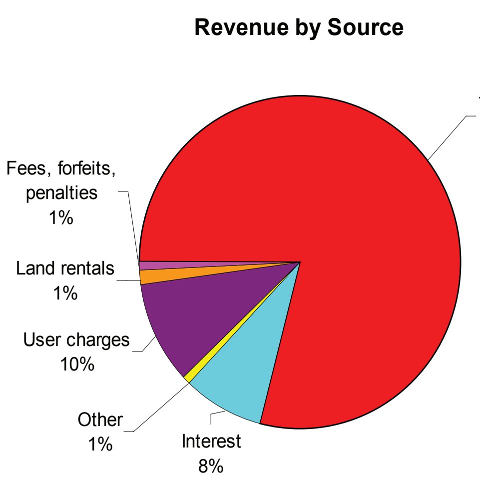
Management's Discussion and Analysis (MD&A)

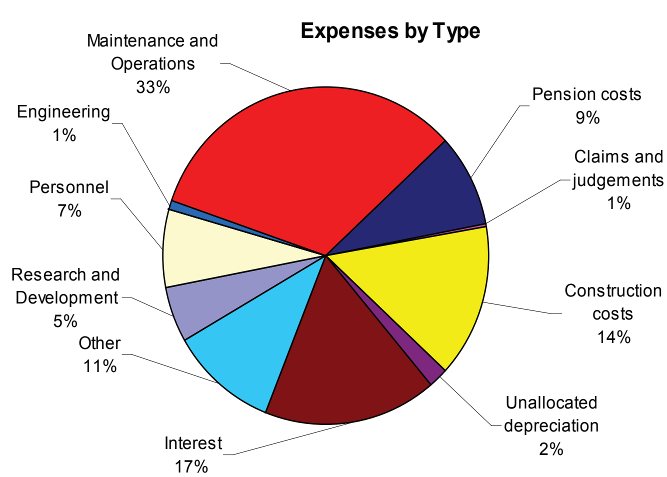
Year ended December 31, 2006

- Total revenues increased by $21,441,000 in 2006 or 4.1% from the prior year. Property tax revenues decreased by $12,648,000 from 2005 to 2006 due to the collection of prior year taxes in 2005 was greater than prior year taxes collected in 2006. Personal property replacement taxes increased by $1,712,000 due to corporations enjoying an improving economy. Interest on investments increased by $23,966,000 in 2006 as a result of an increase in the average interest rate on investments and an increase in investments due to a transfer of funds from the Bond and Interest Fund. Other general revenues increased by $261,000 in 2006 due to an increase in collections of claims and judgments. Program revenues increased by $8,150,000 as a result of increases to User Charge of $7,410,000, rental revenues of $1,662,000 which were offset by a decrease of $55,000 in fees, forfeits, and penalties. Capital grants and contributions decreased by $867,000 as a result of the completion of deep tunnel projects.

- Total expenses in 2006 were $477,821,000. This represents a $30,632,000, or 6.8%, increase from the previous year. Lower building and vehicle expenses are responsible for General Administration's decrease of $514,000, while higher-than-expected health care costs were responsible for the increase in Personnel's expenses of $2,275,000, compared to 2005. Engineering expenses decreased in 2006 by $5,641,000 because of fewer repair projects scheduled for WRP facilities. Maintenance and Operations expenses decreased by $1,818,000 in 2006, mostly because of reduced costs for repair parts, waste disposal, infrastructure repairs and electricity. The 2006 pension cost decrease of $5,229,000 is based on the actuarial pension cost calculation. Claims and judgment expenses in 2006 were $3,590,000 lower than 2005 because of decreased estimates for claims and contingent environmental liabilities. Construction expenses increased in 2006 by $19,449,000, partly because of additional preservation costs for modified infrastructure assets. Interest expense was higher by $20,004,000 due primarily to swap termination transactions described on page 35 and in note 11. The increase in the loss on disposal of capital assets of $3,754,000 was due to a change of policy on capitalization threshold for movable equipment from $5,000 to $20,000. All other expenses increased by $1,942,000 in 2006.

The following percentage charts show the major sources of revenue and expenses for the year ended December 31, 2006:





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 2006, 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 $995,167,000, an increase of $278,638,000 or 39%, from 2005. The increase is a result of expenditures exceeding revenues by $104,810,000 offset by net financing sources of $383,448,000. A total of $674,137,000, or 68%, 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 $321,030,000 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 $244,978,000. The fund balance represented 90% 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 $45,769,000 in the current year, which was the amount by which revenues exceeded expenditures of $30,769,000 and a $15,000,000 transfer of accumulated investment income from the Debt Service funds to the Corporate Working Cash Fund. The deficit unreserved fund balance of $18,238,000 is a result of the reserve for working cash.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2006 and 2005 is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Revenue Schedule

	2006		2005			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Increase (Decrease)
Revenues:						
Property taxes	$ 197,661	65.5%	$ 210,589	68.8%	$ (12,928)	(6.1)%
Personal property replacement tax	26,087	8.7	31,049	10.1	(4,962)	(16.0)
Total tax revenue	223,748	74.1	241,638	78.9	(17,890)	(7.4)
Interest on investments	10,061	3.3	4,093	1.3	5,968	145.8
Land sales	166	0.1	100	0.0	65	65.0
Tax increment financing distributions	1,167	0.4	1,634	0.5	(467)	(28.6)
Claims and damage settlements	614	0.2	77	0.0	537	697.4
Miscellaneous	2,183	0.7	2,207	0.7	(24)	(1.1)
User charges	52,104	17.3	45,483	15.0	6,621	14.6
Land rentals	7,972	2.6	6,310	2.1	1,663	26.4
Fees, forfeits and penalties	3,739	1.2	4,547	1.5	(808)	(17.8)
Total revenues	$ 301,754	100.0%	$ 306,089	100.0%	$ (4,335)	(1.4)%

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments and rental income. In 2006, General Corporate Fund revenues totaled $301,754,000, a decrease of $4,335,000, or 1.4%, from the 2005 revenues of $306,089,000. Total tax revenues decreased by $17,890,000, or 7.4%, to $223,748,000 for the year 2006, as a result of decreases in property taxes of $12,928,000, or 6.1%, and personal property replacement taxes of $4,962,000, or 16%. The decrease in property taxes resulted from the timing of the tax collections received from the Cook County Treasurer. The decrease in personal property replacement tax collection resulted from a decrease in the allotment of personal property replacement tax to the Corporate Fund.

Interest earned on General Corporate Fund investments for 2006 increased to $10,061,000 from $4,093,000 in 2005. The $5,968,000 increase can be attributed to an improvement in the average interest rate on investment purchases. The average interest rate increased to 4.98% in 2006 from 3.33% in 2005. Revenues from user charges increased by $6,621,000 in 2006 due to an increase in rates and customer base. All other revenues, including miscellaneous revenue, increased by $966,000 in 2006.

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

	2006		2005			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Increase (Decrease)
Expenditures:						
Employee cost	$ 170,291	62.8%	$ 167,177	60.8%	$ 3,115	1.9 %
Energy cost	31,695	11.7	31,207	11.4	488	1.6
Chemicals	4,958	1.8	4,185	1.5	773	18.5
Solids disposal	10,754	4.0	15,806	5.8	(5,052)	(32.0)
Repair to structures/equipment	20,011	7.4	24,241	8.8	(4,230)	(17.4)
Materials, parts, and supplies	10,405	3.9	9,722	3.5	683	7.0
Machinery and equipment	3,565	1.3	3,660	1.3	(95)	(2.6)
Claims and judgments	4,954	1.8	4,368	1.6	586	13.4
All other	14,352	5.3	14,526	5.3	(174)	(1.2)
Total expenditures	$ 270,985	100.0%	$ 274,891	100.0%	$ (3,906)	(1.4)%

In 2006, General Corporate Fund expenditures totaled $270,985,000, an overall decrease of $3,906,000, or 1.4%, over 2005 expenditures. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2006, accounting for 74.5% of total expenditures (72.2% in 2005).

Employee costs, which include salaries and wages, group life and health insurance, Medicare contributions and tuition and training, increased by $3,115,000, or 1.9%, from 2005. Salaries and wages during 2006 amounted to $137,139,000, which was $913,000, or 1%, higher than 2005. This change resulted from cost of living and annual step increases. The District's contribution for employee health insurance increased by $2,170,000, or 9%, in 2006 to $28,507,000 because of a reclassification of $1,800,000 for incurred but not reported expenses, combined with increased employee contributions, plan changes, and cost adjustments. The combination of all other employee related costs increased by $32,000.

Repairs of structures and equipment decreased by $4,230,000 in 2006, or 17.4%, due to the schedule of repair projects for facilities.

Purchases of machinery and equipment were $95,000 lower in 2006 because of decreased expenditures for vehicles, equipment in labs and process facilities, and computer software.

Expenditures for solids disposal were $5,052,000 less in 2006 because of continued reductions in charges for waste material disposal, while a higher demand for materials, parts, and supplies resulted in an increase of $683,000 in 2006 expenditures.

Expenditures for all other categories increased by $1,673,000 in 2006 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 $124,540,000. The fund balance represented 73% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Bond Fund decreased by $44,380,000 in the current year, which represented the amount revenues were exceeded by debt service costs of $25,855,000 and net financing costs of $18,525,000. The increase in the interest on bonds was primarily due to the $20,392,000 swap termination payment to the swap counterparties, as a result of the June 2002 variable rate debt current refunding and swap termination that occurred in June 2006. The remaining increase in interest expense occurred in the second half of the year from the sale of the new Capital Improvement Bond issue in July 2006.

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 $42,265,000, including a reservation for working cash of $25,750,000. The fund balance represented 247% of the total Construction Fund expenditures. The fund balance for the Construction Fund increased by $5,424,000, because four construction awards were delayed into subsequent years resulting in lower than anticipated expenditures.

The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled $542,964,000. This amount will provide resources for the 2007 construction program. The fund balance represented 373% of the fund's expenditures, and it increased by $257,617,000 in the current year as a result of expenditures exceeding revenues by $124,356,000, while other financing sources of state revolving fund loans and proceeds from sale of bonds totaled $381,973,000. Revenues increased by $11,710,000 due to higher investment income, while expenditures increased by $36,321,000, which reflects the progress of capital projects under construction.

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 2006 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 2006 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 2006 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

	Budget		Actual on Budgetary Basis	Actual Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property and personal property replacement taxes	$ 236,139	$ 236,139	$ 236,215	$ 76
Adjustment for working cash borrowing	(4,427)	(4,427)	(4,427)	-
Adjustment for estimated tax collections	-	-	6,614	6,614
Tax revenue available for current operations	231,712	231,712	238,402	6,690
User charges	46,600	46,600	53,216	6,616
Interest on investments	3,679	3,679	7,837	4,158
Land rentals	6,500	6,500	8,253	1,753
Other	5,324	5,324	7,423	2,099
Total revenues	293,815	293,815	315,131	21,316
Current Expenditures:				
Board of Commissioners	3,884	3,884	3,394	490
General Administration	17,712	18,118	16,911	1,207
Research and Development	26,460	26,460	24,453	2,007
Purchasing	8,558	8,558	7,687	871
Personnel	42,745	42,745	35,156	7,589
Information Technology	11,624	11,624	11,152	472
Law	7,088	7,088	5,705	1,383
Finance	3,710	3,710	3,194	516
Engineering	18,230	17,824	4,309	13,515
Maintenance and Operations	176,818	176,818	154,515	22,303
Claims and judgments	41,700	41,700	4,949	36,751
Total expenditures	358,529	358,529	271,425	87,104
Revenues over (under) expenditures	(64,714)	(64,714)	43,706	108,420
Fund balance - beginning as adjusted	64,714	64,714	106,709	41,995
Fund balance - ending	$ -	$ -	$ 150,415	$ 150,415

Actual revenues on a budgetary basis for 2006 in the General Corporate Fund totaled $315,131,000 or $21,316,000 more than budgeted revenues, a 7.3% variation. Property taxes and personal property replacement taxes were the main reason for the variance. The year ended with $6,690,000 more than the budget because of the adjustment for estimated tax collections over and above the working cash borrowings. User charge receipts were $6,616,000 more than the budget because of several large commercial users increasing their loadings and associated expenses. Interest on investments had a $4,158,000 positive variance over budget because of higher rates of return. Land rentals increased by $1,753,000 due to new and updated lease terms. All other revenues had a $2,099,000 positive variance because of better-than-expected results for land sales, fines and revenues from tax increment financing districts.

The 2006 General Corporate Fund final appropriation of $358,529,000 did not change from the original amount. Actual budgetary expenditures totaled $271,425,000, or 75.7%, of the total appropriation. The $87,104,000 excess of appropriations over actual expenditures was primarily due to claims and judgments being $36,751,000 less than appropriations. 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 $22,303,000 below appropriations, mainly because of variances for electricity, chemicals, waste disposal costs, repairs and repair parts. The $7,589,000 positive variance in the Personnel Department is mainly due to healthcare costs not rising as quickly as anticipated. Budget versus actual variances of $13,515,000 for Engineering Department 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, 2006, amounted to $5,565,932,000. Reportable capital assets, net of accumulated depreciation, for 2006 as compared to 2005 are as follows (in thousands of dollars):

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Land	$ 126,434	$ 127,260	$ (826)	(0.6) %
Buildings	9,020	9,207	(187)	(2.0)
Machinery and equipment	17,113	20,837	(3,724)	(17.9)
Depreciable infrastructure	1,714,349	1,399,663	314,686	22.5
Modified infrastructure	3,347,249	2,567,125	780,124	30.4
Construction in progress	351,767	622,406	(270,639)	(43.5)
Total	$ 5,565,932	$ 4,746,498	$ 819,434	17.3 %

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

- Modified infrastructure assets increased by $780,124,000 in 2006 because the initial condition assessments of the Calumet WRP and the Lemont networks were completed in 2006, resulting in infrastructure assets totaling $741,686,000 reported in the government-wide financials as a restatement of capital asset and net asset balances at the beginning of 2006. Also, additions exceeded retirements by $77,748,000 in 2006.

- Construction in progress decreased by $ 270,639,000 from 2005 to 2006 because of ongoing construction and completed infrastructure projects that were reclassified out of construction in progress, particularly for the Calumet WRP.

In addition to the above, commitments totaling $ 393,746,834 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, Central (Stickney), North Side and Waterways network assets had their initial condition assessments completed between 2002 and 2005. The Kirie network had a second condition assessment completed in 2005 and the Hanover network had a second condition assessment completed in 2006. The Calumet and Lemont networks had their initial condition assessments completed in 2006 (see further discussion of the modified approach in the Required Supplementary Information Section).

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

DEBT ACTIVITY

Long-term Debt. The District's long-term liabilities as of December 31, 2006 totaled $ 1,713,508,000. The breakdown of this debt and changes from 2005 to 2006 are as follows (in thousands of dollars):

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Bonds payable, net	$ 1,590,675	$ 1,274,666	$ 316,009	24.8 %
Bond anticipation notes including accrued interest	25,261	48,238	(22,977)	(47.6)
Claims payable	69,562	73,640	(4,078)	(5.5)
Compensated absences	28,010	27,046	964	3.6
Total	$ 1,713,508	$ 1,423,590	$ 289,918	20.4 %

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

- Bonds payable, net, increased by $316,009,000 in 2006 as a result of the issuance of $350,000,000 in Capital Improvement bonds, the conversion to bonds of $51,134,000 in bond anticipation note principal and interest, the reduction of bond principal of $102,302,000, and the amortization of $17,177,000 for issuance costs, premiums, and refunding transactions.

- Bond anticipation notes decreased by $22,977,000 in 2006 as a result of the issuance of $27,464,000 in notes, the accrual of $693,000 in interest converted to bonds, and the conversion of $51,134,000 in note principal and interest to bonds payable.

- Claims payable decreased due to revised estimates for claims and contingent environmental liabilities.

- 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	AAA 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 $130,586,921,450 for the 2005 property tax levy. At December 31, 2006, the District's statutory debt limit of $7,508,747,980 exceeded the applicable net debt amount of $1,596,893 by $5,911,855.

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, 2006 and 2005 are $250,000,000 and $465,000,000, 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, 2006, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding State Revolving Fund bonds) of $1,216,590,000 did not exceed the limitation of $4,374,661,869.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2006, 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	$ 14	$ 14	$ -
1992	49	-	49
1993	20	-	20
1997	76	-	76
2002	164	164	-
2003	146	146	-
2006	748	350	398
Total bonds outstanding at December 31, 2006	1,217	$ 674	$ 543
Remaining bond authorization at December 31, 2006	3,158		
Total bond authorization at December 31, 2006	$ 4,375		

The amount of non-referendum Corporate Working Cash Fund bonds, when added to (a) proceeds from the sale of Working Cash Fund bonds previously issued, (b) any amounts collected from the Corporate Working Cash Fund levy, and (c) amounts transferred from the Construction Working Cash Fund, may not exceed 90% of the amount produced by multiplying the maximum general corporate tax rate permitted by the last known equalized assessed valuation of all property in the District at the time the bonds are issued, plus 90% of the District's last known entitlement of the Personal Property Replacement Tax. At December 31, 2006, the District's remaining Corporate Working Cash Fund bond authorization is $247,248,298.

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 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 6.64% 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 2006, with a decline in the unemployment rate for the Chicago metropolitan area to 3.9% in December 2006 from 5.3% 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 2006, a $14,732,000 working cash borrowing from the Stormwater Working Cash Fund to the Stormwater Management Fund was outstanding with repayment planned from the 2006 property tax levy collected in 2007.

Infrastructure and Process Needs Feasibility Studies were completed in 2006 at the Central (Stickney), 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, energy costs and operation. 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 (Stickney) 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 soon within the next calendar year. Design work started in 2006 for a vortex grit removal system at the Calumet WRP, circular primary settling tanks and new biosolids concentration facilities at both Central (Stickney) and Calumet WRP's and conversion of the West Side Imhoff Tanks to circular primary clarifiers at the Central (Stickney) WRP. Design work was started in 2006 to expand the Lemont WRP to provide treatment for 10 times the average dry weather flow.

In March 2006, the Little Calumet Leg Tunnel of the District's Tunnel and Reservoir Plan (TARP) system was completed and is now operational. This marked the completion of all 109.4 miles of TARP tunnels, culminating the 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 started 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 $116,000,000.

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 25 years through an aggressive Energy Management Program. However, the District's current service agreement for bundled electricity rates expired at the end of 2006 and, based on a replacement 3 year agreement with Peoples Energy, the District can expect an increase in electrical generation rates of approximately 31%. Also, proposed electrical distribution tariff increases to take effect in 2007 would result in an additional 5% 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 2007 budget is to protect the health and safety of the public in its service area, protect the quality of the water supply source (Lake Michigan), improve the quality of water in watercourses in its service area, protect businesses and homes from flood damage, and manage water as a vital resource for its service area. The total appropriation request for 2007 is $1,024.7 million, a decrease of $14.2 million from the 2006 adjusted appropriation. The 2007 budget is projecting increases in health care costs, cost of living adjustments, pension costs, and large construction projects costs. Health care costs for employees and retirees in 2007 are estimated at $49.9 million, which includes $15 million for an initial payment into an OPEB Trust. Excluding OPEB, the current year budget for health care is a decrease of $2.8 million, or 8.1%, from 2006. The employees' share of health care costs will increase from 10% to 11% in 2007, 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 2007 budget includes 2,094 positions, a decrease of 13 positions from 2006 as the District continues its policy of reducing staffing through attrition. The District's 2007 property tax levy is $416.2 million, a 3.1% increase over the 2006 adjusted levy. Personal property replacement taxes received from the state are expected to increase in 2007 to $41.5 million, from $37.9 million in 2006. Earnings from investment income are estimated to increase to $31.8 million in 2007, 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 2007 Corporate Fund appropriation of $362,323,300 represents an increase of $45,494,400, or 14.4%, from 2006. This change is chiefly due to increases in the costs of energy, solids processing, regulatory, and retiree health care (OPEB), plus cost of living adjustments. These increases were partially offset by a transfer of ten positions to the recently created Stormwater Management Fund. The Corporate Fund's 2007 budget includes a property tax levy of $233,065,000, an increase of $19,565,000, or 9.2%, over 2006's levy. Non-property tax revenues are budgeted to increase moderately over 2006 budgeted amounts. The Corporate Fund's 2007 budget anticipates using $51,715,300 of the 2006 ending budgetary fund balance to finance the 2007 appropriation. The District's Board adopted a set of financial policies on December 21, 2006 which includes maintenance of a sufficient fund balance to protect its operations from economic uncertainty. A fund balance of 12 to 15 percent of the Corporate Fund appropriations is viewed by District management as necessary to maintain financial stability. The 2007 Reserve Claim Fund appropriation is $56,705,500, an increase of $15,005,500 from 2006. The Reserve Claim Fund's 2007 budget includes a property tax levy of $6,529,346, which is $572,616 higher than the previous year. It is the District's policy 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 2007 Bond and Interest Fund appropriation to pay principal and interest on bonds of $160,184,762 decreased by $31,503,305 from the 2006 adjusted appropriation of $191,688,067. The 2007 property tax levy increased by $16,612,823, from the 2006 adjusted levy, to $142,649,218. Transfers of accumulated investment income from the Corporate and Construction Funds totaling $12.0 million are planned in the 2007 Budget to be used to abate a portion of the 2006 levy. Investment income is estimated at $4,947,000 in 2007, slightly higher than the adjusted 2006 budget estimate.

The Construction Fund's appropriation for 2007 is $42,630,500, a decrease of $6,404,100 from 2006. 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 2007 property tax levy of $5,181,347, which represents a decrease of $12,584,663 from 2006.

The 2007 Capital Improvements Bond Fund appropriation of $347,446,100 represents a decrease of $41,612,700 from 2006, reflecting the pattern in the award of major projects. The District issued $350,000,000 in bonds during 2007 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 2007, the same as the previous year's budget amount. No grant revenue is budgeted for 2007, but investment income and miscellaneous revenue are estimated at $27,492,000 in 2007, an increase of $17,292,000 from the 2006 budget amount. The increase is primarily due to the improvement of short term interest rates on the new money from the July 2006 bond issue.

The Stormwater Management Fund's budget includes a 2007 appropriation of $24,499,600, minimally increased from 2006. The Stormwater Management Fund's 2007 tax levy decreased by $11,566,182 to $3,941,762. Large-scale expenditures for stormwater management projects will be directed toward a limited number of projects previously approved by state and federal agencies, until completion of the Cook County Stormwater Management Plan, detailed watershed plans and a countywide regulatory ordinance.

The District has six collective bargaining agreements that cover fifteen unions and include approximately 860 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, 2006 (with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund 2006	General Corporate Fund 2005	Debt Service Fund 2006	Debt Service Fund 2005	Capital Improvements Bond Fund 2006	Capital Improvements Bond Fund 2005
Assets						
Cash	$ 347	$ 233	$ 79	$ 101	$ 6	$ 250
Deposits with escrow agent	-	-	4,184	13,580	-	-
Certificates of deposit (note 4)	75,476	11,841	-	7,067	126,812	73,951
Investments (note 4)	135,415	137,751	104,552	107,112	464,964	230,786
Taxes receivable, net (note 5)	211,776	205,815	119,300	142,126	-	-
Other receivables, net (note 5)	4,885	5,477	20	-	9,736	1,494
Due from other funds (note 12)	338	350	-	-	-	-
Inventories	36,326	35,907	-	-	-	-
Restricted cash	1,821	1,172	3,463	18,179	1,083	1,032
Net pension asset	-	-	-	-	-	-
Capital assets not being depreciated (note 6)	-	-	-	-	-	-
Capital assets being depreciated, net (note 6)	-	-	-	-	-	-
Total assets	$ 466,384	$ 398,546	$ 231,598	$ 288,165	$ 602,601	$ 307,513
Liabilities, Fund Balances / Net assets						
Liabilities:						
Deferred tax revenue (note 5)	$ 190,383	$ 171,870	$ 107,002	$ 119,091	$ -	$ -
Other deferred/unearned revenue (note 5)	2,295	1,949	-	-	-	-
Accounts payable and other liabilities (note 5)	28,728	25,518	56	154	59,433	21,974
Due to Pension Trust Fund (note 12)	-	-	-	-	-	-
Due to other funds (note 12)	-	-	-	-	204	192
Accrued interest payable	-	-	-	-	-	-
Long-term liabilities: (note 11)						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	-	-	-
Total liabilities	221,406	199,337	107,058	119,245	59,637	22,166
Fund balances/net assets						
Fund balances:						
Reserved for working cash	263,216	244,322	-	-	-	-
Unreserved (note 1.p):						
Undesignated	(18,238)	(45,113)	124,540	168,920	542,964	285,347
Total fund balances	244,978	199,209	124,540	168,920	542,964	285,347
Total liabilities and fund balances	$ 466,384	$ 398,546	$ 231,598	$ 288,165	$ 602,601	$ 307,513
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						
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	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
$ 21	$ 96	$ 6	$ 14	$ 459	$ 694	$ -	$ -	$ 459	$ 694
-	-	-	-	4,184	13,580	-	-	4,184	13,580
12,125	2,104	17,885	-	232,298	94,963	-	-	232,298	94,963
31,320	35,842	21,384	24,743	757,635	536,234	-	-	757,635	536,234
17,144	17,467	44,157	36,129	392,377	401,537	-	-	392,377	401,537
-	-	-	-	14,641	6,971	(495)	(1,977)	14,146	4,994
-	-	-	-	338	350	(338)	(350)	-	-
-	-	-	-	36,326	35,907	-	-	36,326	35,907
-	-	-	-	6,367	20,383	-	-	6,367	20,383
-	-	-	-	-	-	16,353	28,602	16,353	28,602
-	-	-	-	-	-	3,825,450	3,316,791	3,825,450	3,316,791
-	-	-	-	-	-	1,740,482	1,429,707	1,740,482	1,429,707
$ 60,610	$ 55,509	$ 83,432	$ 60,886	$ 1,444,625	$ 1,110,619	$ 5,581,452	$ 4,772,773	$ 7,026,077	$ 5,883,392
$ 15,445	$ 14,570	$ 35,211	$ 27,691	$ 348,041	$ 333,222	$ (348,041)	$ (333,222)	$ -	$ -
-	-	-	-	2,295	1,949	(29)	(35)	2,266	1,914
2,810	3,949	340	72	91,367	51,667	-	-	91,367	51,667
-	-	7,417	6,902	7,417	6,902	21,775	19,056	29,192	25,958
90	149	44	9	338	350	(338)	(350)	-	-
-	-	-	-	-	-	10,216	9,793	10,216	9,793
-	-	-	-	-	-	102,406	90,779	102,406	90,779
-	-	-	-	-	-	1,611,102	1,332,811	1,611,102	1,332,811
18,345	18,668	43,012	34,674	449,458	394,090	1,397,091	1,118,832	1,846,549	1,512,922
25,750	25,642	32,064	25,227	321,030	295,191	(321,030)	(295,191)		
16,515	11,199	8,356	985	674,137	421,338	(674,137)	(421,338)		
42,265	36,841	40,420	26,212	995,167	716,529	(995,167)	(716,529)		
$ 60,610	$ 55,509	$ 83,432	$ 60,886	$ 1,444,625	$ 1,110,619				
						4,541,778	3,728,581	4,541,778	3,728,581
						263,229	244,319	263,229	244,319
						220,306	278,218	220,306	278,218
						1,044	12,287	1,044	12,287
						25,750	25,642	25,750	25,642
						32,064	25,227	32,064	25,227
						95,357	56,196	95,357	56,196
						$ 5,179,528	$ 4,370,470	$ 5,179,528	$ 4,370,470

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

Year ended December 31, 2006
(with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund		Debt Service Fund		Capital Improvements Bond Fund	
	2006	2005	2006	2005	2006	2005
Revenues						
General revenues:						
Property taxes	$ 197,661	$ 210,589	$ 134,585	$ 168,202	$ -	$ -
Personal property replacement tax	26,087	31,049	-	-	-	-
Interest on investments	10,061	4,093	8,807	5,216	20,968	8,391
Land sales	166	100	-	-	-	-
Tax increment financing distributions	1,167	1,634	-	-	-	-
Claims and damage settlements	614	77	-	-	-	-
Miscellaneous	2,183	2,207	461	336	-	-
Gain on sale of land	-	-	-	-	-	-
Program revenues:						
Charges for services:						
User charges	52,104	45,483	-	-	-	-
Land rentals	7,972	6,310	-	-	-	-
Fees, forfeits, and penalties	3,739	4,547	-	-	-	-
Capital grants and contributions:						
Federal grants	-	-	-	-	-	867
Total revenues	301,754	306,089	143,853	173,754	20,968	9,258
Expenditures/Expenses						
Operations:						
Board of Commissioners	3,401	3,323	-	-	-	-
General Administration	16,974	17,259	-	-	-	-
Research and Development	24,985	24,787	-	-	-	-
Purchasing	5,352	5,023	-	-	-	-
Personnel	35,162	32,900	-	-	-	-
Information Technology	11,034	10,811	-	-	-	-
Law	5,709	6,168	-	-	-	-
Finance	3,197	3,102	-	-	-	-
Engineering	4,318	9,538	-	-	-	-
Maintenance and Operations	155,899	157,612	-	-	-	-
Pension costs	-	-	-	-	-	-
Claims and judgments	4,954	4,368	-	-	-	-
Construction costs	-	-	-	-	143,163	109,003
Loss on disposal of capital assets	-	-	-	-	-	-
Depreciation (unallocated)	-	-	-	-	-	-
Debt service:						
Redemption of bonds	-	-	83,692	107,767	-	-
Interest on bonds and issuance costs	-	-	86,016	61,252	2,161	-
Total expenditures/expenses	270,985	274,891	169,708	169,019	145,324	109,003
Revenues over (under) expenditures	30,769	31,198	(25,855)	4,735	(124,356)	(99,745)
Other financing sources (uses):						
Payment to escrow agent for refunded bonds	-	-	(416,000)	-	-	-
State revolving fund loan proceeds	-	-	-	-	27,464	15,973
Proceeds from sale of refunding bonds	-	-	397,390	-	-	-
Proceeds from sale of bonds	-	-	6,757	-	343,243	-
Premium on sale of bonds	-	-	13,328	-	11,266	-
Transfers	15,000	-	(20,000)	-	-	-
Total other financing sources (uses)	15,000	-	(18,525)	-	381,973	15,973
Revenues and other financing sources (uses) over (under) expenditures	45,769	31,198	(44,380)	4,735	257,617	(83,772)
Change in net assets	-	-	-	-	-	-
Fund balances/net assets:						
Beginning of the year as restated (note 1.p)	199,209	168,011	168,920	164,185	285,347	369,119
End of the year	$ 244,978	$ 199,209	$ 124,540	$ 168,920	$ 542,964	$ 285,347

See accompanying notes to the basic financial statements.

Construction Fund 2006	Construction Fund 2005	Other Governmental / Nonmajor Funds 2006	Other Governmental / Nonmajor Funds 2005	Total Governmental Activities 2006	Total Governmental Activities 2005	Adjustments (Note 2b) 2006	Adjustments (Note 2b) 2005	Statements of Activities 2006	Statements of Activities 2005
$ 16,209	$ 15,324	$ 32,220	$ 29,826	$ 380,675	$ 423,941	$ 12,100	$ (18,518)	$ 392,775	$ 405,423
2,322	1,710	9,334	3,272	37,743	36,031	-	-	37,743	36,031
2,241	1,695	1,582	298	43,659	19,693	-	-	43,659	19,693
350	-	-	-	516	100	(516)	(100)	-	-
-	-	-	-	1,167	1,634	-	-	1,167	1,634
-	-	-	-	614	77	-	-	614	77
54	30	31	-	2,729	2,573	(145)	(273)	2,584	2,300
-	-	-	-	-	-	-	93	-	93
400	500	-	-	52,504	45,983	1,482	593	53,986	46,576
-	-	-	-	7,972	6,310	-	-	7,972	6,310
954	201	-	-	4,693	4,748	-	-	4,693	4,748
-	-	-	-	-	867	-	-	-	867
22,530	19,460	43,167	33,396	532,272	541,957	12,921	(18,205)	545,193	523,752
-	-	-	-	3,401	3,323	21	18	3,422	3,341
-	-	-	-	16,974	17,259	319	548	17,293	17,807
-	-	-	-	24,985	24,787	332	443	25,317	25,230
-	-	-	-	5,352	5,023	128	147	5,480	5,170
-	-	-	-	35,162	32,900	54	41	35,216	32,941
-	-	-	-	11,034	10,811	278	300	11,312	11,111
-	-	-	-	5,709	6,168	39	31	5,748	6,199
-	-	-	-	3,197	3,102	21	22	3,218	3,124
-	-	-	-	4,318	9,538	201	622	4,519	10,160
-	-	-	-	155,899	157,612	1,085	1,190	156,984	158,802
-	-	30,071	31,561	30,071	31,561	12,249	15,988	42,320	47,549
-	-	-	-	4,954	4,368	(4,078)	98	876	4,466
17,106	23,973	3,888	623	164,157	133,599	(93,563)	(82,454)	70,594	51,145
-	-	-	-	-	-	4,430	676	4,430	676
-	-	-	-	-	-	9,216	7,596	9,216	7,596
-	-	-	-	83,692	107,767	(83,692)	(107,767)	-	-
-	-	-	-	88,177	61,252	(6,301)	620	81,876	61,872
17,106	23,973	33,959	32,184	637,082	609,070	(159,261)	(161,881)	477,821	447,189
5,424	(4,513)	9,208	1,212	(104,810)	(67,113)	172,182	143,676		
-	-	-	-	(416,000)	-	416,000	-	-	-
-	-	-	-	27,464	15,973	(27,464)	(15,973)	-	-
-	-	-	-	397,390	-	(397,390)	-	-	-
-	-	-	-	350,000	-	(350,000)	-	-	-
-	-	-	-	24,594	-	(24,594)	-	-	-
-	(25,000)	5,000	25,000	-	-	-	-	-	-
-	(25,000)	5,000	25,000	383,448	15,973	(383,448)	(15,973)	-	-
5,424	(29,513)	14,208	26,212	278,638	(51,140)	(278,638)	51,140	-	-
-	-	-	-	-	-	67,372	76,563	67,372	76,563
36,841	66,354	26,212	-	716,529	767,669	-	-	5,112,156	4,293,907
$ 42,265	$ 36,841	$ 40,420	$ 26,212	$ 995,167	$ 716,529	$ -	$ -	$ 5,179,528	$ 4,370,470

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, 2006

(in thousands of dollars)

	Budget			Actual Variance With Final Budget - Positive
	Original	Final	Actual Amounts	(Negative)
Revenues:				
Property taxes:				
Gross levy	$ 213,500	$ 213,500	$ 213,500	$ -
Allowance for uncollectible taxes	(7,473)	(7,473)	(7,473)	-
Net property tax levy	206,027	206,027	206,027	-
Property tax collections	5,333	5,333	5,427	94
Personal property replacement tax:				
Entitlement	24,000	24,000	24,000	-
Collections	779	779	761	(18)
Total tax revenue	236,139	236,139	236,215	76
Adjustment for working cash borrowing	(4,427)	(4,427)	(4,427)	-
Adjustment for estimated tax collections	-	-	6,614	6,614
Tax revenue available for current operations	231,712	231,712	238,402	6,690
Interest on investments	3,679	3,679	7,837	4,158
Land sales	2	2	160	158
Tax increment financing distributions	925	925	1,379	454
Miscellaneous	1,320	1,320	2,891	1,571
User charges	46,600	46,600	53,216	6,616
Land rentals	6,500	6,500	8,253	1,753
Fees, forfeits, and penalties	3,077	3,077	2,993	(84)
Total revenues	293,815	293,815	315,131	21,316
Operating expenditures:				
Board of Commissioners	3,884	3,884	3,394	490
General Administration	17,712	18,118	16,911	1,207
Research and Development	26,460	26,460	24,453	2,007
Purchasing	8,558	8,558	7,687	871
Personnel	42,745	42,745	35,156	7,589
Information Technology	11,624	11,624	11,152	472
Law	7,088	7,088	5,705	1,383
Finance	3,710	3,710	3,194	516
Engineering	18,230	17,824	4,309	13,515
Maintenance and Operations	176,818	176,818	154,515	22,303
Claims and judgments	41,700	41,700	4,949	36,751
Total expenditures	358,529	358,529	271,425	87,104
Revenues over (under) expenditures	(64,714)	(64,714)	43,706	108,420
Fund balances at beginning of year	90,727	90,727	106,709	15,982
Net assets available for future use	(26,013)	(26,013)	-	26,013
Fund balances at beginning of the year as adjusted	64,714	64,714	106,709	41,995
Fund balances at end of year	$ -	$ -	$ 150,415	$ 150,415

See accompanying notes to the basic financial statements.

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

December 31, 2006
(with comparative amounts for prior year)

(in thousands of dollars)

	2006	2005
Assets		
Cash	$ 157	$ 157
Receivables		
Employer contributions-taxes (net of allowance for uncollectible amounts of $3,123 in 2006; $3,877 in 2005)	30,824	25,958
Securities sold	30,246	5,859
Accrued interest and dividends	1,668	1,605
Accounts receivable	42	49
Total receivables	62,780	33,471
Investments at fair value		
U.S. Treasuries	25,433	29,637
U.S. Agencies	32,497	29,493
Corporate bonds and notes	29,935	33,681
Mortgage backed securities	5,807	5,781
Asset backed securities	5,669	7,040
Collateralized mortgage obligations	1,214	768
Pooled funds and mutual funds	630,356	633,678
Common and preferred stocks	449,589	375,818
Short-term investments	12,492	20,894
Total investments	1,192,992	1,136,790
Total assets	$ 1,255,929	$ 1,170,418
Liabilities		
Accounts payable	$ 642	$ 541
Securities purchased	31,990	10,564
Total liabilities	32,632	11,105
Net assets held in trust for pension benefits	$ 1,223,297	$ 1,159,313

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, 2006
(with comparative amounts for prior year)

	(in thousands of dollars)	
	2006	**2005**
Additions:		
Contributions:		
Employer contributions	$ 34,476	$ 26,174
Employee contributions	14,955	14,468
Total contributions	49,431	40,642
Investment income:		
Net appreciation in fair value of investments	95,849	43,439
Interest on fixed income investments	5,702	6,215
Interest on short-term investments	1,127	714
Dividend income	6,009	5,492
Total investment income	108,687	55,860
Less investment expenses	(2,175)	(2,083)
Investment income net of expenses	106,512	53,777
Other	3	5
Total additions	155,946	94,424
Deductions:		
Annuities and benefits		
Employee annuitants	74,887	69,740
Surviving spouse annuitants	12,905	12,302
Child annuitants	105	80
Ordinary disability benefits	988	992
Duty disability benefits	194	179
Total annuities and benefits	89,079	83,293
Refunds of employee contributions	1,411	1,288
Administrative expenses	1,472	1,298
Total deductions	91,962	85,879
Net increase	63,984	8,545
Net assets held in trust for pension benefits		
Beginning of year	1,159,313	1,150,768
End of year	$ 1,223,297	$ 1,159,313

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Notes to the Basic Financial Statements

Year ended December 31, 2006

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. 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 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, 2006, are as follows (in thousands of dollars):

	Total General Corporate Fund	Reclass-ification	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Assets					
Cash	$ 347	$ -	$ 334	$ 6	$ 7
Certificates of deposit	75,476	-	32,928	37,623	4,925
Investments	135,415	-	97,764	-	37,651
Receivables:					
Property taxes receivable	236,726	-	230,115	222	6,389
Allowance for uncollectible taxes	(24,950)	-	(24,087)	(222)	(641)
Net property taxes receivable	211,776	-	206,028	-	5,748
User charges	2,956	-	2,956	-	-
Miscellaneous	1,929	-	1,929	-	-
Due from Capital Improvements Bond Fund	204	-	204	-	-
Due from Construction Fund	90	-	90	-	-
Due from Stormwater Management Fund	44	-	44	-	-
Due from Corporate Fund	-	-	(225,600)	225,600	-
Inventories	36,326	-	36,326	-	-
Restricted cash	1,821	-	1,821	-	-
Total assets	$ 466,384	$ -	$ 154,824	$ 263,229	$ 48,331
Liabilities and Fund Balances					
Liabilities:					
Deferred tax revenue	$ 190,383	$ -	$ 185,202	$ 13	$ 5,168
Other deferred revenue	2,295	-	2,295	-	-
Accounts payable and other liabilities	28,728	-	27,233	-	1,495
Total liabilities	221,406	-	214,730	13	6,663
Fund balances-reserved:					
Working cash	263,216	-	-	263,216	-
Fund balances-unreserved:					
Designated for payment of future claims (note 13)	-	(41,668)	-	-	41,668
Undesignated	(18,238)	41,668	(59,906)	-	-
Total fund balances	244,978	-	(59,906)	263,216	41,668
Total liabilities and fund balances	$ 466,384	$ -	$ 154,824	$ 263,229	$ 48,331

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, 2006, are as follows (in thousands of dollars):

	Total General Corporate Fund	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Revenues:				
Property taxes	$ 197,661	$ 192,569	$ (71)	$ 5,163
Personal property replacement tax	26,087	21,984	3,390	713
Total tax revenue	223,748	214,553	3,319	5,876
Interest on investments	10,061	7,563	575	1,923
Land sales	166	166	-	-
Tax increment financing distributions	1,167	1,167	-	-
Claims and damage settlements	614	80	-	534
Miscellaneous	2,183	2,167	-	16
User charges	52,104	52,104	-	-
Land rentals	7,972	7,972	-	-
Fees, forfeits, and penalties	3,739	3,739	-	-
Total revenues	301,754	289,511	3,894	8,349
Current expenditures:				
Board of Commissioners	3,401	3,401	-	-
General Administration	16,974	16,974	-	-
Research and Development	24,985	24,985	-	-
Purchasing	5,352	5,352	-	-
Personnel	35,162	35,162	-	-
Information Technology	11,034	11,034	-	-
Law	5,709	5,709	-	-
Finance	3,197	3,197	-	-
Engineering	4,318	4,318	-	-
Maintenance and Operations	155,899	155,899	-	
Claims and judgments	4,954	-	-	4,954
Total expenditures	270,985	266,031	-	4,954
Revenues over expenditures	30,769	23,480	3,894	3,395
Other financing sources:				
Transfers from the Debt Service Fund	15,000	-	15,000	-
Net change in fund balance	45,769	23,480	18,894	3,395
Fund balance at the beginning of the year	199,209	(83,386)	244,322	38,273
Fund balance at the end of the year	$ 244,978	$ (59,906)	$ 263,216	$ 41,668

Debt Service Fund

A sinking 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, 2006, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Assets			
Cash	$ 21	$ 15	$ 6
Certificates of deposit	12,125	3,666	8,459
Investments	31,320	31,320	-
Receivables:			
Property taxes receivable	20,444	20,444	-
Allowance for uncollectible taxes	(3,300)	(3,300)	-
Net property taxes receivable	17,144	17,144	-
Total assets	$ 60,610	$ 52,145	$ 8,465
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 15,445	$ 15,445	$ -
Accounts payable and other liabilities	2,810	2,810	-
Due to Corporate Fund	90	90	-
Due to Construction Fund	-	17,285	(17,285)
Total liabilities	18,345	35,630	(17,285)
Fund balances-reserved:			
Working cash	25,750	-	25,750
Fund balances-unreserved:			
Undesignated	16,515	16,515	-
Total fund balances	42,265	16,515	25,750
Total liabilities and fund balances	$ 60,610	$ 52,145	$ 8,465

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, 2006, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Revenues:			
Property taxes	$ 16,209	$ 16,209	$ -
Personal property replacement tax	2,322	2,322	-
Total tax revenue	18,531	18,531	-
Interest on investments	2,241	2,133	108
Land sales and miscellaneous	404	404	-
User charge	400	400	-
Fees, forfeits, and penalties	954	954	-
Total revenues	22,530	22,422	108
Capital expenditures:			
Personal services	7,609	7,609	-
Contractual services	1,314	1,314	-
Materials and supplies	67	67	-
Capital projects	8,116	8,116	-
Total expenditures	17,106	17,106	-
Revenues over expenditures	5,424	5,316	108
Fund balance at the beginning of the year	36,841	11,199	25,642
Fund balance at the end of the year	$ 42,265	$ 16,515	$ 25,750

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 was 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, 2006, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Assets			
Cash	$ 6	$ 1	$ 5
Investments	39,269	21,942	17,327
Receivables:			
Property taxes receivable	15,838	15,838	-
Allowance for uncollectible taxes	(874)	(874)	-
Net property taxes receivable	14,964	14,964	-
Personal property replacement tax	-	-	-
Total assets	$ 54,239	$ 36,907	$ 17,332
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 13,435	$ 13,435	$ -
Accounts payable and other liabilities	340	340	-
Due to Corporate Fund	44	44	-
Due to Stormwater Management Fund	-	14,732	(14,732)
Total liabilities	13,819	28,551	(14,732)
Fund balances-reserved:			
Working cash	32,064	-	32,064
Fund balances-unreserved:			
Undesignated	8,356	8,356	-
Total fund balances	40,420	8,356	32,064
Total liabilities and fund balances	$ 54,239	$ 36,907	$ 17,332

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, 2006, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Revenues:			
Property taxes	$ 10,200	$ 10,200	$ -
Personal property replacement tax	1,283	-	1,283
Total tax revenue	11,483	10,200	1,283
Interest on investments	1,582	1,028	554
Miscellaneous	31	31	-
Total revenues	13,096	11,259	1,837
Capital expenditures:			
Personal services	3,458	3,458	-
Contractual services	159	159	-
Materials and supplies	3	3	-
Machinery and equipment	18	18	-
Capital Projects	250	250	-
Total expenditures	3,888	3,888	-
Revenues over expenditures	9,208	7,371	1,837
Other financing sources:			
Transfers			
From Debt Service	5,000	-	5,000
Total other financing sources	5,000	-	5,000
Revenues and other financing sources over expenditures	14,208	7,371	6,837
Fund balance at the beginning of the year	26,212	985	25,227
Fund balance at the end of the year	$ 40,420	$ 8,356	$ 32,064

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. 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). 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 1, 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 except for property and personal property replacement taxes, which are recognized based on working cash borrowing plus an estimate of collections of property and property replacement taxes over and above the working cash borrowing. 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, Stormwater Management, 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) As authorized by the bond ordinance dated June 15, 2006, the District paid certain costs related to the issuance of General Obligation Capital Improvement Bonds Unlimited and Limited Tax Series. The bond ordinance provided the authorization necessary for the payment of said costs and no separate supplemental appropriation ordinance was required.

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, consisting 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, TARP deep tunnels, and drop shafts. The thresholds for reporting capital assets are as follows:

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

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, Central (Stickney), Hanover, North Side, Egan WRPs, and Waterways had their initial condition assessments completed between 2002 and 2005. In 2006 the District completed the initial assessments at the Calumet and Lemont WRPs. In addition, a subsequent condition assessment was completed at Hanover WRP in 2006. Currently, all the District's WRPs infrastructure assets are reported as infrastructure under the modified approach in the government-wide financial statements. The existing Calumet and Lemont infrastructure assets, totaling $741,686,000, are recorded as a restatement to the capital asset and net asset balances at the beginning of the 2006 fiscal year in the government-wide financial statements.

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

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, 2006, are liabilities for compensated absences of $1,916,000 due within one year, and $26,094,000 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 of 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 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 $542,393,000 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 2006 were restated by an increase of $741,686,000. This increase represented the addition of existing infrastructure assets at the Calumet and Lemont WRPs whose initial condition assessments were completed in 2006, 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, 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 –** GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The District is required to implement this Statement for the year ending December 31, 2007.

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The District is required to implement this Statement for the year ending December 31, 2008.

In 2006, GASB issued Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues." Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments - generally, a single lump sum. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. In addition, this Statement requires disclosures pertaining to future revenues that have been pledged or sold, along with information about which revenues will be unavailable for other purposes and how long they will continue to be so. This Statement will become effective for the year ending December 31, 2007.

Issued in 2006, GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" which addressed accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement will become effective for the year ending December 31, 2008.

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, 2006 (in thousands of dollars):

Total fund balances of governmental funds	$ 995,167
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. The cost of the remaining capital assets and accumulated depreciation is as follows:	
Capital assets	5,713,525
Accumulated depreciation	(147,593)
Capital assets, net	5,565,932
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	(28,010)
Claims and judgments	(69,562)
Bond anticipation notes	(25,261)
General obligation debt	(1,579,401)
Total long-term liabilities	(1,702,234)
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	(34,460)
Deferral of bond issuance costs and refunding transactions	23,186
Total deferrals	(11,274)
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 2006 amount is:	
Accrued interest	(10,216)
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	348,041
Adjustment for pension trust fund	(21,775)
Adjustment to user charge	(495)
Deferred charge for net pension asset	16,353
Installment sale	29
Adjustment to deferred revenues	342,153
Interfund transactions are eliminated for government-wide reporting. These transactions consist of:	
Due from other funds	338
Due to other funds	(338)
Total interfund	-
Total net assets of governmental activities	$ 5,179,528

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, 2006 (in thousands of dollars):

Net change in fund balances of governmental funds	$ 278,638
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	93,563
Depreciation expense-allocated to various departments	(1,514)
Depreciation expense-unallocated	(9,216)
Excess of construction costs over depreciation expense	82,833
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:	
General obligation bond proceeds	(747,390)
Bond issuance premium	(24,594)
Bond issuance costs	4,475
Bond anticipation note proceeds	(27,464)
Debt proceeds total	(794,973)
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	499,692
Bond principal retirement total	499,692
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	(964)
(Increase) decrease in claims and judgments	4,078
(Increase) decrease in bond interest	(423)
(Increase) decrease in bond anticipation notes interest	(693)
(Increase) decrease in net pension asset	(12,249)
Amortization of bond issuance /refunding costs	(2,893)
Amortization of bond premium	5,835
Total additional expenses	(7,309)
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	(5,085)
Deferred tax revenues and certain other revenues that are earned but "unavailable" for the current period are not recognized in governmental funds. These revenues consist of:	
Property tax - net	12,100
User charge adjustment	1,482
Grant and rent adjustment	(6)
Total adjustments	13,576
Change in net assets of governmental activities	$ 67,372

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 and other sources (uses) over (under) expenditures on a budgetary basis	$ 43,706
Adjustment from Budget to GAAP for:	
Tax revenues	(14,653)
Transfer from Debt Service to Corporate Working Cash Fund	15,000
Cash basis other revenues	1,276
GAAP versus budgetary expenditure differences	440
Revenues and other sources (uses) over (under) expenditures on GAAP Basis	$ 45,769

4. Deposits and Investments

Cash

The carrying amount of cash, excluding the Pension Trust Fund, was $6,825,545 at December 31, 2006, while the bank balances were $17,148,108. All account balances at banks were either insured by the FDIC for $100,000, or collateralized with securities of the U.S. Government, or with letters of credit issued by the Federal Home Loan Bank held in the District's name by financial institutions acting as the District's agent.

At December 31, 2006, the Pension Trust Funds carrying amount of cash was $157,217, while the bank balances were $719,924. The Federal Deposit Insurance Corporation insures bank balances up to $100,000. As of December 31, 2006, $1,000,000 of the bank balance was collateralized with securities of the U.S. Government held in the Pension Trust Fund's name by Amalgamated Bank in Chicago acting as the Fund's agent.

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, 2006 (in thousands of dollars):

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1 Year	1- 3 Years
U.S. Agencies	$ 589,936	$ 493,351	$ 96,585
Commercial Paper	151,504	151,504	-
State Treasurer's Illinois Funds and Prime Funds	16,195	16,195	-
Total Investments	$ 757,635	$ 661,050	$ 96,585

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, except when such a sale is required by state statute. 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, 2006, (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%	78%
Commercial Paper	A-1/P-1	100%	20%
State Treasurer's Illinois Funds and Prime Funds	AAAm	100%	2%

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 20% of the amount invested in commercial paper can be invested in any one entity. As of December 31, 2006, there were no individual investments that were greater than 5% 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, 2006 (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	$ 25,433	$ 6,529	$ 6,001	$ 12,903
U.S. Agencies	32,497	20,882	8,986	2,629
Corporate Bonds and Notes	29,935	13,763	12,737	3,435
Mortgage Backed Securities	5,807	4,108	1,699	-
Asset Backed Securities	5,669	4,538	688	443
Collateralized Mortgage Obligations	1,214	215	180	820
Pooled Funds and Mutual Funds	394,733	394,732	-	-
Totals	495,288	$ 444,767	$ 30,291	$ 20,230
Equities:				
Common and Preferred Stock	449,589			
Pooled Funds and Mutual Funds	248,115			
Total Investments	$ 1,192,992			

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 Fund's benefit liabilities extend many years into the future. Therefore, the Pension Trust Fund's policy is to maintain long-term focus on its investment decision-making process. 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, 2006; 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	0.69%	1.12%	4.37%	0.92%	0.14%
Mortgage Backed Securities	0.70%	0.17%	0.11%	0.37%	0.01%
Asset Backed Securities	1.00%	0.04%	0.05%	0.06%	0.18%
Collateralized Mortgage Obligations	0.29%	0.00%	0.00%	0.00%	0.00%
Pooled Funds and Mutual Funds	53.43%	12.64%	14.81%	8.90%	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 which make up the components.

Receivables

Receivables as of December 31, 2006 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improve-ments Bond	Construc-tion	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Assets
Receivables at December 31, 2006:								
Property taxes:	$ 236,726	$ 137,231	$ -	$ 20,444	$ 43,156	$ 437,557	$ -	$ 437,557
Allowance for uncollectible taxes	(24,950)	(17,931)	-	(3,300)	(3,997)	(50,178)	-	(50,178)
Net property taxes	211,776	119,300	-	17,144	39,159	387,379	-	387,379
Personal property replacement tax	-	-	-	-	4,998	4,998	-	4,998
Total taxes receivable, net	211,776	119,300	-	17,144	44,157	392,377	-	392,377
Other receivables:								
User charges	2,956	-	-	-	-	2,956	298	3,254
Allowance for uncollectibles	-	-	-	-	-	-	(793)	(793)
Total user charges, net	2,956	-	-	-	-	2,956	(495)	2,461
State revolving fund loans	-	-	9,736	-	-	9,736	-	9,736
Miscellaneous	1,929	20	-	-	-	1,949	-	1,949
Total other receivables, net	4,885	20	9,736	-	-	14,641	(495)	14,146
Total net receivables, December 31, 2006	$ 216,661	$ 119,320	$ 9,736	$ 17,144	$ 44,157	$ 407,018	$ (495)	$ 406,523

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, 2006 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, 2006							
Deferred tax revenue	$ 190,383	$ 107,002	$ 15,445	$ 35,211	$ 348,041	$ (348,041)	$ -
Other deferred revenue:							
Rental income	2,295	-	-	-	2,295	(29)	2,266
Total deferred revenue at December 31, 2006	$ 192,678	$ 107,002	$ 15,445	$ 35,211	$ 350,336	$ (348,070)	$ 2,266

Payables

Payables reported as "Accounts payable and other liabilities" as of December 31, 2006 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, 2006:								
Vouchers payable and other liabilities	$ 22,568	$ 56	$ 59,433	$ 2,810	$ 340	$ 85,207	$ -	$ 85,207
Accrued payroll and withholdings	3,739	-	-	-	-	3,739	-	3,739
Bid deposits	2,421	-	-	-	-	2,421	-	2,421
Total accounts payable and other liabilities as of December 31, 2006	$ 28,728	$ 56	$ 59,433	$ 2,810	$ 340	$ 91,367	$ -	$ 91,367

6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2006 are as follows (in thousands of dollars):

	Balances January 1, 2006 (as restated)	Additions	Retirements	Balances December 31, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 127,260	$ -	$ 826	$ 126,434
Construction in progress	622,406	121,350	391,989	351,767
Infrastructure under modified approach*	3,308,811	41,965	3,527	3,347,249
Total capital assets not being depreciated	4,058,477	163,315	396,342	3,825,450
Capital assets being depreciated:				
Buildings	13,226	-	-	13,226
Equipment	40,157	1,862	10,365	31,654
Infrastructure	1,519,293	323,902	-	1,843,195
Total capital assets being depreciated	1,572,676	325,764	10,365	1,888,075
Less accumulated depreciation:				
Buildings	4,019	187	-	4,206
Equipment	19,320	1,327	6,106	14,541
Infrastructure	119,630	9,216	-	128,846
Total accumulated depreciation	142,969	10,730	6,106	147,593
Total capital assets being depreciated, net	1,429,707	315,034	4,259	1,740,482
Governmental activities capital assets, net*	$ 5,488,184	$ 478,349	$ 400,601	$ 5,565,932

* 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, 2006, was charged to the District's governmental functions as follows (in thousands of dollars):

Department	Amount
Board of Commissioners	$ 11
General Administration	252
Research and Development	204
Purchasing	102
Personnel	18
Information Technology	238
Law	11
Finance	10
Engineering	67
Maintenance and Operations	601
Total allocated depreciation	1,514
Unallocated Infrastructure depreciation	9,216
Total depreciation	$ 10,730

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, 2006 were as follows:

Annual required contribution	$	47,368,878
Interest on net pension asset		(2,216,661)
Adjustment to annual required contribution		1,573,539
Annual pension cost		46,725,756
Contributions made		34,476,332
Decrease in net pension asset		12,249,424
Net pension asset beginning of year		(28,602,076)
Net pension asset end of year	$	(16,352,652)

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, 2006 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 5.0% per year compounded annually, attributable to inflation as well as seniority and merit increases; (c) post-retirement benefit compound increases of 3.0% per year for employee and surviving spouse annuitants; and (d) 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, 2006, 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, 2006, are presented below:

Employer Contributions

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
12/31/2006	$ 46,725,756	73.78%	$ (16,352,652)
12/31/2005	42,161,862	62.08%	(28,602,076)
12/31/2004	38,964,374	79.51%	(44,589,446)

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, 2006, 1,903 of the 2,248 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 2006 by the District was $11,362,981.

9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund has existing purchase order encumbrances of $7,142,760 at December 31, 2006. Construction, Stormwater Management, and Capital Improvements Bond Funds' contract commitments (encumbrances) were $393,746,834 at December 31, 2006. State Revolving Fund Loan commitments of $116,200,000 at December 31, 2006, 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 (Stickney) 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 $4.7 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 $283,517,186. The District expects 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.

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. The Internal Revenue Code offers certain "safe harbors" permitting qualified governments to keep extra earnings that result from arbitrage. The District has made a determination of their probable liability for amounts potentially due to the United States government. As of December 31, 2006, the District is within a "safe harbor" and does not anticipate owing any arbitrage rebate. As such, the District has not recorded a liability for arbitrage in the financial statements. Should the District fail to continue to meet the "safe harbor" requirements, certain yield amounts will be subject to arbitrage rebate in future years.

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, 2006, is between $57.5 million and $171 million. The District is of the opinion that the tenants (except for those who are bankrupt, out of business, or otherwise financially unable to perform) would ultimately be liable for the bulk, if not all, of these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. A provision of $56.5 million is recognized at December 31, 2006 in the long term liabilities of the government-wide financial statements as an estimate of probable liability of the District, a decrease of $5.9 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 $2,362,000 in the government-wide financial statement at December 31, 2006, for its self-insured plans. This amount is based on 2006 payments, for claims incurred in prior periods, of $2,459,375 during the year, and a $376,000 increase in the estimate.

Additional insurance policies in effect at December 31, 2006, 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):

	2006	2005
Claims Payable at January 1:	$ 73,640	$ 73,542
Claims incurred	4,954	4,368
Changes in prior years' claims estimate	(4,078)	98
Claim payments	(4,954)	(4,368)
Claims Payable at December 31:	$ 69,562	$ 73,640

11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2006 (in thousands of dollars):

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Governmental long-term liabilities:					
Bonds and notes payable:					
General obligation debt	$ 1,280,569	$ 798,524	$ (499,692)	$ 1,579,401	$ 90,466
Deferred amounts:					
Issuance costs	(4,309)	(2,161)	2,671	(3,799)	(744)
Premium	15,701	24,594	(5,835)	34,460	5,835
Refunding transactions	(17,295)	(4,241)	2,149	(19,387)	(2,149)
Bonds payable, net	1,274,666	816,716	(500,707)	1,590,675	93,408
Bond anticipation notes and interest*	48,238	28,157	(51,134)	25,261	-
Net bonds and notes payable	1,322,904	844,873	(551,841)	1,615,936	93,408
Other liabilities:					
Claims and judgments	73,640	876	(4,954)	69,562	7,082
Compensated absences	27,046	2,859	1,895	28,010	1,916
Total governmental long-term liabilities	$ 1,423,590	$ 846,713	$ (556,795)	$ 1,713,508	$ 102,406

*$51,134,000 of bond anticipation notes are included as additions to General Obligation debt

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, 2006, 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 07/06)	Refunding (4.70-6.5%) (Issued 03/93 to 05/06)	State Revolving Funds Series (2.5-3.745%) (Issued 08/90 to 06/06)	Total Principal	Total Interest
2007	$ 27,100	$ 39,600	$ 23,766	$ 90,466	$ 69,111
2008	13,800	30,300	24,405	68,505	64,880
2009	14,400	31,600	25,061	71,061	61,821
2010	29,730	200	25,736	55,666	58,609
2011	28,795	200	26,429	55,424	56,449
2012-2016	127,690	43,300	118,439	289,429	247,450
2017-2021	179,250	-	80,982	260,232	193,369
2022-2026	51,100	157,620	37,993	246,713	144,021
2027-2031	2,135	239,770	-	241,905	87,104
2032-2035	200,000	-	-	200,000	25,000
	$ 674,000	$ 542,590	$ 362,811	$ 1,579,401	$ 1,007,814

Expenditures for principal and interest made on January 1, 2007 approximated $25,804,091 and $5,648,400 respectively.

2006 Bond Issues

In May 2006, the District issued $346,600,000 in General Obligation Refunding Bonds, Unlimited Tax Series, at a premium of $11,652,662, and $50,790,000 in General Obligation Refunding Bonds, Limited Tax Series, at a premium of $1,674,942. Both series have an interest rate of 5.00%, payable on December 1 and June 1, and maturity dates from 2023 to 2031.

The Unlimited Tax Series Bonds were issued to refund the $363,000,000 outstanding principal amount of Variable Rate General Obligation Refunding Bonds, Unlimited Tax Series A, issued June 2002. The Limited Tax Series Bonds were issued to refund the $53,000,000 outstanding principal amount of Variable Rate General Obligation Refunding Bonds, Limited Tax Series B, issued June 2002.

The variable rate bonds were redeemed on June 5, 2006 at the redemption price of par plus accrued interest to the redemption date. The District had previously entered into interest rate swap agreements with respect to the variable rate interest payable and subsequently terminated said agreements on June 5, 2006 with all termination payments included as a cost of refunding. The District deposited in trust with an escrow agent an amount sufficient to provide for the punctual payment when due (i) the redemption price of the refunded bonds, on the redemption date, (ii) the interest on the refunded bonds to the redemption date, and (iii) the termination payments due to the providers under the Swap Agreements.

The District refunded the 2002 Series to further reduce its total debt service payments and to eliminate the risk associated with variable rate debt and interest rate swaps while retaining the majority of the levy savings generated by the 2002 Series. The aggregate difference in debt service between the refunding debt and refunded debt was $19,874,760. The economic gain (difference between the present values of the debt service payments on the old and new debt) was $9,351,407.

In July 2006, the District issued $100,000,000 of General Obligation Capital Improvement Bonds, Unlimited Tax Series, with a maturity date of 2035. The bonds were issued at a premium of $1,943,000. Interest accrues on the bonds at a rate of 5.0%, payable December 1 and June 1.

In July 2006, the District issued $250,000,000 of General Obligation Capital Improvement Bonds, Limited Tax Series, with maturity dates from 2010 to 2033. The bonds were issued at a premium of $9,323,100. Interest accrues on the bonds at a rate of 5.0%, payable December 1 and June 1.

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 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. The remaining balance of bonds issued matured December 1, 2006.

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:

2006	$61,423,000
2005	$58,333,000

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. As a result, there is no debt service required until these notes are converted into bonds. The District has accrued principal and interest through the balance sheet date on bond anticipation notes. In addition, 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.

The converted amount of $51,134,000 in 2006 represented the sum of bond anticipation note principal of $49,427,000 and interest of $1,707,000.

Bond issues and adjustments to existing issues under the IEPA 1990, 1991, 1992, 1994, 1997, 2001 authority, included:

- July 2006 - The District issued $46.6 million of Capital Improvement Bonds - IEPA Series 01C, through the conversion of the sum of bond anticipation note principal of $45.1 million and interest of $1.5 million with maturity dates from January 1, 2007 to January 1, 2026. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.

- July 2006 - The District issued $4.5 million of Capital Improvement Bonds - IEPA Series 97DD, through the conversion of the sum of bond anticipation note principal of $4.3 million and interest of $0.2 million with maturity dates from January 1, 2007 to July 1, 2023. Interest on the bonds accrues at a rate of 2.905%, payable January 1 and July 1.

- January 2005 - The District issued $59.2 million of Capital Improvement Bonds - IEPA Series 01B, through the conversion of the sum of bond anticipation note principal of $58.0 million and interest of $1.2 million with maturity dates from July 1, 2005 to January 1, 2025. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.

- 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.

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 $25,260,500 at December 31, 2006. Of the bond anticipation notes outstanding at December 31, 2006, $4,916,800 will be refinanced through IEPA Series 2001 bonds. The remaining $20,343,700 will be refinanced through IEPA series 2004 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, 2006.

Interest Rate Swaps

In May 2006, the District terminated the two swap agreements associated with the $416,000,000 Series A and B bonds issued in June 2002. The remaining swap agreements associated with the $146,000,000 Series E bonds issued in January 2003, effectively changed the variable interest rate on the bonds to a synthetic fixed rate of 3.64%. The District entered into the swap agreements as a means of lowering its borrowing cost.

	December 2002 Unlimited Tax Series E
Notional Amounts	$ 146,000,000
Effective Date	1/15/2003
Fixed Rate Paid	3.640%
Variable Rate Received	70% of Libor
Fair Values	$ (773,123)
Swap Termination Date	12/1/2022
Counterparty Credit Rating	*

*See credit risk disclosure for counterparty credit ratings

The notional amount of the swap matches the principal amounts of the associated debt. The District's swap agreement contains scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated "bonds payable" category. 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 a negative fair value at December 31, 2006, of $733,123. 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, 2006 because the swap had a negative fair value. 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 swap agreements with various counterparties. JP Morgan 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. Bear Sterns holds 25% of the notional amount of the outstanding swaps and has credit ratings of A+ and A1 with Standard & Poor's and Moody's, respectively. Lehman Bros. holds 25% 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. For the Series E bond issue, 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, 2006, the interest rates paid to bondholders was 3.93% and 70% of the LIBOR rate was 3.745%.

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.

Rollover risk - The District is not exposed to rollover risk on its swap agreements.

Swap payments and associated debt - Using rates as of December 31, 2006, 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 - 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
2007	$ -	$ 5,738	$ (153)	$ 5,585
2008	-	5,738	(153)	5,585
2009	-	5,738	(153)	5,585
2010	-	5,738	(153)	5,585
2011	-	5,738	(153)	5,585
2012-2016	-	28,690	(765)	27,925
2017-2021	119,000	19,807	(529)	138,278
2022	27,000	1,061	(28)	28,033
	$ 146,000	$ 78,248	$ (2,087)	$ 222,161

* Computed: (Fixed rate payment - Variable rate payment from counterparty) x Notional amount or (3.64% - 3.745%) 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.

Individual interfund receivable and payable balances at December 31, 2006 are as follows (in thousands of dollars):

	Interfund	
	Receivables	Payables
General Corporate Fund	$ 338	$ -
Capital Projects Funds:		
Capital Improvements Bond Fund	-	204
Construction Fund	-	90
Stormwater Management Fund	-	44
	$ 338	$ 338

In addition to the above, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2006 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, 2006, there was a $15,000,000 transfer authorized by the Board of Commissioners from the Debt Service Fund to the Corporate Working Cash Fund. In addition there was a transfer authorized by the Board of Commissioners of $5,000,000 from the Debt Service Fund to the Stormwater Working Cash Fund. These transactions will position each working cash fund with the appropriate resources for their perspective operating funds since each working cash fund does not currently have a tax levy. The purpose of the transfer is to reduce property taxes.

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 $41,668,000 at December 31, 2006. 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, 2006 (in thousands of dollars):

2007	$ 5,858
2008	5,662
2009	5,532
2010	5,500
2011	5,500
Later Years	161,403

The cost of the land associated with the commercial leases is $8,424,000. The District does not lease any depreciable assets.

16. Subsequent Events

In February 2007, the Board of Commissioners approved an ordinance authorizing the issuance of not to exceed $460,000,000 General Obligation Refunding Bonds, in one or more series, limited tax or unlimited tax.

During March 2007, the District issued $382,020,000 of General Obligation Refunding Bonds, consisting of $188,315,000 of General Obligation Refunding Bonds, Unlimited Tax Series A, with interest rates ranging from 4.00% to 5.00%, payable on June 1 and December 1, and maturity dates from 2014 to 2022. The District also issued $91,845,000 of General Obligation Refunding Bonds, Unlimited Tax Series B and $101,860,000 of General Refunding Bonds, Limited Tax Series C, with an interest rate of 5.25%, payable on June 1 and December 1, and maturity dates ranging from 2034 to 2035 and 2025 to 2033, respectively.

In March 2007, the Board of Commissioners approved an ordinance providing for a partial abatement of 2006 tax levies for nine Bond Redemption and Interest Funds in the aggregate amount of $21,900,674. These amounts were reflected in the District's financial statements as of December 31, 2006.

In March 2007, the Board of Commissioners approved an ordinance authorizing the issuance of $160,000,000 of Capital Improvement Bonds, 2007 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.

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 (Stickney) 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 (Stickney), and Waterways WRP networks were completed between 2002 and 2005. The initial assessments for the Calumet and Lemont WRP networks were completed in 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 and the Hanover WRP was re-assessed in 2006.

Required Supplementary Information (RSI) Other than MD&A

Year ended December 31, 2006

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

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Condition Assessment Ratings					
Kirie WRP Network					
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
Subsequent assessments - 2006	3	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 (Stickney) WRP Network					
Initial Condition Assessment - 2005	3	3	2	NA	2
Waterways WRP Network					
Initial Condition Assessment - 2005	NA	NA	NA	2	NA
Calumet WRP Network					
Initial Condition Assessment - 2006	3	3	3	NA	3
Lemont WRP Network					
Initial Condition Assessment - 2006	2	3	2	NA	NA
Maintenance/Preservation Costs					
Kirie WRP Network					
Estimated 2006	$ 339,148	$ 7,354,372	$ 72,650	NA	NA
Actual 2006	313,452	3,579,654	43,089	NA	NA
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 2006	$ 161,550	$ 740,550	$ 177,350	NA	$ 96,525
Actual 2006	165,853	781,741	188,604	NA	97,414
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 2006	$ 587,466	$ 3,280,167	$ 713,447	$ 83,700	NA
Actual 2006	589,661	1,524,100	731,626	76,342	NA
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 2006	$ 4,620,150	$ 4,837,668	$ 801,569	$ 35,415	NA
Actual 2006	4,144,520	4,559,225	835,542	20,655	NA
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 (Stickney) WRP Network					
Estimated 2006	$ 14,094,070	$ 16,606,449	$ 13,624,331	NA	$ 10,849,650
Actual 2006	11,725,879	14,280,229	12,097,382	NA	8,702,241
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 2006	$ 118,060	$ 492,618	NA	$ 1,941,405	NA
Actual 2006	103,452	25,635	NA	1,527,290	NA
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)
12/31/2006	$ 1,209,602	$ 1,724,705	$ 515,103	70.10%	$ 152,767	337.20%
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%

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NON-MAJOR 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, 2006
(with comparative amounts for prior year)

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund		Total Non-Major Governmental Funds	
	2006	2005	2006	2005	2006	2005
Assets						
Cash	$ -	$ -	$ 6	$ 14	$ 6	$ 14
Certificates of Deposit	-	-	17,885	-	17,885	-
Investments	-	-	21,384	24,743	21,384	24,743
Taxes receivable, net	29,193	25,958	14,964	10,171	44,157	36,129
Total assets	$ 29,193	$ 25,958	$ 54,239	$ 34,928	$ 83,432	$ 60,886
Liabilities and Fund Balances						
Liabilities:						
Deferred tax revenue	$ 21,776	$ 19,056	$ 13,435	$ 8,635	$ 35,211	$ 27,691
Accounts payable and other liabilities	-	-	340	72	340	72
Due to Pension Trust Fund	7,417	6,902	-	-	7,417	6,902
Due to other funds	-	-	44	9	44	9
Total liabilities	29,193	25,958	13,819	8,716	43,012	34,674
Fund balances:						
Reserved for working cash	-	-	32,064	25,227	32,064	25,227
Unreserved						
Undesignated	-	-	8,356	985	8,356	985
Total fund balances	-	-	40,420	26,212	40,420	26,212
Total liabilities and fund balances	$ 29,193	$ 25,958	$ 54,239	$ 34,928	$ 83,432	$ 60,886

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

Year ended December 31, 2006
(with comparative amounts for prior year)

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund		Total Nonmajor Governmental Funds	
	2006	2005	2006	2005	2006	2005
Revenues						
General revenues:						
Property taxes	$ 22,020	$ 28,375	$ 10,200	$ 1,451	$ 32,220	$ 29,826
Personal property replacement tax	8,051	3,186	1,283	86	9,334	3,272
Interest on investments	-	-	1,582	298	1,582	298
Miscellaneous	-	-	31	-	31	-
Total revenues	30,071	31,561	13,096	1,835	43,167	33,396
Expenditures						
Current Operations						
Pension costs	30,071	31,561	-	-	30,071	31,561
Construction costs	-	-	3,888	623	3,888	623
Total expenditures	30,071	31,561	3,888	623	33,959	32,184
Revenues over expenditures	-	-	9,208	1,212	9,208	1,212
Other financing sources:						
Transfers	-	-	5,000	25,000	5,000	25,000
Total other financing sources	-	-	5,000	25,000	5,000	25,000
Revenues and other financing sources over expenditures	-	-	14,208	26,212	14,208	26,212
Fund balances/net assets:						
Beginning of the year	-	-	26,212	-	26,212	-
End of the year	$ -	$ -	$ 40,420	$ 26,212	$ 40,420	$ 26,212

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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, 2006

(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	$ 3,028	$ -	$ 3,028	$ 2,754	$ 274
Compensation plan adjustments	60	-	60	19	41
Tuition and training payments	10	-	10	5	5
Payment for professional services	436	-	436	319	117
Personal services n.o.c.*	273	-	273	250	23
Total personal services	3,807	-	3,807	3,347	460
Contractual services					
Travel	7	-	7	5	2
Meals and lodging	11	-	11	9	2
Postage, freight, and delivery charges	1	-	1	-	1
Motor vehicle operating services	1	-	1	-	1
Subscriptions and membership dues	34	-	34	29	5
Total contractual services	54	-	54	43	11
Materials and supplies					
Office, printing, and photographic supplies	20	-	20	4	16
Materials and supplies n.o.c.	3	-	3	-	3
Total materials and supplies	23	-	23	4	19
Board of Commissioners total	3,884	-	3,884	3,394	490
General Administration:					
Personal Services					
Salaries of regular employees	10,780	(480)	10,300	10,140	160
Compensation plan adjustments	680	454	1,134	1,109	25
Salaries of non-budgeted employees	-	11	11	9	2
Tuition and training payments	62	-	62	34	28
Payment for professional services	475	-	475	338	137
Personal services n.o.c.	172	15	187	185	2
Total personal services	12,169	-	12,169	11,815	354
Contractual services					
Travel	17	-	17	5	12
Meals and lodging	30	-	30	26	4
Postage, freight, and delivery charges	207	33	240	237	3
Compensation for personally owned autos	20	-	20	17	3

(continued)

**noc = 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	$ 141	$ -	$ 141	$ 124	$ 17
Reprographic services	91	-	91	27	64
Electrical energy	402	-	402	372	30
Natural gas	38	-	38	33	5
Water and water services	2	1	3	2	1
Communications services	5	-	5	3	2
Subscriptions and membership dues	185	234	419	413	6
Rental charges	25	6	31	24	7
Administration building operation	737	20	757	665	92
Administrative building operation annex	816	(30)	786	664	122
Contractual services n.o.c.	251	(9)	242	221	21
Waste material disposal charges	88	-	88	72	16
Repairs to buildings	142	-	142	80	62
Safety repairs and services	224	-	224	156	68
Repairs to office furniture and equipment	205	(22)	183	149	34
Computer software maintenance	16	-	16	9	7
Repairs to vehicle equipment	474	(9)	465	435	30
Repairs n.o.c.	5	-	5	1	4
Total contractual services	4,121	224	4,345	3,735	610
Materials and supplies					
Electrical parts and supplies	9	1	10	8	2
Plumbing accessories and supplies	3	2	5	5	-
Hardware	8	2	10	9	1
Buildings, grounds, paving materials, and supplies	1	-	1	-	1
Office, printing, and photographic supplies	168	-	168	103	65
Wearing apparel	40	(1)	39	23	16
Books, maps, and charts	40	-	40	38	2
Safety and medical supplies	175	(42)	133	118	15
Computer software	3	-	3	1	2
Computer supplies	4	-	4	3	1
Materials and supplies n.o.c.	44	(2)	42	15	27
Total materials and supplies	495	(40)	455	323	132
Machinery and equipment					
Office furniture and equipment	200	276	476	402	74
Computer software	32	(32)	-	-	-
Vehicle equipment	673	(22)	651	628	23

(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, 2006

(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):					
Machinery and equipment n.o.c.	$ 22	$ -	$ 22	$ 8	$ 14
Total machinery and equipment	927	222	1,149	1,038	111
General Administration total	17,712	406	18,118	16,911	1,207
Research and Development:					
Personal services					
Salaries of regular employees	21,404	(84)	21,320	21,078	242
Compensation plan adjustments	750	-	750	606	144
Salaries of non-budgeted employees	10	-	10	-	10
Tuition and training payments	46	23	69	41	28
Payment for professional services	508	-	508	266	242
Personal services n.o.c.	287	24	311	302	9
Total personal services	23,005	(37)	22,968	22,293	675
Contractual services					
Travel	20	-	20	11	9
Meals and lodging	60	-	60	52	8
Postage, freight, and delivery charges	15	-	15	10	5
Compensation for personally owned autos	31	11	42	40	2
Motor vehicle operating services	3	-	3	1	2
Reprographic services	5	-	5	3	2
Electrical energy	12	-	12	8	4
Natural gas	3	-	3	1	2
Water and water services	1	1	2	1	1
Communication services	2	-	2	-	2
Rental charges	57	(1)	56	24	32
Governmental services charges	212	-	212	154	58
Contractual services n.o.c.	605	39	644	300	344
Repairs to marine equipment	86	-	86	62	24
Computer equipment maintenance	1	-	1	-	1
Computer software maintenance	241	77	318	317	1
Communication equipment maintenance	5	-	5	-	5
Repairs to testing and laboratory equipment	608	(39)	569	353	216
Repairs n.o.c.	10	-	10	3	7
Total contractual services	1,977	88	2,065	1,340	725
Materials and supplies					
Electrical parts and supplies	10	(3)	7	-	7
Office, printing, and photographic supplies	24	-	24	12	12
Farming supplies	11	-	11	8	3
Laboratory testing supplies and small equipment	587	(38)	549	361	188

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Research and Development (continued):					
Wearing apparel	$ 26	$ -	$ 26	$ 18	$ 8
Books, maps, and charts	4	-	4	-	4
Computer software	4	-	4	1	3
Computer supplies	9	-	9	1	8
Fuel	42	38	80	29	51
Communications supplies	20	(17)	3	-	3
Materials and supplies n.o.c.	89	(10)	79	30	49
Total materials and supplies	826	(30)	796	460	336
Machinery and equipment					
Marine equipment	11	(3)	8	6	2
Testing and laboratory equipment	641	(18)	623	354	269
Total machinery and equipment	652	(21)	631	360	271
Research and Development total	26,460	-	26,460	24,453	2,007
Purchasing:					
Personal services					
Salaries of regular employees	4,740	-	4,740	4,518	222
Compensation plan adjustments	190	-	190	109	81
Tuition and training payments	9	-	9	2	7
Personal services n.o.c.	59	-	59	57	2
Total personal services	4,998	-	4,998	4,686	312
Contractual services					
Travel	2	-	2	-	2
Meals and lodging	4	-	4	-	4
Postage, freight, and delivery charges	1	-	1	-	1
Compensation for personally owned autos	1	-	1	1	-
Motor vehicle operating services	1	-	1	-	1
Testing and inspection services	3	-	3	-	3
Subscriptions and membership dues	5	-	5	-	5
Advertising	206	-	206	101	105
Contractual services n.o.c.	6	-	6	-	6
Repairs to buildings	3	(1)	2	1	1
Repairs to office furniture and equipment	5	-	5	3	2
Computer software maintenance	5	-	5	-	5
Communication equipment maintenance	2	-	2	1	1
Repairs to vehicle equipment	8	1	9	2	7
Repairs n.o.c.	1	-	1	-	1
Total contractual services	253	-	253	109	144
Materials and supplies					

(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, 2006

(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)
Purchasing (continued):					
Metals	$ 143	$ -	$ 143	$ 124	$ 19
Electrical parts and supplies	315	(29)	286	230	56
Plumbing accessories and supplies	230	21	251	241	10
Hardware	75	8	83	77	6
Buildings, grounds, paving materials, and supplies	125	-	125	108	17
Fiber, paper, and insulation materials	35	9	44	38	6
Paints, solvents, and related materials	40	11	51	47	4
Vehicle parts and supplies	5	5	10	7	3
Mechanical and repair parts	130	-	130	115	15
Office, printing, and photographic supplies	187	(22)	165	145	20
Laboratory testing supplies and small equipment	471	21	492	470	22
Cleaning supplies	270	-	270	244	26
Tools and supplies	135	7	142	126	16
Wearing apparel	118	12	130	125	5
Safety and medical supplies	60	-	60	48	12
Computer supplies	143	(13)	130	96	34
Fuel	485	-	485	427	58
Gas (in containers)	75	-	75	41	34
Communications supplies	13	-	13	2	11
Lubricants	190	10	200	178	22
Materials and supplies n.o.c.	62	(40)	22	3	19
Total materials and supplies	3,307	-	3,307	2,892	415
Purchasing total	8,558	-	8,558	7,687	871
Personnel:					
Personal services					
Salaries of regular employees	3,727	-	3,727	3,426	301
Compensation plan adjustments	241	-	241	117	124
Social security and medicare contributions	1,764	155	1,919	1,883	36
Salaries of non-budgeted employees	10	-	10	-	10
Employee claims	110	-	110	81	29
Tuition and training payments	566	(155)	411	213	198
Payment for professional services	1,005	100	1,105	707	398
Health and life insurance premiums	34,869	(100)	34,769	28,508	6,261
Personal services n.o.c.	39	-	39	34	5
Total personal services	42,331	-	42,331	34,969	7,362
Contractual services					
Travel	7	-	7	6	1

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Personnel (continued):					
Meals and lodging	$ 13	$ -	$ 13	$ 11	$ 2
Postage, freight, and delivery charges	10	-	10	5	5
Compensation for personally owned autos	6	-	6	5	1
Court reporting services	109	-	109	12	97
Medical services	161	-	161	108	53
Rental charges	10	-	10	9	1
Contractual services n.o.c.	19	-	19	11	8
Computer software maintenance	9	-	9	8	1
Communication equipment maintenance	3	-	3	-	3
Total contractual services	347	-	347	175	172
Materials and supplies					
Office, printing, and photographic supplies	5	-	5	2	3
Books, maps, and charts	16	-	16	8	8
Computer software	23	-	23	-	23
Computer supplies	7	-	7	-	7
Materials and supplies n.o.c.	16	-	16	2	14
Total materials and supplies	67	-	67	12	55
Personnel total	42,745	-	42,745	35,156	7,589
Information Technology:					
Personal services					
Salaries of regular employees	5,494	167	5,661	5,660	1
Compensation plan adjustments	166	4	170	170	-
Tuition and training payments	155	-	155	145	10
Payment for professional services	691	(421)	270	215	55
Personal services n.o.c.	24	17	41	41	-
Total personal services	6,530	(233)	6,297	6,231	66
Contractual services					
Travel	19	(6)	13	8	5
Meals and lodging	29	(5)	24	18	6
Compensation for personally owned autos	3	4	7	7	-
Communication services	750	50	800	757	43
Subscription and membership dues	5	-	5	5	-
Contractual services n.o.c.	1	-	1	-	1
Computer equipment maintenance	536	(53)	483	448	35
Computer software maintenance	1,479	(218)	1,261	1,220	41

(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, 2006

(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):					
Communication equipment maintenance	$ 281	$ 178	$ 459	$ 355	$ 104
Repairs n.o.c.	1	-	1	-	1
Total contractual services	3,104	(50)	3,054	2,818	236
Materials and supplies					
Office, printing, and photographic supplies	1	-	1	1	-
Books, maps, and charts	2	1	3	2	1
Computer software	153	127	280	204	76
Computer supplies	806	364	1,170	1,147	23
Communication supplies	76	47	123	96	27
Materials and supplies, n.o.c.	1	-	1	1	-
Total materials and supplies	1,039	539	1,578	1,451	127
Machinery and equipment					
Computer equipment	746	(105)	641	605	36
Computer software	205	(151)	54	47	7
Total machinery and equipment	951	(256)	695	652	43
Information Technology total	11,624	-	11,624	11,152	472
Law:					
Personal Services					
Salaries of regular employees	4,317	(8)	4,309	3,909	400
Compensation plan adjustments	165	-	165	87	78
Tuition and training payments	7	-	7	5	2
Payment for professional services	1,490	-	1,490	854	636
Personal services n.o.c.	31	8	39	24	15
Total personal services	6,010	-	6,010	4,879	1,131
Contractual services					
Travel	6	-	6	4	2
Meals and lodging	2	-	2	1	1
Compensation for personally owned autos	3	-	3	1	2
Reprographic services	20	(4)	16	3	13
Communication services	2	-	2	1	1
Court reporting services	70	(27)	43	9	34
Insurance premiums	185	46	231	222	9
Contractual services n.o.c.	101	(15)	86	65	21
Computer equipment maintenance	1	-	1	-	1
Communication equipment maintenance	3	-	3	2	1
Total contractual services	393	-	393	308	85

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Law (continued):					
Materials and supplies					
Office, printing, and photographic supplies	$ 3	$ -	$ 3	$ 2	$ 1
Books, maps, and charts	40	-	40	26	14
Materials and supplies n.o.c.	2	-	2	-	2
Total materials and supplies	45	-	45	28	17
Fixed and other charges					
Taxes on real estate	640	-	640	490	150
Total fixed and other charges	640	-	640	490	150
Law total	7,088	-	7,088	5,705	1,383
Finance:					
Personal services					
Salaries of regular employees	2,815	-	2,815	2,562	253
Compensation plan adjustments	180	-	180	150	30
Tuition and training payments	28	-	28	15	13
Payment for professional services	512	(32)	480	326	154
Personal services n.o.c.	39	-	39	25	14
Total personal services	3,574	(32)	3,542	3,078	464
Contractual services					
Travel	6	-	6	3	3
Meals and lodging	14	-	14	6	8
Postage, freight, and delivery charges	6	-	6	3	3
Compensation for personally owned autos	1	-	1	1	-
Reprographic services	5	7	12	1	11
Court reporting services	52	-	52	40	12
Contractual services n.o.c.	4	-	4	1	3
Repairs to office furniture and equipment	4	-	4	2	2
Computer software maintenance	25	25	50	50	-
Total contractual services	117	32	149	107	42
Materials and supplies					
Office, printing, and photographic supplies	16	-	16	9	7
Total materials and supplies	16	-	16	9	7
Machinery and equipment					
Computer equipment	3	-	3	-	3
Total machinery and equipment	3	-	3	-	3
Finance total	3,710	-	3,710	3,194	516

(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, 2006

(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)
Engineering:					
Personal services					
Salaries of regular employees	$ 2,526	$ 200	$ 2,726	$ 2,685	$ 41
Compensation plan adjustments	331	(200)	131	69	62
Salaries of nonbudgeted employees	50	-	50	-	50
Tuition and training payments	10	-	10	1	9
Payments for professional services	275	-	275	42	233
Personal services n.o.c.	43	-	43	37	6
Personal service - preliminary engineering reports and studies	275	-	275	75	200
Personal service - construction drawings, specifications, and cost estimates	229	450	679	39	640
Total personal services	3,739	450	4,189	2,948	1,241
Contractual services					
Travel	7	-	7	1	6
Meals and lodging	9	-	9	2	7
Compensation for personally owned autos	2	-	2	1	1
Motor vehicle operating services	1	-	1	-	1
Reprographic services	5	-	5	-	5
Testing and inspection services	50	-	50	2	48
Soil and rock mechanics investigation	80	-	80	-	80
Contractual services n.o.c.	63	-	63	24	39
Repairs to collection facilities	31	-	31	-	31
Repairs to waterway facilities	943	-	943	9	934
Repairs to process facilities	5,112	(776)	4,336	970	3,366
Repairs to buildings	7,242	(80)	7,162	346	6,816
Communications equipment maintenance	3	-	3	-	3
Repairs to testing and laboratory equipment	3	-	3	-	3
Total contractual services	13,551	(856)	12,695	1,355	11,340
Materials and supplies					
Office, printing, and photographic supplies	16	-	16	2	14
Wearing apparel	7	-	7	4	3
Books, maps, and charts	1	-	1	-	1
Materials and supplies n.o.c.	2	-	2	-	2
Total materials and supplies	26	-	26	6	20
Machinery and equipment					
Testing and laboratory equipment	14	-	14	-	14
Total machinery and equipment	14	-	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)
Engineering (continued):					
Land					
Land	$ 900	$ -	$ 900	$ -	$ 900
Total land	900	-	900	-	900
Engineering total	18,230	(406)	17,824	4,309	13,515
Maintenance and Operations:					
Personal services					
Salaries of regular employees	76,648	(700)	75,948	74,293	1,655
Compensation plan adjustments	4,097	577	4,674	3,591	1,083
Salaries of non-budgeted employees	75	15	90	78	12
Tuition and training payments	87	10	97	76	21
Payment for professional services	286	13	299	187	112
Personal services n.o.c.	544	74	618	557	61
Total personal services	81,737	(11)	81,726	78,782	2,944
Contractual services					
Travel	20	3	23	10	13
Meals and lodging	50	6	56	48	8
Compensation for personally owned autos	294	2	296	225	71
Motor vehicle operating services	3	1	4	3	1
Electrical energy	27,714	1,746	29,460	29,427	33
Natural gas	3,077	(515)	2,562	1,853	709
Water and water services	651	2	653	567	86
Communications services	307	45	352	352	-
Testing and inspection services	240	(1)	239	101	138
Rental charges	158	55	213	112	101
Governmental service charges	2,503	(187)	2,316	2,296	20
Maintenance of grounds and pavements	3,411	(88)	3,323	2,168	1,155
Contractual services n.o.c.	889	-	889	700	189
Waste material disposal charges	14,737	(9)	14,728	10,683	4,045
Farming services	12	-	12	12	-
Repairs to collection facilities	5,407	(215)	5,192	3,267	1,925
Repairs to waterway facilities	594	(394)	200	97	103
Repairs to process facilities	10,443	(250)	10,193	7,877	2,316
Repairs to railroads	507	-	507	380	127
Repairs to buildings	6,959	(585)	6,374	2,756	3,618
Repairs to material handling and farm equipment	268	65	333	308	25
Safety repairs and services	108	-	108	82	26

(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, 2006

(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):					
Repairs to marine equipment	$ 56	$ 25	$ 81	$ 81	$ -
Computer equipment maintenance	5	-	5	-	5
Computer software maintenance	49	-	49	42	7
Communication equipment maintenance	79	-	79	61	18
Repairs to vehicle equipment	89	-	89	58	31
Repairs to testing and laboratory equipment	6	-	6	1	5
Repairs n.o.c.	68	-	68	22	46
Total contractual services	78,704	(294)	78,410	63,589	14,821
Materials and supplies					
Metals	48	1	49	23	26
Electrical parts and supplies	1,508	46	1,554	1,264	290
Plumbing accessories and supplies	719	(29)	690	590	100
Hardware	53	(1)	52	33	19
Buildings, grounds, paving materials, and supplies	230	10	240	167	73
Fiber, paper, and insulation materials	8	-	8	-	8
Paints, solvents, and related materials	7	-	7	5	2
Vehicle parts and supplies	210	-	210	118	92
Mechanical repair parts	3,815	29	3,844	2,610	1,234
Manhole materials	60	2	62	61	1
Office, printing, and photographic supplies	39	13	52	45	7
Farming supplies	4	-	4	-	4
Processing chemicals	6,790	(281)	6,509	4,957	1,552
Laboratory testing supplies and small equipment	35	2	37	36	1
Cleaning supplies	27	-	27	18	9
Tools and supplies	271	6	277	237	40
Wearing apparel	7	-	7	5	2
Books, maps, and charts	11	-	11	8	3
Safety and medical supplies	214	16	230	123	107
Computer software	12	3	15	11	3
Computer supplies	129	(7)	122	103	19
Fuel	298	91	389	337	52
Gas (in containers)	44	-	44	2	42
Communication supplies	89	-	89	49	40
Lubricants	36	(2)	34	26	8
Materials and supplies n.o.c.	135	-	135	96	39
Total materials and supplies	14,799	(101)	14,698	10,924	3,774

(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)
Maintenance and Operations (continued):					
Machinery and equipment					
Equipment for collection facilities	$ 134	$ (19)	$ 115	$ 94	$ 21
Equipment for process facilities	469	60	529	434	95
Material handling and farming equipment	86	1	87	53	34
Vehicle equipment	809	317	1,126	590	536
Testing and laboratory equipment	15	47	62	22	40
Machinery and equipment n.o.c.	15	-	15	8	7
Total machinery and equipment	1,528	406	1,934	1,201	733
Fixed and other charges					
Charges n.o.c.	50	-	50	19	31
Total fixed and other charges	50	-	50	19	31
Maintenance and Operations total	176,818	-	176,818	154,515	22,303
Corporate Division Total					
Total all departments:					
Personal services	187,900	137	188,037	173,028	15,009
Contractual services	102,621	(856)	101,765	73,579	28,186
Materials and supplies	20,643	368	21,011	16,109	4,902
Machinery and equipment	4,075	351	4,426	3,251	1,175
Fixed and other charges	690	-	690	509	181
Land	900	-	900	-	900
Total Corporate Division	316,829	-	316,829	266,476	50,353
Reserve Claim Division					
Employee claims	10,000	-	10,000	4,294	5,706
General claims and emergency repair and replacement cost over $10,000	31,700	-	31,700	655	31,045
Total Reserve Claim Division	41,700	-	41,700	4,949	36,751
Total General Corporate Fund	$ 358,529	$ -	$ 358,529	$ 271,425	$ 87,104

Exhibit C-2

General Corporate Fund - Corporate and Reserve Claim Divisions

Schedule of Expenditures by Type - GAAP Basis

Year ended December 31, 2006
(with comparative amounts for prior year)

(in thousands of dollars)

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2006
Personal services:					
Salaries and wages	$ 137,139	$ 136,226	$ 913	1 %	51%
Employee health and life insurance premiums	28,507	26,337	2,170	8	11
Payment for professional services	3,254	3,613	(359)	(10)	1
Social security and medicare contributions	1,883	1,805	78	4	1
Tuition and training payments	537	540	(3)	(1)	-
Other	1,708	1,635	3	-	1
Total personal services	173,028	170,156	2,872	2	65
Contractual services:					
Electrical energy	29,807	27,888	1,919	7	11
Natural gas	1,888	3,319	(1,431)	(43)	1
Postage freight and delivery charges	254	252	2	1	-
Biosolids application services	-	348	(348)	100	-
Waste material disposal charges	10,754	15,458	(4,704)	(30)	4
Administration building operation	1,329	1,526	(197)	(13)	1
Communication services	1,113	974	139	14	-
Farming services	12	12	-	-	-
Court reporting services	61	95	(34)	(36)	-
Water and water services	571	650	(79)	(12)	-
Motor vehicle operating services	119	137	(18)	(13)	-
Employee travel and transportation	524	499	25	5	-
Medical services	108	135	(27)	(20)	-
Rental charges	169	124	45	36	-
Maintenance of grounds and pavements	2,168	1,395	773	55	1
Governmental service charges	2,450	2,587	(137)	(5)	1
Repairs to process facilities	8,848	10,989	(2,141)	(19)	3
Other repairs	11,163	13,252	(2,089)	(16)	4
Other contractual services	2,228	2,469	(241)	(10)	1
Total contractual services	73,566	82,109	(8,543)	(10)	27
Materials and supplies:					
Processing chemicals	4,958	4,185	773	18	2
Laboratory testing supplies	866	840	26	3	-
Mechanical repair parts	2,464	2,115	349	17	1
Fuels and lubricants	988	925	63	7	-
Electrical parts and supplies	1,605	1,553	52	3	1
Plumbing accessories and supplies	443	739	(296)	(40)	-
Office, printing, and photographic supplies	329	360	(31)	(9)	-
Buildings, grounds, paving materials, and supplies	288	325	(37)	(11)	-
Cleaning supplies	270	263	7	3	-
Metals	150	150	-	-	-
Computer supplies	1,143	753	390	52	1
Other materials and supplies	1,859	1,699	160	1	1
Total materials and supplies	15,363	13,907	1,456	10	6

(Continued)

	(in thousands of dollars) 2006	2005	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2006
Machinery and equipment:					
Material handling and farming equipment	$ 53	$ 307	$ (254)	(83)%	-%
Vehicle equipment	1,217	1,032	185	18	1
Office furniture and equipment	402	105	297	283	-
Testing and laboratory equipment	375	525	(150)	(29)	-
Equipment for collection facilities	114	63	51	81	-
Equipment for process facilities	643	546	97	18	-
Computer equipment	690	451	239	53	-
Computer software	47	481	(434)	(90)	-
Other machinery and equipment	24	150	(126)	(84)	-
Total machinery and equipment	3,565	3,660	(95)	(3)	1
Fixed and other charges:					
Taxes on real estate	490	691	(201)	(29)	-
Charges n.o.c.	19	-	19	-	-
Total fixed other charges	509	691	(182)	(26)	-
Claims and judgments	4,954	4,368	586	13	1
Total expenditures	$ 270,985	$ 274,891	$ (3,906)	(1)%	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, 2006

(in thousands of dollars)

Retirement Fund	**Final Budget**	**Actual on Budgetary Basis**	**Actual Variance with Final Budget - Positive (Negative)**
Revenues:			
Property taxes	$ 22,847	$ 23,317	$ 470
Personal property replacement tax	6,239	6,239	-
Total tax revenue	29,086	29,556	470
Current expenditures:			
Pension costs	29,086	29,556	(470)
Total expenditures	29,086	29,556	(470)
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, 2006

(in thousands of dollars)

Debt Service Fund	**Final Budget**	**Actual on Budgetary Basis**	**Actual Variance with Final Budget - Positive (Negative)**
Revenues:			
Property taxes	$ 141,540	$ 145,324	$ 3,784
Total tax revenue	141,540	145,324	3,784
Interest on investments	4,905	5,674	769
Miscellaneous	1,287	2,780	1,493
Total revenues	147,732	153,778	6,046
Expenditures:			
Total expenditures	191,688	168,523	23,165
Revenues over (under) expenditures	(43,956)	(14,745)	29,211
Other financing sources (uses):			
Transfer to Stormwater Management Working Cash	-	(5,000)	(5,000)
Transfer to Corporate Working Cash	-	(15,000)	(15,000)
Sale of capital improvement bonds	6,757	6,757	-
Sale of refunding bonds	-	397,390	397,390
Refunding transaction costs	(18,610)	(2,314)	16,296
Transfers to escrow agent	-	(416,000)	(416,000)
Premium and accrued interest	13,328	14,359	1,031
Total other financing sources (uses):	1,475	(19,808)	(21,283)
Revenues and other financing sources (uses) over (under) expenditures	(42,481)	(34,553)	7,928
Fund balances at beginning of the year	145,958	145,958	-
Fund balances at end of the year	$ 103,477	$ 111,405	$ 7,928

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, 2006

(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	$ 4,830	$ -	$ 4,830	$ 4,526	$ 304
Compensation plan adjustments	266	-	266	55	211
Salaries of non-budgeted employees	100	-	100	-	100
Tuition and training payments	116	-	116	20	96
Payment for professional services	1,063	-	1,063	62	1,001
Health and life insurance	1,399	-	1,399	1,169	230
Personal services n.o.c.	78	-	78	53	25
Preliminary engineering reports and studies	2,774	(220)	2,554	1,432	1,122
Construction drawings, specifications and cost estimates	724	220	944	141	803
Aerial surveys and post construction awards	17	-	17	9	8
Post-award engineering for construction projects	420	-	420	142	278
Total personal services	11,787	-	11,787	7,609	4,178
Contractual services					
Travel	14	-	14	3	11
Meals and lodging	23	-	23	12	11
Postage and delivery charges	2	-	2	1	1
Compensation for personally owned autos	10	-	10	7	3
Motor vehicle operating services	1	-	1	-	1
Reprographic services	190	-	190	41	149
Water and water services	3	3	6	2	4
Testing and inspection services	288	-	288	80	208
Court reporting services	9	-	9	-	9
Rental charges	1	-	1	1	-
Soil and rock mechanics investigation	80	-	80	16	64
Contractual services n.o.c.	3,512	(23)	3,489	1,087	2,402
Computer equipment maintenance	5	-	5	-	5
Computer software maintenance	40	20	60	51	9
Repairs to testing and laboratory equipment	4	-	4	1	3
Repairs n.o.c.	24	-	24	12	12
Total contractual services	4,206	-	4,206	1,314	2,892
Materials and supplies					
Office, printing and photo supplies	77	-	77	36	41
Books, maps and charts	9	-	9	3	6
Computer software	12	-	12	5	7
Materials and supplies n.o.c.	17	-	17	6	11
Total materials and supplies	115	-	115	50	65
Machinery and equipment					
Machinery and equipment n.o.c.	28	-	28	-	28
Total machinery and equipment	28	-	28	-	28

(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	$ 3,015	$ -	$ 3,015	$ 10	$ 3,005
Waterways facilities structures	10,159	-	10,159	4,359	5,800
Process facilities structures	2,086	-	2,086	133	1,953
Buildings	5,255	-	5,255	1,387	3,868
Capital projects n.o.c.	10,194	-	10,194	2,227	7,967
Preservation of collection facility structures	2,190	-	2,190	-	2,190
Total capital projects	32,899	-	32,899	8,116	24,783
Construction Fund Summary:					
Personal services	11,787	-	11,787	7,609	4,178
Contractual services	4,206	-	4,206	1,314	2,892
Materials and supplies	115	-	115	50	65
Machinery and equipment	28	-	28	-	28
Capital projects	32,899	-	32,899	8,116	24,783
Construction Fund total	49,035	-	49,035	17,089	31,946
Stormwater Management Fund:					
Personal services					
Salaries of regular employees	2,599	-	2,599	2,311	288
Compensation plan adjustments	230	-	230	18	212
Tuition and training payments	6	-	6	3	3
Payment for professional services	540	-	540	4	536
Health and life insurance	502	-	502	389	113
Personal services, n.o.c.	-	8	8	4	4
Preliminary engineering reports and studies	8,800	(8)	8,792	729	8,063
Total personal services	12,677	-	12,677	3,458	9,219
Contractual services					
Travel	2	-	2	1	1
Meals and lodging	6	-	6	5	1
Postage and delivery charges	5	-	5	-	5
Compensation for personally owned autos	1	38	39	32	7
Motor vehicle operating services	1	1	2	-	2
Reprographic services	150	(31)	119	3	116
Court reporting services	16	1	17	11	6
Rental charges	1	-	1	-	1
Soil and rock mechanics investigation	-	30	30	6	24
Contractual services n.o.c.	396	(39)	357	100	257
Repairs to vehicle equipment	1	-	1	-	1
Total contractual services	579	-	579	158	421

Exhibit F-1 (continued)
Capital Projects Fund
Schedule of Appropriations and Expenditures on Budgetary Basis
Year ended December 31, 2006

(in thousands of dollars)

	Budget Amounts				
	Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Stormwater Management Fund (continued):					
Materials and supplies					
Office, printing, and photo supplies	$ 4	$ -	$ 4	$ 1	$ 3
Books, maps, and charts	2	-	2	1	1
Computer software	5	-	5	-	5
Materials and supplies n.o.c.	1	-	1	-	1
Total materials and supplies	12	-	12	2	10
Machinery and equipment					
Computer equipment	100	-	100	-	100
Computer software	130	-	130	18	112
Total machinery and equipment	230	-	230	18	212
Captial projects					
Waterways facilities structure	11,000	-	11,000	250	10,750
Total capital projects	11,000	-	11,000	250	10,750
Stormwater Management Fund Summary:					
Personal services	12,677	-	12,677	3,458	9,219
Contractual services	579	-	579	158	421
Material and supplies	12	-	12	2	10
Machinery and equipment	230	-	230	18	212
Capital projects	11,000	-	11,000	250	10,750
Stormwater Management Fund total	24,498	-	24,498	3,886	20,612
Capital Improvements Bond Fund:					
Personal services	69,424	(630)	68,794	36,108	32,686
Contractual services	1,270	-	1,270	804	466
Machinery and equipment	6,245	12,000	18,245	2,305	15,940
Capital projects	310,820	(12,000)	298,820	231,186	67,634
Land	800	-	800	-	800
Fixed and other charges	500	2,240	2,740	2,256	484
Capital Improvements Bond Fund total *	389,059	1,610	390,669	272,659	118,010
Capital Projects Funds total	$ 462,592	$ 1,610	$ 464,202	$ 293,634	$170,568

* 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 2006-2001

(in thousands of dollars)

	Cumulative as of December 31, 2006		2006		2005	
Gross property tax levy	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
General Corporate Fund:						
Corporate	$ 1,126,200	47.4	$ 213,500	53.2	$ 206,565	50.2
Corporate Working Cash	12,964	0.5	-	-	-	-
Reserve Claim	29,576	1.2	5,957	1.5	5,513	1.3
Total General Corporate Fund	1,168,740	49.1	219,457	54.7	212,078	51.5
Other Governmental Funds						
Storm Water Management	25,959	1.1	15,508	3.9	10,451	2.6
Retirement Fund	152,362	6.4	25,072	6.2	23,598	5.7
Debt Service Fund	890,150	37.5	123,608	30.8	147,281	35.8
Construction Fund:	140,750	5.9	17,766	4.4	17,940	4.4
Total Other Governmental Funds	1,209,221	50.9	181,954	45.3	199,270	48.5
Total Gross Levy - All Funds	2,377,961	100.0	401,411	100.0	411,348	100.0
Less allowance for uncollectible taxes at December 31, 2006	50,177	2.1	14,032	3.5	13,005	3.2
Estimated property taxes to be collected	2,327,784	97.9	387,379	96.5	398,343	96.8
Collections by year (percent shown is percent of estimated property taxes to be collected):						
First year	1,903,721	81.8	-	-	398,343	100.0
Second year	45,334	2.0	-	-	-	-
Third year	(4,278)	(0.2)	-	-	-	-
Fourth year	(1,984)	(0.1)	-	-	-	-
Fifth year	(2,388)	(0.1)	-	-	-	-
Total collections through December 31, 2006	1,940,405	83.4	-	-	398,343	100.0
Property taxes receivable, net	$ 387,379	16.6	$ 387,379	100.0	$ -	-
Property taxes receivable, net - by fund						
General Corporate Fund:						
Corporate	$ 206,028		$ 206,028		$ -	
Reserve Claim	5,748		5,748		-	
Total General Corporate Fund	211,776		211,776		-	
Other Governmental Funds:						
Storm Water Management	14,964		14,964		-	
Retirement Fund	24,195		24,195		-	
Debt Service Fund	119,300		119,300		-	
Construction Fund	17,144		17,144		-	
Property taxes receivable, net	$ 387,379		$ 387,379		$ -	

Levy Years							
2004		2003		2002		2001	
Amount	%	Amount	%	Amount	%	Amount	%
$ 198,676	48.1	$ 180,310	45.3	$ 168,279	44.1	$ 158,870	42.6
-	-	4,645	1.2	4,276	1.1	4,043	1.1
5,142	1.3	4,645	1.2	4,276	1.1	4,043	1.1
203,818	49.4	189,600	47.7	176,831	46.3	166,956	44.8
-	-	-	-	-	-	-	-
28,247	6.8	25,958	6.5	24,825	6.5	24,662	6.6
166,152	40.2	157,334	39.5	149,169	39.1	146,606	39.4
14,847	3.6	25,170	6.3	30,702	8.1	34,325	9.2
209,246	50.6	208,462	52.3	204,696	53.7	205,593	55.2
413,064	100.0	398,062	100.0	381,527	100.0	372,549	100.0
3,045	0.7	5,050	1.3	6,607	1.7	8,438	2.3
410,019	99.3	393,012	98.7	374,920	98.3	364,111	97.7
399,017	97.3	375,549	95.6	369,667	98.6	361,145	99.2
11,002	2.7	19,361	4.9	7,459	2.0	7,512	2.1
-	-	(1,898)	(0.5)	(1,631)	(0.4)	(749)	(0.2)
-	-	-	-	(575)	(0.2)	(1,409)	(0.4)
-	-	-	-	-	-	(2,388)	(0.7)
410,019	100.0	393,012	100.0	374,920	100.0	364,111	100.0
$ -	-	$ -	-	$ -	-	$ -	-
$ -		$ -		$ -		$ -	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
$ -		$ -		$ -		$ -	

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

Year ended December 31, 2006

(in thousands of dollars)

	General Corporate Fund	Debt Service Fund	Construction Fund	Capital Improvements Bond Fund	Other Governmental Funds	Totals
Cash Receipts:						
Property tax collections	$ 208,470	$ 145,324	$ 17,252	$ -	$ 33,438	$ 404,484
Personal property replacement tax collections	27,830	-	2,477	-	7,607	37,914
State revolving fund loan proceeds	-	-	-	19,222	-	19,222
Interest on investments	8,374	5,674	2,541	14,860	1,036	32,485
Investments matured and sold	2,012,287	646,750	686,717	1,919,721	414,031	5,679,506
User charges	53,216	-	400	-	-	53,616
Working cash advances	225,600	-	17,285	-	-	242,885
Working cash repayments	214,560	-	19,687	-	-	234,247
Transfers from Escrow Agent	-	11,586	-	-	-	11,586
Proceeds from bond sales	-	418,506	-	-	-	418,506
Proceeds from sale of refund bond	-	-	-	354,510	-	354,510
Transfers	15,000	-	-	-	5,000	20,000
Claim and damage settlements	533	-	-	-	-	533
TIF distributions	1,154	-	-	-	-	1,154
Sewer service agreements and impact fees	790	-	954	-	-	1,744
Rental income	8,253	-	-	-	-	8,253
Proceeds from sale of land	160	-	350	-	-	510
Proceeds from sale of equipment	44	-	-	-	-	44
Miscellaneous	4,741	440	54	-	-	5,235
Total cash receipts	2,781,012	1,228,280	747,717	2,308,313	461,112	7,526,434
Cash Disbursements:						
Payroll	141,981	-	4,789	10,791	2,347	159,908
Voucher expenditures	127,411	-	14,219	118,776	-	260,406
Transfers	-	20,000	-	-	-	20,000
Contributions to Retirement Fund	-	-	-	-	30,207	30,207
Bond redemption and related interest	-	167,845	-	-	-	167,845
Transfer to Escrow Agent	-	418,840	-	2,161	-	421,001
Investment purchases	2,070,697	636,333	691,812	2,176,778	428,566	6,004,186
Working cash advances	225,600	-	17,285	-	-	242,885
Working cash repayments	214,560	-	19,687	-	-	234,247
Total cash disbursements	2,780,249	1,243,018	747,792	2,308,506	461,120	7,540,685
Cash and restricted cash receipts in excess of (less than) disbursements	763	(14,738)	(75)	(193)	(8)	(14,251)
Cash and restricted cash at beginning of the year	1,405	18,280	96	1,282	14	21,077
Cash and restricted cash at end of the year	$ 2,168	$ 3,542	$ 21	$ 1,089	$ 6	$ 6,826

III. STATISTICAL AND DEMOGRAPHICS SECTION

The District's Centennial Fountain Canon provides a spectacular water arc once per hour during the summer months. It has become a welcome Chicago attraction for riverwalk patrons and boaters alike.

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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, 2006 - 2002

(in thousands of dollars)

	2006	2005	2004	2003	2002
Invested in capital assets, net of related debt (1)	$ 4,541,778	$ 3,728,581	$ 1,921,730	$ 1,373,683	$ 1,260,463
Restricted					
Restricted for corporate working cash	263,229	244,319	236,294	236,068	196,110
Restricted for debt service	220,306	278,218	297,800	290,794	283,288
Restricted for capital projects	1,044	12,287	16,268	53,931	56,835
Restricted for construction working cash	25,750	25,642	50,132	49,880	84,501
Restricted for stormwater working cash	32,064	25,227	-	-	-
Unrestricted	95,357	56,196	53,452	27,441	34,027
Total net assets	$ 5,179,528	$ 4,370,470	$ 2,575,676	$ 2,031,797	$ 1,915,224

(1) 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, 2006 - 2002

(accrual basis of accounting)

(in thousands of dollars)

	2006	2005	2004	2003	2002
Revenues					
General Revenues:					
Property taxes	$ 392,775	$ 405,423	$ 395,108	$ 373,811	$ 365,894
Personal property replacement tax	37,743	36,031	25,961	23,461	15,336
Interest on investments	43,659	19,693	9,943	13,163	15,693
Tax increment financing distributions	1,167	1,634	604	1,097	656
Claims and damage settlements	614	77	450	113	131
Miscellaneous	2,584	2,300	1,716	777	1,892
Gain on sale	-	93	2,677	233	3,419
Adjustments for non-financial assets	-	-	35,865	-	-
Total general revenues	478,542	465,251	472,324	412,655	403,021
Program Revenues:					
Charges for services					
User charges	53,986	46,576	46,981	48,038	48,500
Land rentals	7,972	6,310	6,166	5,023	5,115
Fees, forfeits, and penalties	4,693	4,748	3,800	3,892	2,892
Capital grants and contributions					
Federal grants	-	867	774	4,460	866
Total program revenues	66,651	58,501	57,721	61,413	57,373
Total revenues	545,193	523,752	530,045	474,068	460,394
Expenses					
Board of Commissioners	3,422	3,341	3,578	3,333	3,162
General Administration	17,293	17,807	15,969	15,183	14,543
Research and Development	25,317	25,230	24,599	24,669	24,377
Purchasing	5,480	5,170	6,095	4,659	7,187
Personnel	35,216	32,941	35,931	30,947	27,640
Information Technology	11,312	11,111	10,885	11,626	11,334
Law	5,748	6,199	5,064	4,667	4,942
Finance	3,218	3,124	3,065	3,047	5,508
Engineering	4,519	10,160	6,169	2,986	5,812
Maintenance and Operations	156,984	158,802	161,903	160,309	158,838
Pension costs	42,320	47,549	35,354	29,511	27,044
Claims and judgments (1)	876	4,466	12,175	(1,340)	10,644
Construction costs	70,594	51,145	38,057	34,794	28,366
Loss on sale of capital assets	4,430	676	172	440	448
Depreciation (unallocated)	9,216	7,596	7,596	7,596	7,597
Interest on bonds	81,876	61,872	65,398	67,958	55,996
Refunding transaction costs	-	-	-	-	1,653
Total expenses	477,821	447,189	432,010	400,385	395,091
Change in Net Assets	$ 67,372	$ 76,563	$ 98,035	$ 73,683	$ 65,303

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

Exhibit H-3
Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(in thousands of dollars)

	2006	2005	2004	2003	2002
General Corporate Fund					
Reserved	$ 263,216	$ 244,322	$ 236,332	$ 231,982	$ 191,967
Unreserved	(18,238)	(45,113)	(68,321)	(45,066)	(40,902)
Total General Corporate Fund	244,978	199,209	168,011	186,916	151,065
All Other Governmental Funds					
Reserved	57,814	50,869	50,121	49,868	84,482
Unreserved, reported in:					
Capital projects funds	567,835	297,531	385,352	427,941	336,606
Debt service funds	124,540	168,920	164,185	174,249	157,957
Total All Other Governmental Funds	750,189	517,320	599,658	652,058	579,045
Total Governmental Funds	$ 995,167	$ 716,529	$ 767,669	$ 838,974	$ 730,110

2001	2000	1999	1998	1997
$ 200,317	$ 183,296	$ 178,649	$ 174,467	$ 170,307
(61,204)	(16,187)	(21,198)	(22,452)	(37,039)
139,113	167,109	157,451	152,015	133,268
84,116	79,270	73,590	68,889	64,224
266,720	150,355	204,170	277,762	316,248
126,973	134,663	142,210	169,846	186,562
477,809	364,288	419,970	516,497	567,034
$ 616,922	$ 531,397	$ 577,421	$ 668,512	$ 700,302

Exhibit H-4
Changes in Fund Balances: Governmental Funds

Years ended December 31, 2006 - 1997

(modified accrual basis of accounting)

(in thousands of dollars)

	2006	2005	2004	2003	2002
Revenues					
General Revenues:					
Property taxes	$ 380,675	$ 423,941	$ 360,326	$ 397,751	$ 362,036
Personal property replacement tax	37,743	36,031	25,961	24,048	22,285
Interest on investments	43,659	19,693	9,943	13,163	15,693
Land sales	516	100	3,608	239	3,395
Tax increment financing distributions	1,167	1,634	604	1,097	656
Claims and damage settlements	614	77	450	113	131
Miscellaneous	2,729	2,573	1,872	1,003	2,080
Program Revenues:					
Charges for services					
User charges	52,504	45,983	47,757	50,222	48,890
Land rentals	7,972	6,310	6,160	5,023	5,115
Fees, forfeits, and penalties	4,693	4,748	3,800	3,892	2,892
Capital grants and contributions					
Government grants	-	867	1	4,836	490
Total revenues	532,272	541,957	460,482	501,387	463,663
Expenditures					
Current:					
Board of Commissioners	3,401	3,323	3,552	3,315	3,131
General Administration	16,974	17,259	15,538	14,987	14,318
Research and Development	24,985	24,787	24,030	24,172	23,838
Purchasing	5,352	5,023	5,932	4,510	7,037
Personnel	35,162	32,900	35,877	30,916	27,610
Information Technology	11,034	10,811	10,574	11,417	11,204
Law	5,709	6,168	5,018	4,646	4,923
Finance	3,197	3,102	3,033	3,025	5,483
Engineering	4,318	9,538	6,273	4,095	7,757
Maintenance and Operations	155,899	157,612	160,299	159,079	160,326
Pension costs	30,071	31,561	27,372	29,511	27,044
Claims and judgments	4,954	4,368	3,829	2,972	2,859
Construction costs	164,157	133,599	127,155	164,865	157,076
Debt service:					
Redemption of bonds	83,692	107,767	92,560	91,198	89,572
Interest on bonds	88,177	61,252	63,465	67,428	56,259
Refunding transaction costs	-	-	-	-	1,653
Total expenditures	637,082	609,070	584,507	616,136	600,090
Revenues over (under) expenditures	(104,810)	(67,113)	(124,025)	(114,749)	(136,427)
Other Financing Sources (Uses):					
Payment to escrow agent	(416,000)	-	-	-	(398,620)
State revolving fund loan proceeds	27,464	15,973	52,720	77,613	26,667
Sale of refunding bonds	397,390	-	-	-	416,000
Proceeds from sale of bonds	350,000	-	-	146,000	164,000
Premium on sale of bonds	24,594	-	-	-	14,575
Total other financing sources (uses)	383,448	15,973	52,720	223,613	222,622
Net change in fund balance	$ 278,638	$ (51,140)	$ (71,305)	$ 108,864	$ 86,195
Debt service as a percentage of non-capital expenditures *(only available from 2001 forward)*	116.1% (1)	40.3%	33.4%	32.9%	31.1%

(1) Increase is due to inclusion of additional TARP assets of $323,902,000.

2001	2000	1999	1998	1997
$ 337,654	$ 342,633	$ 322,683	$ 332,610	$ 339,698
27,946	31,928	27,916	28,755	26,500
26,770	39,836	33,823	38,143	39,026
229	110	500	4,456	-
1,077	549	493	164	459
10,441	-	-	-	-
16,062	14,710	13,868	18,222	13,324
49,194	50,902	52,221	48,650	52,629
4,479	4,442	4,465	3,656	2,970
-	-	-	-	-
3,754	6,069	6,366	1,751	16,761
477,606	491,179	462,335	476,407	491,367
2,930	2,696	2,435	2,478	2,414
14,009	13,633	15,722	11,651	9,848
23,781	22,405	21,458	19,698	19,581
4,872	6,917	8,022	7,644	7,230
26,155	22,221	20,232	19,727	18,050
10,961	10,123	8,438	10,382	6,600
4,736	4,670	4,457	4,269	3,487
3,987	4,553	5,220	3,584	6,220
10,914	7,137	6,711	4,568	2,860
165,831	154,679	150,567	143,674	139,943
24,958	29,829	24,830	23,500	22,786
3,355	2,961	4,908	1,143	3,772
159,841	149,455	163,135	139,404	118,397
80,464	84,521	98,688	89,407	80,653
57,358	56,282	60,458	64,648	67,454
-	-	-	8	1,249
594,152	572,082	595,281	545,785	510,544
(116,546)	(80,903)	(132,946)	(69,378)	(19,177)
-	-	-	-	(116,841)
17,811	35,101	42,231	35,377	27,948
-	-	-	-	116,325
175,000	-	-	-	-
8,614	-	-	-	-
201,425	35,101	42,231	35,377	27,432
$ 84,879	$ (45,802)	$ (90,715)	$ (34,001)	$ 8,255
28.1%				

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
1996	$ 30,765,001	$ 40,411,247	$ 71,176,248	0.492	$ 261,204,586	27.2 %
1997	33,349,557	40,511,394	73,860,951	0.451	271,192,993	27.2
1998	33,940,146	42,812,917	76,753,063	0.444	287,762,846	26.7
1999	35,354,802	45,509,854	80,864,656	0.419	309,433,210	26.1
2000	40,480,075	45,036,933	85,517,008	0.415	348,966,255	24.5
2001	41,981,912	50,923,178	92,905,090	0.401	392,206,809	23.7
2002	45,330,892	57,506,473	102,837,365	0.371	428,105,908	24.0
2003	53,168,632	57,097,996	110,266,628	0.361	471,971,669	23.4
2004	55,277,096	63,761,464	119,038,560	0.347	541,942,050	22.0
2005	59,304,530	71,282,391	130,586,921	0.315	541,942,050 (2)	24.1

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)

	2006 (1)	2005	2004	2003	2002	2001	2000	1999	1998	1997
District direct rates										
Corporate	$ 0.179	$ 0.158	$ 0.167	$ 0.163	$ 0.164	$ 0.171	$ 0.179	$ 0.176	$ 0.190	$ 0.195
Corporate Working Cash	-	-	-	0.004	0.004	0.004	0.005	0.005	0.005	0.005
Reserve Claim	0.005	0.004	0.004	0.004	0.004	0.004	0.005	0.005	0.005	0.005
Retirement	0.021	0.018	0.024	0.024	0.024	0.027	0.027	0.033	0.029	0.029
Debt Service	0.108	0.113	0.139	0.143	0.145	0.158	0.151	0.151	0.170	0.173
Construction	0.015	0.014	0.013	0.023	0.030	0.037	0.043	0.044	0.041	0.039
Stormwater Management (2)	0.013	0.008	-	-	-	-	-	-	-	-
Construction Working Cash	-	-	-	-	-	-	0.005	0.005	0.004	0.005
Total direct rate	$ 0.341	$ 0.315	$ 0.347	$ 0.361	$ 0.371	$ 0.401	$ 0.415	$ 0.419	$ 0.444	$ 0.451
Major local governments' tax rates (3)										
City of Chicago	$ -	$ 1.153	$ 1.188	$ 1.262	$ 1.452	$ 1.478	$ 1.498	$ 1.673	$ 1.812	$ 1.832
Chicago Board of Education	-	3.026	3.104	3.142	3.562	3.744	3.714	4.104	4.172	4.084
Chicago Park District	-	0.443	0.431	0.439	0.515	0.546	0.557	0.627	0.653	0.665
Cook County	-	0.533	0.593	0.630	0.690	0.746	0.824	0.854	0.911	0.919
Cook County Forest Preserve Dist.	-	0.060	0.060	0.059	0.061	0.067	0.069	0.070	0.072	0.074
Community College Dist. #508 (4)	-	0.234	0.242	0.246	0.280	0.307	0.311	0.347	0.354	0.356
Chicago School Finance Authority	-	0.127	0.177	0.151	0.177	0.223	0.223	0.255	0.268	0.270
City of Chicago Library Fund	-	0.090	0.114	0.118	0.139	0.159	0.162	0.187	0.186	0.192
District's tax levies by fund										
Corporate	$213,500	$206,565	$198,676	$180,310	$168,279	$158,870	$153,732	$142,238	$145,854	$143,735
Stormwater Management (2)	15,508	10,451	-	-	-	-	-	-	-	-
Corporate Working Cash	-	-	-	4,645	4,276	4,044	3,838	3,693	3,533	3,443
Reserve Claim	5,957	5,513	5,142	4,645	4,276	4,044	3,838	3,693	3,533	3,443
Retirement	25,072	23,598	28,247	25,958	24,825	24,661	23,009	27,079	22,294	21,322
Debt Service	123,608	147,281	166,152	157,334	149,169	146,605	129,151	122,060	130,321	128,228
Construction	17,766	17,940	14,847	25,170	30,702	34,325	37,490	36,367	31,875	29,499
Construction Working Cash	-	-	-	-	-	-	3,838	3,693	3,373	3,443
Total tax levies	$401,411	$411,348	$413,064	$398,062	$381,527	$372,549	$354,896	$338,823	$340,783	$333,113

Source: Cook County Clerk

(1) District's tax rates are estimated based on 2005 equalized assessed valuation of $130.6 billion.
(2) The Stormwater Management Fund was established in 2005.
(3) Major local governments' rates for 2006 are not yet available.
(4) Formerly Chicago City Colleges

Exhibit H-7
Principal Property Taxpayers

2005 and Nine Years Ago

(in thousands of dollars)

		2005 (1)			1996		
Taxpayer	Type of Business	Equalized Assessed Value	Rank	Percentage of Total Equalized Assessed Value	Equalized Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Sears Tower	Retail and Office	$ 519,080	1	0.40.%	$ 270,912	1	0.38%
Aon Center (3)	Insurance	341,767	2	0.26	198,742	2	0.28
Equity Office (2)	Property Management	341,076	3	0.26	-	-	-
AT&T Corporate Center	Communications	268,519	4	0.21	145,281	5	0.20
Prudential Plaza	Financial Services	266,283	5	0.20	130,550	6	0.18
Chase Tower (4)	Banking	218,014	6	0.17	182,062	3	0.26
Citicorp Center	Banking	196,622	7	0.15	104,084	9	0.15
Leo Burnett Building	Advertising	188,219	8	0.14	-	-	-
Water Tower Place	Retail and Office	183,187	9	0.14	-	-	-
R.R. Donnelly & Sons	Publishing	177,418	10	0.14	-	-	-
Hyatt Regency Hotel	Hotel	-	-	-	120,263	7	0.17
Chicago Mercantile Exchange	Commodities	-	-	-	148,715	4	0.21
900 North Michigan Avenue	Retail and Office	-		-	92,037	10	0.13
Three First National Plaza	Banking	-	-	-	106,479	8	0.15
Total		$ 2,700,185		2.07%	$ 1,499,125		2.31%

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

(1) 2006 information is unavailable

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

(3) Formerly the Amoco Oil Building

(4) Formerly One First National Plaza

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
1997	$ 333,113	$ 322,874	96.9%	10/28/98	$ 594	$ 323,468	97.1%
1998	340,783	319,261	93.7	11/01/99	10,360	329,621	96.7
1999	338,823	326,628	96.4	10/09/00	(830)	325,798	96.2
2000	354,896	338,078	95.3	11/01/01	55	338,133	95.3
2001	372,549	361,145	96.9	11/01/02	2,966	364,111	97.7
2002	381,527	369,667	96.9	10/01/03	5,253	374,920	98.3
2003	398,062	375,549	94.3	11/15/04	17,463	393,012	98.7
2004	413,064	399,017	96.6	11/01/05	11,002	410,019	99.3
2005	411,348	398,343	96.8	09/01/06	-	398,343	96.8
2006	401,411	-	-	09/01/07 (2)	-	-	-

(1) Negative amounts result from subsequent years' tax refunds in excess of collections.
(2) Based on 2005 Final Due Date.

Exhibit H-9
User Charge Rates

Last Ten Years

	2006 (1)	2005	2004	2003	2002
Large Commercial / Industrial User Rates (2)					
Flow per million gallons	$ 225.80	$ 210.91	$ 202.39	$ 217.74	$ 185.09
5-day BOD per 1,000 lbs. (5)	239.79	226.64	215.86	227.39	197.10
SS per 1,000 lbs. (6)	183.41	174.33	168.16	182.75	151.53
Tax-Exempt User Rates (3)					
Flow per million gallons	$ 235.40	$ 219.30	$ 209.31	$ 223.29	$ 190.74
5-day BOD per 1,000 lbs. (5)	249.99	235.65	223.25	233.19	203.22
SS per 1,000 lbs. (6)	191.20	181.26	173.92	187.41	156.16
OM&R Rate (4)	0.5680	0.5680	0.5690	0.6240	0.5580

(1) The current year's rates are calculated using financial data from the prior year's Budget, operating cost, and loading data from two years prior. The increase in the 2006 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

2001	2000	1999	1998	1997
$ 200.21	$ 215.09	$ 205.63	$ 202.75	$ 189.48
216.96	205.33	196.13	190.60	192.39
158.11	163.43	160.40	156.57	159.62
$ 201.98	$ 181.83	$ 175.13	$ 176.16	$ 165.71
218.89	173.52	167.04	165.60	168.35
159.51	138.14	136.61	136.03	139.72
0.5950	0.4880	0.4510	0.4650	0.4710

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

Last Ten Fiscal Years

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

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes and Interest	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)
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	1,280,569	48,238	1,328,807	168,920	1,159,887	0.95	248.98	0.26	217.33
2006 (4)	1,579,401	25,261	1,604,662	124,540	1,480,122	1.15	302.37	0.27	278.90

(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 2006 percentage ratios are estimates based on the 2005 personal income and estimated full taxable value information.

Exhibit H-11
Estimate of Direct and Overlapping Debt

As of December 31, 2006

(in thousands of dollars)

Direct debt				
General obligation bonds				$ 1,579,401
		%	Applicable	
Overlapping bonded debt of major local governments (1)	Net Debt (2)	Applicable (3)	Amount	
City of Chicago	$ 5,768,630	100.00%	$ 5,768,630	
Chicago Board of Education	4,652,371 (4)	100.00	4,652,371 (4)	
Chicago School Finance Authority	268,075	100.00	268,075	
Chicago Park District	842,660 (4)	100.00	842,660 (4)	
Community College District #508	50,935	100.00	50,935	
Cook County	3,019,350	97.91	2,956,246	
Cook County Forest Preserve District	127,185	97.91	124,527	
Total overlapping debt (5)				14,663,444
Total direct and overlapping debt (5)				$ 16,242,845

(1) Excludes outstanding tax anticipation notes and warrants.
(2) Source: Each of the respective taxing districts.
(3) Based on 2005 EAV's; the most recent available.
For 2005, the EAV's from the portion of the District within the City of Chicago was $59,304,530.
(4) Includes approximately $4,202,886 and $334,695 of general obligation bonds of the Chicago Board of Education and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources. An ad valorem property tax levy is filed in an amount sufficient to pay debt service on the alternate revenue bonds. When sufficient revenues have accumulated to pay annual debt service on the alternate revenue bonds, the property tax levy is abated. To date, alternate revenues have been available in amounts sufficient to pay principal and interest coming due on the alternate revenue bonds issued by the Chicago Board of Education and the Chicago Park District.
(5) Does not include debt issued by other taxing authorities located in Cook County.

Exhibit H-12
Computation of Statutory Debt Margin

Last Ten Fiscal Years

(in thousands of dollars)

	2006 (1)	2005	2004	2003	2002
Equalized assessed valuation	$ 130,586,921	$ 130,586,921	$ 119,038,560	$ 110,266,628	$ 102,837,365
Statutory debt limit (5.75% of equalized assessed valuation)	7,508,748	7,508,748	6,844,717	6,340,331	5,913,148
Total debt applicable to debt limit:					
General obligation bonds outstanding	1,579,401	1,280,569	1,329,123	1,363,739	1,298,375
Bond anticipation notes outstanding	25,261	48,238	90,473	94,245	26,162
Liabilities of tax financed funds:					
Corporate	27,233	25,394	29,112	29,661	29,321
Stormwater	340	72	-	-	-
Debt service	56	154	212	212	486
Reserve claim	1,495	124	276	472	149
Construction	2,810	3,949	6,333	4,953	4,161
Total applicable debt	1,636,596	1,358,500	1,455,529	1,493,282	1,358,654
Less applicable assets:					
Debt service funds unrestricted cash and investments	108,814	127,860	125,441	129,600	128,508
Interest payable in the next twelve months	(69,111)	(55,119)	(60,902)	(63,488)	(62,325)
Total applicable assets	39,703	72,741	64,539	66,112	66,183
Total net debt applicable to debt limit	1,596,893	1,285,759	1,390,990	1,427,170	1,292,471
Statutory debt margin	$ 5,911,855	$ 6,222,989	$ 5,453,727	$ 4,913,161	$ 4,620,677
Total applicable net debt as a percentage of statutory debt limit	21.3%	17.1%	20.3%	22.5%	21.9%

(1) Debt limit calculation based on 2005 equalized assessed valuation since 2006 value is not yet available.

2001	2000	1999	1998	1997
$ 92,905,090	$ 85,517,008	$ 80,864,656	$ 76,753,063	$ 73,860,951
5,342,043	4,917,228	4,649,718	4,413,301	4,247,005
1,134,632	1,040,096	1,060,480	1,159,093	1,218,616
46,702	27,972	35,686	4,519	2,985
37,658	30,289	31,064	28,728	26,200
-	-	-	-	-
1,951	1,588	2,676	1,673	-
5,691	11,187	8,682	9,554	5,004
1,226,634	1,111,132	1,138,588	1,203,567	1,252,804
114,179	121,305	129,143	155,120	170,932
(58,199)	(53,112)	(55,836)	(60,458)	(64,659)
55,980	68,193	73,307	94,662	106,273
1,170,654	1,042,939	1,065,281	1,108,905	1,146,531
$ 4,171,389	$ 3,874,289	$ 3,584,437	$ 3,304,396	$ 3,100,474
21.9%	21.2%	22.9%	25.1%	27.0%

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
2006	5,307	$ 139,547,983	$ 26,295	$ 52,408	3.9 %
2005	5,337	139,159,977	26,075	51,635	5.4
2004	5,364	137,820,341	25,694	50,093	5.7
2003	5,425	140,930,862	25,978	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

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. 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

	2006			1997		
Employer	**Employees**	**Rank**	**Percentage of Total Employment** (6)	**Employees**	**Rank**	**Percentage of Total Employment** (6)
U.S. Government (1)	51,700	1	0.97%	30,340	3	0.60%
Chicago Public Schools (3)	43,783	2	0.83%	43,158	1	0.85%
City of Chicago (3)	39,675	3	0.75%	41,789	2	0.82%
Jewel-Osco (3)	34,037	4	0.64%	29,923	4	0.59%
Cook County (4)	25,482	5	0.48%	27,167	5	0.53%
Advocate Health Care (3)	25,279	6	0.48%	19,322	10	0.38%
United Parcel Service of America, Inc. (5)	19,000	7	0.36%	-	-	-
State of Illinois (3)	17,056	8	0.32%	21,197	9	0.42%
SBC Communications, Inc. (2) (3)	16,500	9	0.31%	22,500	8	0.44%
Wal-Mart Stores Inc. (3)	16,350	10	0.25%	-		-
U.S. Postal Service	-	-	-	24,268	7	0.48%
Motorola	-	-	-	25,000	6	0.49%
Total	288,862		5.39%	284,664		5.21%

Source: Chicago. about.com; Crain's Chicago Business was used for data prior to 2006. Figures represent the number of employees in the six county area surrounding Chicago.

(1) As of May 2006
(2) Previous to 2002 takeover by SBC, this was Ameritech
(3) August 2005
(4) December 2004
(5) July 2006
(6) Total employment for 2006 based on a population of 5,306,935; total employment for 1997 based on a population of 5,090,473 employees.

Exhibit H-15
Budgeted Positions by Fund/Department

Last Ten Fiscal Years

	Budgeted Positions									
Fund/Department	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Corporate Fund										
Board of Commissioners	45	46	46	45	45	45	45	45	45	45
General Administration	145	146	147	140	131	128	127	123	122	118
Research & Development	317	321	326	337	347	352	355	353	357	353
Purchasing	70	71	75	71	77	82	79	78	74	75
Personnel	53	56	56	52	51	46	43	44	49	53
Information Technology	63	64	64	64	75	75	73	69	63	61
Law	41	41	41	40	41	41	41	42	41	41
Finance	35	35	37	37	38	40	42	40	40	41
Engineering (Corporate Fund)	33	33	32	32	32	32	31	31	33	33
Maintenance & Operations	1,071	1,124	1,137	1,163	1,191	1,202	1,193	1,193	1,189	1,194
Total Corporate Fund	1,873	1,937	1,961	1,981	2,028	2,043	2,029	2,018	2,013	2,014
Engineering (Construction Fund)	63	63	117	120	130	231	223	227	226	225
Engineering (Stormwater Management) (1)	38	9	-	-	-	-	-	-	-	-
Engineering (Capital Improvements Bond Fund) (2)	133	134	83	85	91	-	-	-	-	-
Grand Total	2,107	2,143	2,161	2,186	2,249	2,274	2,252	2,245	2,239	2,239

(1) In 2005, Engineering transferred positions to the newly created Stormwater Management Fund.
(2) In fiscal years 2002 and 2005, 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 Fiscal Years

	Area Served (1)	Communities Served (2)	Number of People Served(3)	Commercial and Industrial Population Equivalent Served	Number of Local Sewer Connections to Intercepting Sewers	Pumping Station Maximum Capacity (4)	Gallons of Sewerage Wastes Processed per Day (4)	Daily Sewerage Treatment Capacity (4)
2006	876	128	5,306,935	4,500,000	10,000	4,000,000	1,329,000	2,000,000
2005	876	126	5,275,180	4,500,000	10,000	4,000,000	1,158,000	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

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

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Exhibit H-17
Capital Asset Statistics

Years ended December 31, 2006 - 1997

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Miles of intercepting sewers and force mains operated	559	559	559	559	559	559	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	13,000+	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	23	24	25	24	24	24	24
Miles of TARP tunnels constructed for pollution and flood control	109.4	101.5	101.5	101.5	93.4	93.4	93.4	93.4	93.4	84.7
Miles of TARP tunnels under construction	0.0	7.9	7.9	7.9	16.0	16.0	8.1	8.1	8.1	8.7
Number of TARP reservoirs constructed	1	1	1	1	1	1	1	1	-	-
Number of TARP reservoirs under construction	2	2	2	2	1	1	1	-	-	-
Number of flood control reservoirs	32	32	32	32	31	31	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 Centennial Fountain pays tribute to the District's 100 years of achieving a clean water environment.

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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 25, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the District's pension trust fund, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2006-1, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

<u>Compliance and Other Matters</u>

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.*

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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 25, 2007

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VB&C VELMA BUTLER & COMPANY, LTD.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

MEMBER OF: THE AMERICAN INSTITUTE OF CPAs
THE ILLINOIS CPA SOCIETY

INDEPENDENT AUDITORS' REPORT ON THE
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, 2006. 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, 2006, 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 19, 2007, 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. That 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

January 19, 2007

6 EAST MONROE, SUITE 400, CHICAGO, ILLINOIS 60603 OFFICE: (312) 419-1547 FAX: (312) 922-8210 EMAIL: VBANDC@AOL.COM

VB&C VELMA BUTLER & COMPANY, LTD.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
MEMBER OF: THE AMERICAN INSTITUTE OF CPAs
THE ILLINOIS CPA SOCIETY

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, 2006. 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 District'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, 2006.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal controls 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 controls 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 controls over compliance in accordance with OMB Circular A-133.

Our consideration of the internal controls over compliance would not necessarily disclose all matters in the internal controls that might be material weaknesses. A material weakness is a 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.

6 EAST MONROE, SUITE 400, CHICAGO, ILLINOIS 60603 OFFICE: (312) 419-1547 FAX: (312) 922-8210 EMAIL: VBANDC@AOL.COM

VB&C VELMA BUTLER & COMPANY, LTD.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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This report is intended solely for the information and use of the Board of Commissioners, 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.

Velma Butler & Company, Ltd.
Chicago, Illinois

January 19, 2007

6 EAST MONROE, SUITE 400, CHICAGO, ILLINOIS 60603 OFFICE: (312) 419-1547 FAX: (312) 922-8210 EMAIL: VBANDC@AOL.COM

Schedule of Expenditures of Federal Awards

Year ended December 31, 2006

Federal CFDA Number (A)	Grant/ Identifying Number (B)	Award Date (C)	Project Description (D)		Total 2006 Federal Expenditures (E)
Major Programs:					
Federal Grantor: U.S. Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Funds (passed through Illinois Environmental Protection Agency)					
66.458	L17-2128	May, 2004	Dixmoor/Lansing Branch TARP	$	1,425,360
	Total U.S. Environmental Protection Agency Funding Capitalization Grant For Clean Water State Revolving Funds			$	1,425,360
			Total Federal Expenditures	$	**1,425,360**

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

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2006

<u>Note 1 – Basis of Presentation</u>

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 basic financial statements.

<u>Note 2 – Heading and Column Explanation</u>

(A) Catalog of Federal Domestic Assistance Number.

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

(C) Date of original award.

(D) Description of project funded with federal funds.

(E) Total expenditures represent the amount of the eligible cost claimed by the District.

<u>Note 3 – Program Description</u>

Descriptions of federal programs, funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2006.

<u>CFDA # 66.458 – Capitalization Grants for Clean Water State Revolving Funds</u>

Capitalization grants are provided from the U.S. Environmental Protection Agency, Office of Water, to the States to create State Revolving Funds (SRF) 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 intermunicipal 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 of the total SRF loans, with the Federal share being 83.33 percent.

<u>Note 4 – Grant Project Descriptions</u>

<u>State Revolving Fund Loans</u>

Loan #L17-2128 was awarded to the District from the Illinois Environmental Protection Agency on May 24, 2004. The loan provides for the Dixmoor/Lansing Branch TARP Project #75-213-2H. The maximum SRF loan amount is $57,162,399. The maximum pass through federal funding is $47,633,427.

Schedule of Findings and Questioned Costs

Year ended December 31, 2006

SECTION I – SUMMARY OF AUDITOR'S RESULTS

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__No

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 programs:

U.S. Environmental Protection Agency

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

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

Auditee qualified as low-risk auditee? __X__Yes _____No

Year ended December 31, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

Item 2006 -1 - SAP System Security

The District is not adequately utilizing its Systems Applications and Products (SAP) system's security features.

During 2006 the District contracted with an outside consulting firm to review the security controls within the District's SAP system (accounting system). In a lengthy report issued in connection with the contractor's review of the Districts SAP security, numerous deficiencies were cited. The deficiencies included the following:

1. Certain users have been granted blanket authorizations allowing them the ability to execute every type of transaction.

2. Certain reports within human resources contain sensitive data (such as employee social security numbers and birth-dates) which could potentially be viewed by District staff with no need to view this data, resulting in the potential for identity theft and other problems.

3. Documentation guidelines for creating user authorizations and change control do not exist.

4. Certain critical areas do not adequately segregate duties, including Human Resources, Finance, IT and Security Administration.

The report received from the outside consultant contained 27 individual recommendations to correct the deficiencies noted above and improve District controls relating to the SAP system.

As a result of the report received from the outside consultant, the District's internal audit department conducted an audit to determine if SAP access rights were justified based on a user's job function and if duties within SAP were properly segregated in order to ensure the existence of adequate internal controls, privacy protection, and data integrity. As a result of the internal audit, 20 recommendations were identified.

A good system of internal control requires that the integrity of the District's information systems be maintained and that limitations and restrictions are in effect so that individuals are not able to approve or execute transactions that would impair the required segregation of duties.

Under the present system, certain employees could potentially record, alter, or delete information within SAP and such unauthorized activities would go undetected by the District.

We recommend the District implement a corrective action plan to address the deficiencies and related recommendations identified by the outside consultant and the internal audit staff. The corrective action plan should be specific as to the corrective action to be taken, the timeframe for completing the corrective actions, and the individuals and/or departments responsible for the individual corrective actions.

Management Response and Corrective Action Plan

Management agrees with the stated findings. Corrective action will be implemented primarily through the IT Department with management oversight, as follows:

1) On February 9, 2007, the District removed all users that had blanket authorization to execute every type of transaction.

2) Revision of reports containing sensitive data is currently in progress. Modifications of the data store have been completed as of April 13, 2007 in the Development System (DEV) and will be ready for testing on April 16, 2007. Final changes will be in production upon receipt of approval from the General Superintendent no later than the third quarter of 2007. Only authorized users will be allowed to view sensitive data.

3) Some documentation exists, but needs consolidation and updating in order to conform to audit standards. As of March, 2007, IT is in the process of engaging a consultant to assist in reviewing and updating the required documentation. Anticipated completion is December 31, 2007.

4) IT plans to address the need to review segregation of duties with the SAP Business Team and the SAP Security Oversight Team in the immediate future. A proposed timetable follows:

May 1, 2007	Department heads will be asked to review the segregation of duties issues within their own areas of responsibility. Reports will be issued to the departments to assist in the review.
June 1, 2007	Deadline for responses from departments.
June 1 - 29, 2007	An SAP Security Team will review the responses for conflicts. Items which cannot be resolved between Business teams will be forwarded to SAP Security Oversight Team.
July 1, 2007	Approved changes will be implemented by IT SAP Security staff.
Dec 31, 2007	Anticipated completion.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None