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

**Chicago, Illinois**



**For the Year Ended  
December 31, 2012**

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# I. INTRODUCTORY SECTION



*MWRD Commissioners and staff painted rain barrels with the assistance of 28 seventh grade students from Chicago's Gompers Fine Arts Option Elementary School at the John G. Shedd Aquarium. The event was designed to help educate the students and the public about the availability and benefits of rain barrels and to demonstrate the many possibilities for rain barrel design and ornamentation. The rain barrels were donated to Gompers School for continued water conservation efforts and education.*

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# **Metropolitan Water Reclamation District of Greater Chicago**

## **Board of Commissioners and Principal Officers**

### **Board of Commissioners:**

Honorable Barbara J. McGowan, Acting President  
Honorable Cynthia M. Santos, Chairman, Committee on Finance  
Honorable Michael A. Alvarez  
Honorable Frank Avila  
Honorable Kathleen Therese Meany  
Honorable Debra Shore  
Honorable Mariyana T. Spyropoulos  
Honorable Kari K. Steele  
Honorable Patrick Daley Thompson

### **Note: Effective January 3, 2013:**

Honorable Kathleen Therese Meany, President  
Honorable Barbara J. McGowan, Vice President  
Honorable Mariyana T. Spyropoulos, Chairman, Committee on Finance

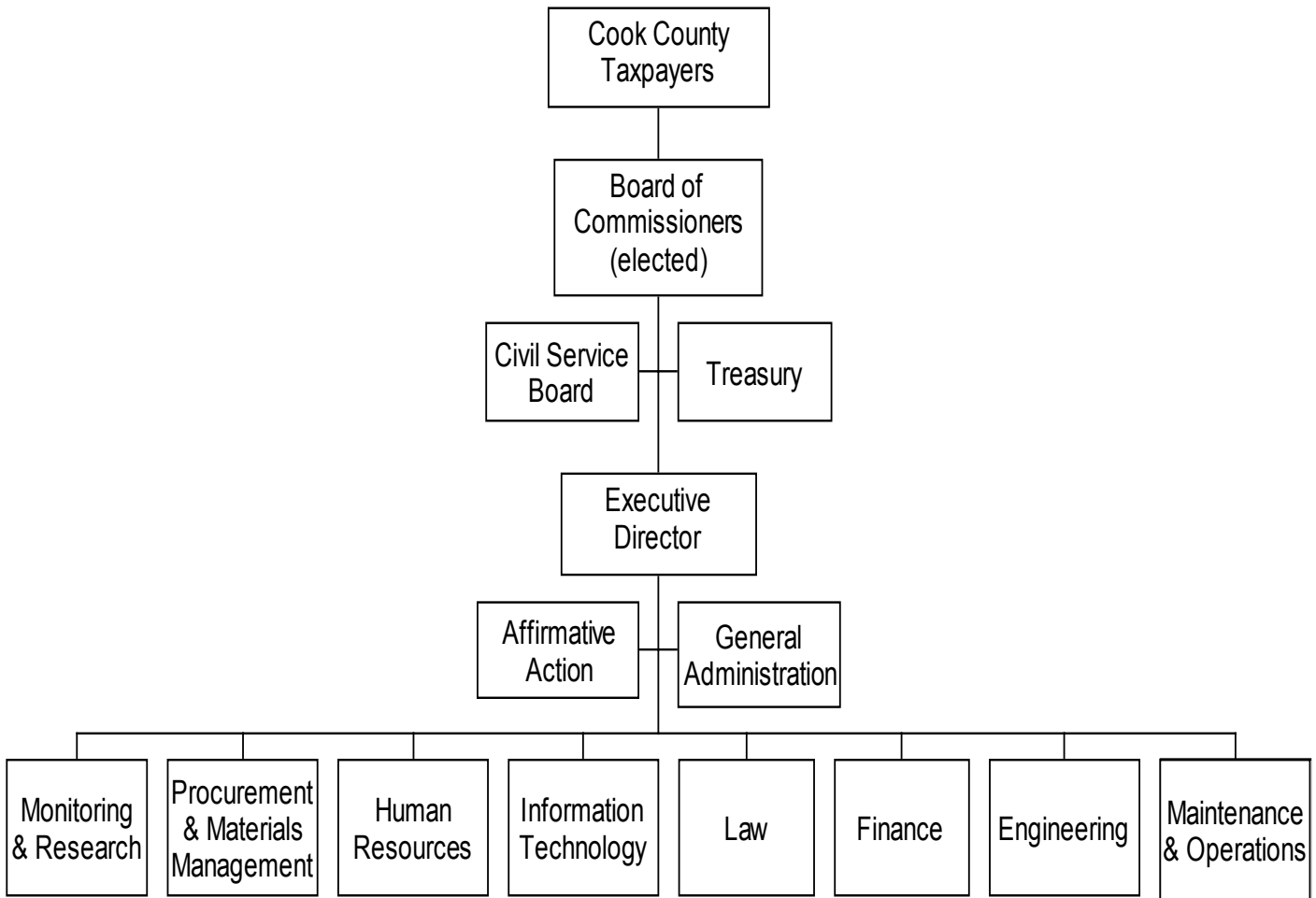
### **Principal Officers:**

David St. Pierre, Executive Director  
Mary Ann Boyle, Treasurer  
Thomas C. Granato, Director of Monitoring and Research  
Ronald M. Hill, General Counsel  
Denice E. Korcal, Director of Human Resources  
Darlene A. LoCascio, Director of Procurement and Materials Management  
Catherine A. O'Connor, Director of Engineering  
Manju Prakash Sharma, Director of Maintenance and Operations  
Jacqueline Torres, Clerk/Director of Finance  
Dharani Villivalam, Acting Director of Information Technology

**Main Office  
100 East Erie Street  
Chicago, Illinois 60611**

# Metropolitan Water Reclamation District of Greater Chicago

## Organization Chart



1,922 Budgeted  
Positions in 2012



**Metropolitan Water Reclamation District of Greater Chicago**

100 EAST ERIE STREET CHICAGO, ILLINOIS 60611-3154 312.751.5600

**KATHLEEN THERESE MEANY**

President

312.751.5646 f: 312.751.5763  
kathleen.meany@mwrdd.org

May 6, 2013

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

The Metropolitan Water Reclamation District of Greater Chicago (MWRD) is the leading environmental agency in Cook County. The nine-member elected Board of Commissioners has ensured the responsible management of the organization. The staff has ensured that the limited resources are managed in a way that maintains excellence in performance. Excellence in service delivery is non-negotiable. Maintaining facilities and ensuring responsible utility management is at the heart of everything we do. It is important for the MWRD to be recognized for the outstanding contributions we make to the Cook County community.

2012 has been an exciting year at the MWRD. The MWRD is on a good financial platform having addressed some major issues, from prioritizing the capital program to ensuring a solid pension funding strategy is in place. Our employee environment has been set on a solid platform through addressing our finances and looking at career paths and development opportunities for all employees. We took a major step forward in public relations, moving from a main program emphasis on presentations at schools to a proactive campaign using internet promotion of MWRD programs and activities. We have made a program shift in our future outlook to take on the environmental challenges we face moving forward on disinfection and nutrient removal goals. We are also directing our research group to take on the challenges and lead sewerage agencies into a resource recovery mode of operation.

The MWRD has long been the protector of our water resources. Yet, in today's current environment, it is important for the MWRD to lead sustainable efforts in every arena. We must focus on our carbon footprint and take efforts to reduce energy usage and seek out clean energy options. We must ensure that we institute sustainable practices in our everyday business. We must explore green infrastructure options for flood control and stormwater management. We must embrace advancing technology and learn to minimize our use of paper products. As the leading environmental organization, we must look at all aspects of the environment in every aspect of our business.

**Strategic Business Plan**

A strategic business plan has been prepared to map out the goals for the next several years that will ensure the MWRD's success in meeting its challenges. This plan developed strategies around four main goals. These goals are aimed at improving our financial, employee, public, and natural environments.

**Financial Stability**

One of the most important strategies in the plan was to change legislation to ensure the health of our retirement fund. The MWRD put together a bill to bring to legislators in Springfield. The Board of Commissioners supported this effort wholeheartedly making a trip to Springfield to ensure legislators understood the importance of our bill. Our lobbyist worked hard as well. This effort resulted in tremendous support. Our bill passed the Illinois House of Representatives unanimously and the Illinois Senate with only two "no" votes. The bill moved to the Governor's office where it was signed into law. This is a tremendous victory for all MWRD employees, ensuring retirement benefits as promised.

## Disinfection of Chicago Area Waterways System

The MWRD is facing a Consent Decree concerning the long-term control plan for combined sewer overflow compliance. There are new regulations requiring expansion of infrastructure and operations that the MWRD will need to finance and implement.

As a result of the Disinfection Task Force study, the capital cost for constructing ultraviolet irradiation (UV) disinfection facilities at the North Side WRP was reduced from \$108,800,000 to \$77,300,000, and the annual operation and maintenance costs estimate was reduced from \$4,830,000 to \$2,065,000. This was primarily due to the determination that a low lift pump station was not necessary, the selection of more efficient UV lamps, and the more appropriate selection of average and maximum treated flows. Similar results were achieved at the Calumet WRP, where a previous consultant engineering study recommended UV disinfection and estimated a capital construction cost of \$109,530,000 with annual operation and maintenance costs of \$4,520,000. However, the Disinfection Task Force study resulted in selection of chlorination/de-chlorination technology to disinfect the Calumet WRP effluent and estimated a capital construction cost of \$31,880,000 and annual operation and maintenance cost of \$3,554,000 due to more appropriate selection of the average treated flow and the determination that a low lift pump station was not necessary. Overall, this internal planning process will result in savings of \$181,240,000 on a 30-year net present value basis.

The Cook County community continues to raise its expectations of the Chicago Area Waterway System (CAWS) as a recreational development opportunity. With the completion of the stormwater watershed plans, the MWRD is moving into design and construction projects that will further relieve flooding throughout its service area. The MWRD will enhance sustainability of its operations and facilitate development of green infrastructure in the region.

### Capital Projects

By Statute, the MWRD may only borrow to its debt limit. Previous capital improvement plans would have pushed the MWRD to its borrowing limit by 2016, thereby reducing funding available for future capital projects. The Capital Improvement Program (CIP) was re-prioritized to produce a program that balances capital needs with available funding resources and keep the MWRD well below its statutory borrowing limit.

A model was developed that provides an estimate of the financing required to fund the CIP within the limits of the MWRD's statutory borrowing authority. The capital spending affordability plan requires the prioritization of projects to be financed at borrowing points that maximize the MWRD's borrowing efficiency and limit the increase to the annual levy to a manageable amount within Board of Commissioners' policy spending limits.

A prioritization plan has been developed and implemented for the 2012 budget. The plan takes on an accelerated schedule for disinfection, addresses priority plant upgrades, and makes room for nutrient removal processes that will improve water quality in the CAWS.

The cooperative approach by the Engineering, Maintenance and Operations, and Monitoring and Research departments in prioritizing projects not only accomplishes these goals but also ensures that the MWRD has capital to invest in infrastructure well into the future. This effort puts the MWRD in the driver's seat and ensures the continuance of excellent service to Cook County residents.

Carbon footprint, climate change, and providing a sustainable environment are at the forefront of the world stage. The MWRD has incorporated those values in its strategic plan. Green Infrastructure and the development of the CAWS for recreational opportunities are two of the issues at the center stage of discussion, and the MWRD should be front and center ensuring all interests are considered. No organization can stand alone in these issues. Instead, we must work together as a community in dedicated partnerships to address these world issues. Partnerships working in concert with developing responsible sustainable practices throughout our utility will allow us to take the lead in Cook County.

In conclusion, the MWRD is committed to continued excellence in improving the environment for the citizens of Cook County.

Respectfully submitted,

  
Kathleen Therese Meany  
President

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**Metropolitan Water Reclamation District of Greater Chicago**

**Multi-Year Awards**

**1975-2011**

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

**1993-2011**

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*

**1985-2012**

Government Finance Officers Association of the United States and Canada  
*Award for Distinguished Budget Presentation*

**2007-2011**

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

**2010-2011**

Chicago Public Schools  
*Certificate of Appreciation for providing outstanding work-based learning experiences for Chicago Public School Career and Technical Education students through participation in the Work-Based Learning Program*

**Individual Year Awards (partial listing)**

**2008**

Illinois Water Environment Association  
*Best Technical Presentation Award: Concerns about Endocrine Disrupting Chemicals in Land Applied Biosolids Media Hype or Reality?*

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewage Agencies  
*National Environmental Achievement Award in Public Information & Education - Education Program category for "Mission Possible: Educating People to Promote Beneficial Use of Biosolids"*

*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System, Gold Award for John E. Egan, Hanover Park, James C. Kirie and North Side Water Reclamation Plants*

*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System, Platinum Award for Stickney, Calumet and Lemont Water Reclamation Plants*

National Biosolids Partnership (Water Environment Federation and National Association of Clean Water Agencies)  
*Certificate of Achievement for meeting all the requirements for admittance and certification to the National Biosolids Partnership Environmental Management System Program*

The Waterfront Center  
*Excellence on the Waterfront Award for Sidestream Elevated Pool Aeration Project*

United States Environmental Protection Agency  
*Exemplary Biosolids Management Award - First Place in the Public Acceptance Category*

**2009**

Chicago Southland Convention and Visitor Bureau  
*Hospitality Award of Merit for outstanding work on behalf of the Calumet-Sag Trail*

National Association of Government Defined Contribution Administrators  
*Leadership Recognition Award of Distinction for National Save for Retirement Week Campaign*

# Metropolitan Water Reclamation District of Greater Chicago

## Individual Year Awards (continued)

### 2010

American Academy of Environmental Engineers  
*Excellence in Environmental Engineering Honor Award in Research for the Microbial Risk Assessment for Recreational Use of the Chicago Area Waterways*

American Council of Engineering Companies of Illinois  
*Special Achievement Award for the Calumet Isolation Chamber*

Illinois Society of Professional Engineers  
*Chicagoland Excellence in Engineering Project Award, Mechanical Division, for the Calumet Central Boiler Facility*

Illinois Water Environment Association  
*Best Technical Presentation Award: Protozoa as Indicators of Activated Sludge Treatment System Conditions*

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewage Agencies  
*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System, Gold Award for Hanover Park Water Reclamation Plant*

*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System, Platinum Award for John E. Egan, James C. Kirie, North Side, Stickney, Calumet and Lemont Water Reclamation Plants*

### 2011

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewage Agencies  
*NACWA Award for Compliance with National Pollutant Discharge Elimination System, Platinum Award for 20 concurrent years of full compliance for Calumet Water Reclamation Plant; Platinum Award for 15 concurrent years of full compliance for Stickney and Lemont Water Reclamation Plants; Platinum Award for 7 concurrent years of full compliance for James C. Kirie Water Reclamation Plant; and Platinum Award for 6 concurrent years of full compliance for North Side Water Reclamation Plant*

*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System, Gold Award for Hanover Park Water Reclamation Plant*

*NACWA Award for Compliance with National Pollutant Discharge Elimination System, Silver Award for John E. Egan Water Reclamation Plant*

Water Environment Federation  
*Thomas E. Kunetz, Assistant Director of Engineering, is a recipient of the Water Environment Federation's Fellows Recognition Program, which honors professional achievements, stature, and contributions to the water profession*

### 2012

American Academy of Environmental Engineers  
*Excellence in Environmental Engineering Grand Prize for the University Research for Chicago Health, Environmental Exposure, and Recreation Study (CHEERS)*

American Public Works Association  
*Thomas E. Kunetz, Assistant Director of Engineering, is the recipient of the Charles Walter Nichols Award for National Environmental Excellence, which recognizes outstanding and meritorious achievement in the environmental field*

*Chicago City Branch and Chicago Metro Chapter: Project of the Year in the Environmental \$25 to \$75 Million Category for the design of the Calumet Central Boiler Facility*

Federation of Women Contractors  
*Outstanding Program of the Year Award for the MWRD Affirmative Action Program*

# 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, 2011

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.



*Linda C. Davidson*

President

*Jeffrey R. Emswiler*

Executive Director

**Metropolitan Water Reclamation District of Greater Chicago**

100 EAST ERIE STREET

CHICAGO, ILLINOIS 60611-3154

312.751.5600

**JACQUELINE TORRES**

Clerk/Director of Finance

312.751.6500 f: 312.894.1104

[jacqueline.torres@mwr.org](mailto:jacqueline.torres@mwr.org)

May 6, 2013

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, 2012. The Statutes require that the Clerk/Director of Finance prepare and publish the financial statements and any other data necessary to reflect the true financial condition and operations of the Metropolitan Water Reclamation District of Greater Chicago, (the "District,") within six months of the close of each fiscal year.

The CAFR's basic financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) in the United States of America, promulgated by the Governmental Accounting Standards Board (GASB). In accordance with Chapter 70, ILCS 2605/5.12, of the Illinois Compiled Statutes, the District's basic financial statements for the period ended December 31, 2012, have been subject to an audit by independent accountants. The unmodified opinion of Baker Tilly Virchow Krause, 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 22 pumping stations that treat an average of 1.2 billion gallons of wastewater each day. The Central (Stickney) WRP is the largest plant in the world. The District controls approximately 76.1 miles of navigable waterways that serve as headwaters of the Illinois waterway system. Stringent federal and state standards require that the District's wastewater treatment processes keep the waterways free of pollution. The District monitors industries in Cook County to assure that hazardous substances not suitable for a sewer are disposed of in an environmentally responsible way that complies with applicable laws.



*The multi-award winning Metropolitan Water Reclamation District of Greater Chicago is headed by the Board of Commissioners who determine its policies. (Seated L to R) Vice President Barbara J. McGowan, President Kathleen Therese Meany, Chairman, Committee on Finance Mariyana T. Spyropoulos. (Standing L to R) Patrick Daley Thompson, Kari K. Steele, Frank Avila, Debra Shore, Cynthia M. Santos, Michael A. Alvarez.*

## REPORTING ENTITY

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

The District is a separate legal entity sharing an overlapping tax base with the City of Chicago, the Chicago Board of Education, the 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 \$173 million. This money will primarily be used in the rehabilitation of deteriorated District interceptors.

### *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, Calumet, Central (Stickney), and O'Brien 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 \$730 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 14), 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 has been operational since July of 2010.



*Anna Bak, Lab Tech I, works in the Solids lab at Stickney Water Reclamation Plant.*



*Commissioners Terrence J. O'Brien, Debra Shore and Mariyana T. Spyropoulos were joined by federal, state and local leaders to break ground on the Heritage Park Flood Control Facility in Wheeling, IL.*



*MWRD Supervising Civil Engineer Ed Staudacher explains hydro-electric power generators at Lace Elementary School in Darien on February 8th. Ed and Associate Civil Engineer Matt McGregor led the class through the construction of miniature electric generators.*



*MWRD Commissioners, staff and representatives from the University of Illinois-Chicago engineering department participated in a ribbon cutting ceremony to unveil a new sewerthermal heating and cooling system at the James C. Kirie Water Reclamation Plant in Des Plaines.*

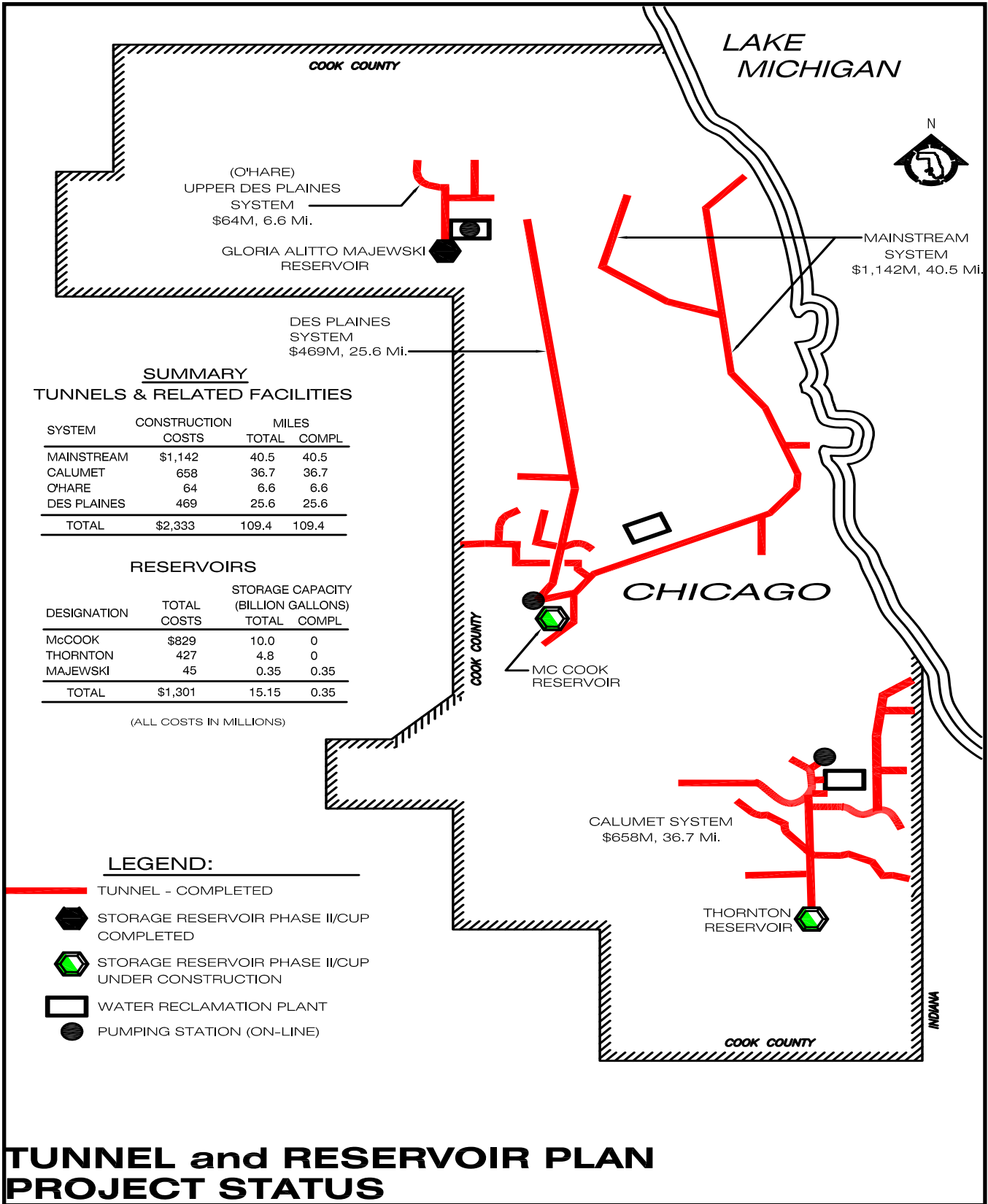
### ***Tunnel and Reservoir Plan – Phase I***

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 four tunnel systems that store polluted sewer overflows during wet weather. All 109.4 miles of Phase I tunnels have been constructed and are operational and the entire system has an approximate construction cost 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 Chicago’s rivers, including the quality of life for residents 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***

Phase II is the flood control segment of TARP and consists of three storage reservoirs to serve as outlets for combined sewer overflows (CSO’s). The three reservoirs – Gloria Alitto Majewski, Thornton, and McCook – will provide 15.2 billion combined gallons of storage for CSO’s that otherwise would spill into local waterways, degrading the water quality, and causing flooding. The District has executed Project Cooperation Agreements (PCAs) 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 cost sharing portion of the reservoir. The combined construction and land rights cost for all three reservoirs is estimated at \$1.3 billion, with the Corps and the District providing approximately \$769 million and \$532 million, respectively. The Gloria Alitto Majewski 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.



**SUMMARY  
TUNNELS & RELATED FACILITIES**





| SYSTEM       | CONSTRUCTION COSTS |              | MILES        |              |
|--------------|--------------------|--------------|--------------|--------------|
|              | TOTAL              | COMPL.       | TOTAL        | COMPL.       |
| MAINSTREAM   | \$1,142            | 40.5         | 40.5         | 40.5         |
| CALUMET      | 658                | 36.7         | 36.7         | 36.7         |
| O'HARE       | 64                 | 6.6          | 6.6          | 6.6          |
| DES PLAINES  | 469                | 25.6         | 25.6         | 25.6         |
| <b>TOTAL</b> | <b>\$2,333</b>     | <b>109.4</b> | <b>109.4</b> | <b>109.4</b> |

**RESERVOIRS**

| DESIGNATION              | TOTAL COSTS    |              | STORAGE CAPACITY (BILLION GALLONS) |             |
|--------------------------|----------------|--------------|------------------------------------|-------------|
|                          | TOTAL          | COMPL.       | TOTAL                              | COMPL.      |
| McC <small>OOK</small>   | \$829          | 10.0         | 0                                  | 0           |
| TH <small>ORNTON</small> | 427            | 4.8          | 0                                  | 0           |
| MA <small>JEWSKI</small> | 45             | 0.35         | 0.35                               | 0.35        |
| <b>TOTAL</b>             | <b>\$1,301</b> | <b>15.15</b> | <b>0.35</b>                        | <b>0.35</b> |

(ALL COSTS IN MILLIONS)

**LEGEND:**

- TUNNEL - COMPLETED
-  STORAGE RESERVOIR PHASE II/CUP COMPLETED
-  STORAGE RESERVOIR PHASE II/CUP UNDER CONSTRUCTION
-  WATER RECLAMATION PLANT
-  PUMPING STATION (ON-LINE)

**TUNNEL and RESERVOIR PLAN  
PROJECT STATUS**

Some construction contracts for the McCook Reservoir have been completed and others are currently in progress. The overburden removal for the McCook Reservoir has been substantially completed and mining began in March 2008. Mining of the North lobe of the Thornton Composite Reservoir began in 1998 and is on schedule to be completed in 2013. The Composite Reservoir will then be completed by 2015. The accompanying exhibit on page 19 shows the status and components of both phases of TARP.

### ***Stormwater Management***

The District has completed all six Detailed Watershed Plans (DWP), as the final two, the North Branch of the Chicago River and the Lower Des Plaines River watersheds, were finalized in early 2011. A total of 33 DWP identified capital improvement projects located throughout Cook County are in various stages of preliminary engineering and final design; nineteen of these projects will address critical streambank erosion and fourteen projects will address regional overbank flooding. Prior to completion of the DWPs, the District looked to fund flood control projects approved for funding by state and federal agencies such as the U.S. Army Corp of Engineers (Corps) and the Illinois Department of Natural Resources/Office of Water Resources. One such project, the Heritage Park Flood Control Facility, will provide the required storage for the Corps' Levee 37 project. Construction of the Heritage Park Flood Control Facility, which consists of a series of storage facilities to capture 49 million gallons of stormwater, will commence in early 2013.

The District is developing, through a stakeholder process, a Watershed Management Ordinance (WMO) in order to establish uniform, minimum stormwater regulations through Cook County. As a result of comments submitted during the public review period in 2009, the District initiated an Economic Impact Study (EIS). The EIS was completed in 2012. The District will work with the WMO Advisory Committee to review various aspects of the WMO with the intention of presenting it to the District's Board of Commissioners for consideration and adoption in 2013.

### ***Replacement and Maintenance of Facilities***

Many of the District's plants and interceptor sewers were placed in service over 50 years ago. In order to maintain continuous operations, the District has initiated a Master Plan to replace physically deteriorating facilities through rehabilitation, alteration or expansion. The cost for the Master Plan improvements is estimated to average \$60 million per year over the course of the next five years.

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 primary source of financing for construction projects is through the sale of Capital Improvement bonds. Additional funding is provided for qualified construction projects through the State Revolving Fund (SRF). The Water Quality Act Amendment of 1987 authorized the creation of State Revolving Funds. The Fund administered by the State of Illinois, provides loans to municipal agencies for their wastewater construction programs. These loans carry interest rates which are below general rates available in the municipal bond market. The SRF loans are repaid through issuance of IEPA Series Capital Improvement bonds, whose interest rates match the SRF loan rates. When available, federal and state grants may also provide partial funding of construction projects.

## **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. Annual budgets are prepared for the General Corporate, Construction, Capital Improvements Bond Fund, Stormwater, and Debt Service Fund.

## **BUDGET PROCESS (continued)**

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 Fund, and at the line item class level for the Capital Improvements Bond Fund. All budget-relevant transactions are tested for the sufficiency of available appropriation before any obligations resulting from purchase requisitions, purchase orders, or contracts are formally recognized, or payments resulting from payroll or other expenditures are released.

## **ECONOMIC BASE OUTLOOK**

The District's service area is sizeable, encompassing 98% of the assessed valuation of Cook County. The equalized assessed valuation of the District has experienced a 5.1% average growth rate over the last ten years and the current equalized assessed valuation of \$149,048,493,249 is 10.7% lower than the previous year. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels.

## **COMMITMENT TO SUSTAINABILITY**

The District is committed to developing initiatives that promote sustainability, which is to meet the needs of the present without compromising the ability of future generations to meet their own needs. The Triple Bottom Line approach aids to capture and expand the spectrum of values and criteria for measuring organizational success through sound economic, environmental and social decisions when appropriate. A core value of this evaluation is the concept of sustainability.

The District's strategy is to engage stakeholders to continue in its core mission to protect the quality of the water supply source and manage water as a vital resource while establishing goals and objectives to reduce the consumption of energy and resources used in carrying out its mission. Listed below are the District's major sustainable initiatives:

### ***Financial Sustainability Initiatives***

- Increase automation and consolidate staff to reduce future HR expense footprint.
- Evaluate business practices to maximize User Charge and Land Rental revenues and reduce program cost.
- Engage in full cost pricing and perform triple bottom line analysis for all engineering process system alternatives evaluations.
- Maintain reserve funds that allow flexibility and protection in a volatile financial environment.
- Internal audit and procedural review that ensures the integrity of financial information.
- Provide cost effective counsel, representation, litigation and real estate administrative services.
- Incorporate long-term budgetary planning.
- Utilize information technology to improve business processes through automation in workflow, eliminating unnecessary tasks, reducing errors, making business intelligence data more available for better decision making, and making performance measurements more visible.
- Participated in the Retiree Drug Subsidy Program, recouping \$952,050.
- Received a reimbursement of \$742,727 for participation in the Early Retiree Reinsurance Program (ERRP).
- Implemented an Employee Wellness Program in 2012 to help control health care costs.
- Conducted analysis regarding carve-out of pharmacy benefits to reduce the cost of prescription drug benefits.
- Initiated a comprehensive risk management program to protect the assets of the District and the safety of employees.

### ***Environmental Sustainability Initiatives***

- Continued to evaluate test installations of green infrastructure such as permeable pavement and sustainable streetscape to reduce stormwater inflow into the District's collection system, reduce energy utilization and improve water quality. This included side-by-side testing for evaluation of the long-term consequences of permeable concrete, permeable asphalt, and paver blocks.

## COMMITMENT TO SUSTAINABILITY (continued)

### *Environmental Sustainability Initiatives* (continued)

- Continued to develop a composted topsoil product from the District's biosolids that will reduce mining of natural soils to supply the urban topsoil market.
- Optimize utilization of biogas, a renewable energy source, through RFPs from outside parties for the Stickney and Calumet WRPs to determine the energy, economic, and environmental value of utilizing digester gas in various forms.
- Implement a nitrogen-treatment process for the centrate at the Egan WRP that will reduce energy demand.
- Develop a Green Infrastructure Program which will facilitate the planning, design and construction of multiple green infrastructure projects throughout Cook County in collaboration with a variety of stakeholders, including non-profit groups and municipalities.
- Collaborate with municipal and non-profit group applicants seeking state grant funding to implement stormwater best management practices and green infrastructure projects which propose to reduce stormwater inflow as well as reduce combined sewer overflows.
- Construct the Heritage Park Flood Control Facility, which will provide necessary compensatory storage for the USACE's Levee 37 project along the Des Plaines River. Sustainable elements such as native plantings, bioswales, natural streambank stabilization, and the addition of a riparian buffer area have been incorporated into the design.
- Implement the recommendations of the internal design guidance document for all new buildings constructed by the District which establishes all of the LEED® credits that are applicable to the industrial-type buildings constructed at District facilities.
- Develop rain gardens at our water reclamation plants, where applicable. Gutters from new building roofs and road gutters are directed to rain gardens or local landscaping, instead of into the plant drain.
- Require contractors to recycle construction and demolition debris.
- Ensure tenants do not contaminate land and continue remediation efforts to clean-up legacy pollutants from former tenants.
- Research renewable energies.
- Increase electronic filings and communications in lieu of paper and postal services to reduce future carbon footprint.
- Reduce District's vehicle fleet to reduce future carbon footprint.
- Reviewed alternatives and contractors' proposals to implement recovery of phosphorus from side streams and its beneficial reuse.
- Require installation of energy efficient T-8 lighting and premium efficiency motors with variable frequency drives, where applicable, on all new contracts.
- Installation of intermediate-sized blowers at Stickney and Calumet WRPs to enable turning off large blowers during certain times of the year, thus reducing electrical consumption.
- Experimenting with a thermal recovery system at the Kirie WRP to determine if it is practical to heat and cool the administration building using effluent water as the heat source/sink.
- Develop a guidebook on technologies for stormwater mitigation and storage that can be applied on a small scale so that in aggregate, a reduction of localized flooding can be accomplished on a neighborhood basis.
- Explore algal-capture technology as a means for nutrient removal from wastewater without chemicals.
- Making District IT infrastructure more efficient reduces the electricity needed to run computing and telecom equipment, the cooling needed to keep facilities at the right temperature, the energy used to build the systems, the resources consumed to build-out new facilities and the electronic waste that results from equipment disposal. Efficiencies contributing to environmental sustainability are being gained by reevaluating the use and deployment of servers, switches, desktop computing and office equipment, datacenters, satellite technology rooms, the use of green technologies such as server virtualization, teleconferencing and providing the ability for staff to work remotely.
- Recycling paper, aluminum cans, plastic bottles, and utilization of the Main Office Building cafeteria food waste for compost purposes has been implemented as part of the scavenger services purchase order.
- Pursuing Energy Star rating for the McMillan Pavilion in 2013 and the Main Office Building in 2014.

## COMMITMENT TO SUSTAINABILITY (continued)

### *Infrastructure Sustainability Initiatives*

- Continual improvement and maintenance of Asset Management.
- Utilize sustainable bio-engineered solutions, such as geolifts, rock vanes, and natural channel design, instead of traditional hard armoring for streambank stabilization projects wherever practicable. Wetland and habitat restoration, as well as other sustainable bioengineering measures, will be incorporated into the flood control projects where practicable.
- Utilize newer trenchless rehabilitation technologies and materials to reline deteriorated sewers and manholes; the amount of infiltration into the sewers is reduced. By keeping groundwater out of the sewer, it is allowed to recharge the local aquifers, rather than enter the sewer system and cause capacity limitations and additional expenditures to unnecessarily treat the flow at our water reclamation plants. These methods of sewer rehabilitation generally extend the service life of existing sewers by an additional 50 to 100 years, with minimal disruption to their surroundings.
- Employ e-learning for technical engineering and mandatory employee training.
- Explore opportunities for installation of green roofs during building re-roofing contracts.
- Conduct building inspections to identify opportunities to prolong the useful life of the structure and to incorporate energy efficiency technologies.
- Performed community outreach to 100 schools and community organizations informing them about District operations and programs to garner support for future initiatives.
- Administered an Online Employment Center that provides the District with a dynamic pool of potential job applicants for future job openings.

## FINANCIAL POLICIES

To protect the strong financial position of the District, ensure uninterrupted services, and stabilize annual tax levies, the Board of Commissioners adopted the following policies on December 21, 2006 to enhance and maintain budgetary fund balances. The General Corporate Fund policy was amended and the Stormwater Fund policy was adopted on December 10, 2009:

### *General Corporate Fund*

- Corporate Fund total fund balance as of January 1 of each budget year is to be kept between 12% and 15% of appropriations. The fund balance may be maintained by not fully appropriating prior year fund balances. This level of fund balance will ensure the District's ability to maintain all operations even in the event of unanticipated revenue shortfalls and provide time to adjust budget and operations.
- Corporate Working Cash Fund must be sufficient to finance 95% of the full annual expenditure of the Corporate Fund. This will be financed through transfers of surpluses from the Construction Working Cash Fund, direct tax levies, tax levy financed debt (Working Cash Bonds) and transfers of accumulated interest from other funds. This level of fund balance will continue financing the Corporate Fund in the event of the typical and extraordinary delays in second installment real estate tax collections.
- It is the intent of the Board of Commissioners to fund the Reserve Claim Fund to the maximum level permitted by statute, or 0.05% of the Equalized Assessed Valuation, whichever is economically feasible. This will be financed through tax levies at the maximum 0.5 cents per \$100 of equalized assessed valuation when economically feasible and prudent. This level of funding will protect the District in the event of catastrophic failure of District operational infrastructure or other claims. As the District is primarily self-insured, adequate reserves are critical.

## FINANCIAL POLICIES (continued)

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

### ***Stormwater Management Fund***

The maximum property tax levy of 5 cents per \$100 of equalized assessed valuation for the Stormwater Management Fund shall be allocated at a maximum two cents per \$100 of equalized assessed valuation to fund operations and maintenance and a maximum of three cents per \$100 of equalized assessed valuation to fund direct cash outflows for capital and capital expenditures and the interest and the redemption of general obligation bond issues for capital projects.

### ***Bond Redemption and Interest Funds Investment Income (Debt Service Fund)***

Fund balances in the Bond Redemption and Interest Funds that might accumulate due to investment income will be identified and used to abate Bond and Interest property tax levies or for other corporate purposes. These abatements appropriately reduce property tax levies by the amount earned on invested balances above what is necessary for paying principal and interest due over the following 12 months, while still maintaining appropriate fund balances and when not required for other corporate purposes. This policy and the subsequent tax abatements will assist in compliance with the Board of Commissioners' overall tax levy policy (not to exceed a 5% increase over prior year not including the Stormwater Management Fund tax levy).

### ***Abatement of Interest Rate Subsidies from Build American Bond Issuances***

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

### ***Capital Improvements Bond Fund Accumulated Income***

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

### ***Committed Fund Balance***

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

### ***Assigned Fund Balances***

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

### ***Accounting Policies of Fund Balance***

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



## 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, 2011. This was the 37th 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, 2012. 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 28 consecutive years.

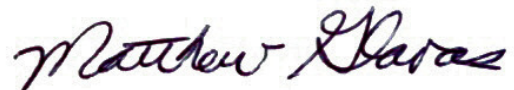
## ACKNOWLEDGMENTS

Preparation of this report reflects the combined efforts of the dedicated professional personnel of the operating and support Departments. Their expertise, enthusiasm, and unswerving focus on excellence are gratefully acknowledged. The Board of Commissioners and the general citizenry, in our opinion, may fully rely on the 2012 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  
Clerk/Director of Finance



Matthew Glavas  
Comptroller

Kathleen Therese Meany  
President

Barbara J. McGowan  
Vice President

Mariyana T. Spyropoulos  
Chairman of Finance

Michael A. Alvarez

Frank Avila

Cynthia M. Santos

Debra Shore

Kari K. Steele

Patrick D. Thompson

**Metropolitan Water Reclamation District of Greater Chicago**

100 EAST ERIE STREET

CHICAGO, ILLINOIS 60611-3154

312.751.5600

May 6, 2013

**STATEMENT OF RESPONSIBILITY**

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

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

- The statements fairly present the financial position and changes in financial position of the Metropolitan Water Reclamation District of Greater Chicago, and its component units, for the fiscal year ended December 31, 2012, 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).

Kathleen Therese Meany  
President

David St. Pierre  
Executive Director

Jacqueline Torres  
Clerk/Director of Finance

Matthew Glavas  
Comptroller

## II. FINANCIAL SECTION



*The Calumet-Sag Channel is seen from the edge of the second of five MWRD Sidestream Elevated Pool Aeration (SEPA) stations, located at 127th Street. The SEPA project was designed to replicate one of the most effective reclamation techniques - waterfalls - to add oxygen to water and improve water quality.*

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metropolitan Water Reclamation District Pension Trust Fund, which represent 86 percent, 88 percent and 64 percent, respectively, of the assets, equity and revenues of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Metropolitan Water Reclamation District Pension Trust Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

The District's financial statements include partial prior year comparative information. Such information does not include notes to the basic financial statements or management's discussion and analysis which are required to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2011 from which such partial information was derived.

### **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 District, as of December 31, 2012 and the respective changes in financial position, and the respective budgetary comparison for the General Corporate Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund statements and schedules as well as the other supplementary information 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund statements and schedules as well as the other supplementary information as listed in the table of contents are fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and the Statistical and Demographics Section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause LLP". The signature is written in a cursive, flowing style.

Madison, Wisconsin  
May 6, 2013

# **Management's Discussion and Analysis (MD&A) - Unaudited**

*Year ended December 31, 2012*

*Metropolitan Water Reclamation District of Greater Chicago*

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 years. A budgetary analysis of the District's General Corporate Fund is provided, as well as an analysis of capital assets and debt activity. Finally, the MD&A concludes with a discussion of issues that are expected to be significant to the District's finances.

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

## **2012 FINANCIAL HIGHLIGHTS**

- The District's total assets exceed liabilities by \$5,142,131,000. This increase can be attributed to the District's positive balance of \$4,514,633,000 in net investment in capital assets.
- The District's total net position increased by \$57,073,000 in 2012. The increase is primarily due to revenues exceeding expenditures and the District's new policy on cost containment.
- The District's combined fund balances for its governmental funds at December 31, 2012 totaled \$940,298,000 a decrease of \$107,861,000 from the prior year, as a result of not issuing general obligation bonds in 2012.
- The District's total liabilities decreased by \$17,209,000 in 2012 as a result of lower accrued interest and a decrease in the net OPEB Obligation estimated adjustment.

## **DISCUSSION OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

The Statements of Activities report the operating results of the District as a whole, presenting all revenues and expenses of the District as well as the change in net position. The Statements of Activities include revenues earned in the current fiscal year that will be received in future years, and expenses incurred for the current year that will be paid in future years (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

# Management's Discussion and Analysis (MD&A) - Unaudited

Year ended December 31, 2012

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 funds. The governmental funds are used to account for the day-to-day activities of the District, while the fiduciary funds account for employee pensions (Pension Trust Fund) and other post employment benefits (OPEB Trust Fund). The Governmental Funds Balance Sheets and Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances focus the reader's attention on the short-term financial position and results of operations, respectively, using the modified accrual basis of accounting. They also include 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 Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the net position available for future pension and OPEB benefits and the change in net position, respectively. The fiduciary financial statements utilize the accrual basis of accounting, similar to that used for the government-wide financial statements.

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

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

## KEY FINANCIAL COMPARISONS

**Property taxes.** The primary source of revenue for the District is ad valorem property taxes. All District funds, with the exception of the District's Capital Improvements Bond Fund, derive their revenues primarily from property taxes. In 2012, total property tax revenues decreased by \$21,816,000 in the District's statement of changes in net position. This was primarily due to dollars collected for prior year property taxes decreased in 2012.

**User Charges.** The District imposes user charges on industrial and commercial customers for treating their wastewater. These charges are based on the volume and strength of their effluent and are billed on a monthly basis. In 2012, total user charge revenues increased by \$11,853,000 as a result of prior years uncollected user charges being collected in 2012.

**Employee costs.** The District's employee-related expenditures are the largest single cost of the corporate fund comprising 65.8% of the total outlays for 2012. Employee costs are comprised of regular pay, overtime and health care premiums. The increase in employee costs of \$11,650,000 from the prior year can be attributed to an additional \$10,000,000 contribution to the OPEB Trust Fund.

**Energy costs.** A significant amount of the expenditures of the District represents energy costs, mainly electricity and gas. The District currently purchases electricity for its major facilities from a provider at a fixed rate. In 2012, energy costs in the General Corporate Fund's governmental fund financial statements decreased by \$16,007,000 due to conservation efforts and a reverse electricity auction that lowered the overall cost of electricity.



**OPEB Trust Fund costs.** In 2012 OPEB cost decreased by \$17,406,000 mainly due to the pre-funded contributions being in excess of the annual required contributions.

**Maintenance and Operations Expenses.** Maintenance and Operations expenditures were reduced by \$16,519,000 due to lower than expected rehabilitation, overhaul and preventative maintenance costs.

**ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A condensed comparison of the Statements of Net Position for December 31, 2012 and 2011, is presented in the following schedule (in thousands of dollars):

|                                  | <b>2012</b>  | <b>2011</b>  | <b>Increase<br/>(Decrease)</b> | <b>Percent<br/>Increase<br/>(Decrease)</b> |
|----------------------------------|--------------|--------------|--------------------------------|--|
| Assets:                          |              |              |                                |  |
| Current and other assets         | \$ 1,433,447 | \$ 1,561,368 | \$ (127,921)                   | (8.2)%                                     |
| Capital assets                   | 6,809,326    | 6,641,541    | 167,785                        | 2.5  |
| Total assets                     | 8,242,773    | 8,202,909    | 39,864                         | 0.5  |
| Liabilities:                     |              |              |                                |  |
| Current liabilities              | 131,567      | 154,402      | (22,835)                       | (14.8)                                     |
| Long-term liabilities            | 2,969,075    | 2,963,449    | 5,626                          | 0.2  |
| Total liabilities                | 3,100,642    | 3,117,851    | (17,209)                       | (0.6)                                      |
| Net Position:                    |              |              |                                |  |
| Net investment in capital assets | 4,514,633    | 4,506,544    | 8,089                          | 0.2  |
| Restricted                       | 628,504      | 631,991      | (3,487)                        | (0.6)                                      |
| Unrestricted (Deficit)           | (1,006)      | (53,477)     | 52,471                         | 98.1                                       |
| Total net position               | \$ 5,142,131 | \$ 5,085,058 | \$ 57,073                      | 1.1 %                                      |

The above schedule reports that the District's net position totaled \$5,142,131,000 at December 31, 2012, which represents the amount by which the District's assets exceed its liabilities. The largest portion of the position, \$4,514,633,000, represents the cost of the District's capital assets used to provide services to taxpayers, net of the related debt. These assets include land, buildings, equipment, and infrastructure, and they are not available for the District's future spending needs. Restricted net assets total \$628,504,000 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 portion of the unrestricted net position is a (\$1,006,000) net deficit, which represents the net position that has no external restriction as to use or purpose.

## Management's Discussion and Analysis (MD&A) - Unaudited

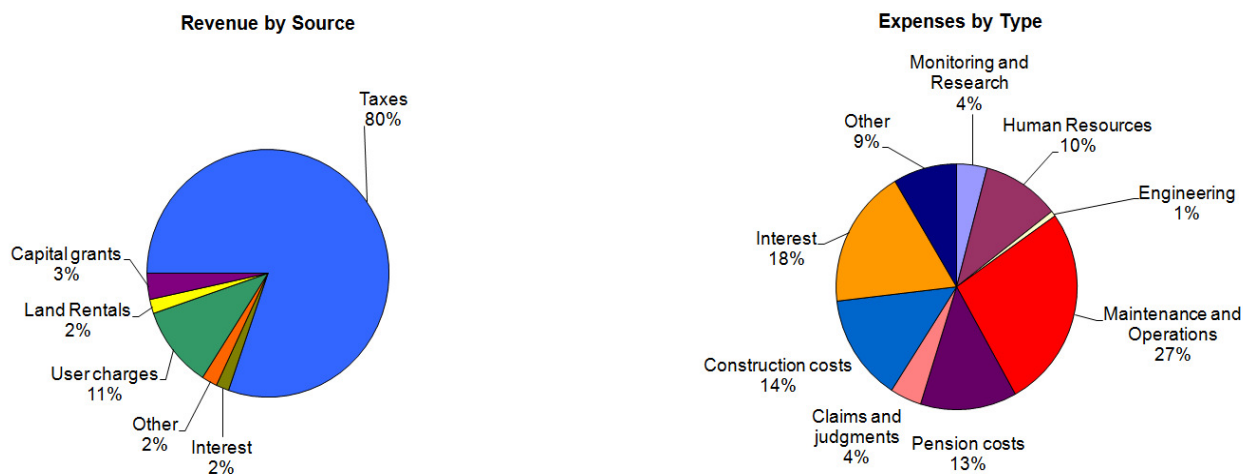
Year ended December 31, 2012

A comparison of the changes in net position resulting from the District's operations for the years ended December 31, 2012 and 2011, is presented in the following schedule (in thousands of dollars):

|                                       | 2012                | 2011                | Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|---------------------------------------|---------------------|---------------------|------------------------|-----------------------------------|
| <b>Revenues</b>                       |                     |                     |                        |                                   |
| General Revenues:                     |                     |                     |                        |                                   |
| Taxes                                 | \$ 521,921          | \$ 543,737          | \$ (21,816)            | (4.0) %                           |
| Interest                              | 11,123              | 13,156              | (2,033)                | (15.5)                            |
| Other                                 | 13,533              | 19,548              | (6,015)                | (30.8)                            |
| Program Revenues:                     |                     |                     |                        |                                   |
| User charges                          | 69,322              | 57,469              | 11,853                 | 20.6                              |
| Land rentals                          | 12,081              | 12,161              | (80)                   | (0.7)                             |
| Fees, forfeits, and penalties         | 3,353               | 3,279               | 74                     | 2.3                               |
| Capital grants                        | 22,164              | 17,218              | 4,946                  | 28.7                              |
| Total revenues                        | <u>653,497</u>      | <u>666,568</u>      | <u>(13,071)</u>        | (2.0)                             |
| <b>Expenses</b>                       |                     |                     |                        |                                   |
| Board of Commissioners                | 3,471               | 3,348               | 123                    | 3.7                               |
| General Administration                | 14,296              | 14,844              | (548)                  | (3.7)                             |
| Monitoring and Research               | 24,689              | 25,221              | (532)                  | (2.1)                             |
| Procurement and Materials Management  | 5,694               | 6,928               | (1,234)                | (17.8)                            |
| Human Resources                       | 63,103              | 47,683              | 15,420                 | 32.3                              |
| Information Technology                | 13,714              | 14,423              | (709)                  | (4.9)                             |
| Law                                   | 5,942               | 7,151               | (1,209)                | (16.9)                            |
| Finance                               | 3,175               | 2,962               | 213                    | 7.2                               |
| Engineering                           | 4,332               | 4,028               | 304                    | 7.5                               |
| Maintenance and Operations            | 161,919             | 178,438             | (16,519)               | (9.3)                             |
| Pension costs                         | 78,360              | 70,331              | 8,029                  | 11.4                              |
| OPEB Trust Fund costs                 | (7,155)             | 10,251              | (17,406)               | (169.8)                           |
| Claims and judgments                  | 25,738              | 25,488              | 250                    | 1.0                               |
| Construction costs                    | 75,496              | 84,240              | (8,744)                | (10.4)                            |
| Loss on disposal of capital assets    | 147                 | 95                  | 52                     | 54.7                              |
| Unallocated depreciation              | 12,459              | 12,235              | 224                    | 1.8                               |
| Interest                              | 111,044             | 101,760             | 9,284                  | 9.1                               |
| Total expenses                        | <u>596,424</u>      | <u>609,426</u>      | <u>(13,002)</u>        | (2.1)                             |
| Increase (decrease) in net position   | 57,073              | 57,142              | (69)                   | (0.1)                             |
| Total net position, beginning of year | 5,085,058           | 5,027,916           | 57,142                 | 1.1                               |
| Total net position, end of year       | <u>\$ 5,142,131</u> | <u>\$ 5,085,058</u> | <u>\$ 57,073</u>       | 1.1 %                             |

Total revenues decreased by \$13,071,000 in 2012, or 2.0% from the prior year while total expenses decreased by \$13,002,000 in 2012, or 1.2% from the prior year. The major reasons for the variances are detailed under "Key Financial Comparisons" on pages 32-33.

The following percentage charts show the major sources of revenue and expenses for the year ended December 31, 2012:



As previously discussed, the focus of the District’s governmental funds is on short-term inflows, outflows, and currently available resources. The emphasis in the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the governmental fund financial statements. For 2012, 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 Stormwater Management Fund.

The District ended the current fiscal year with combined governmental fund balances of \$940,298,000, a decrease of \$107,861,000 or 12.2%, over 2012. A total of \$39,467,000 of the fund balances represents non-spendable fund balances. Restricted fund balances totaled \$919,982,000 and the remaining deficit of (\$19,151,000) was unassigned.

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 \$364,502,000. The fund balance represented 120.2% 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 \$79,407,000 in the current year as a result of revenues exceeding expenditures. The District’s General Corporate Fund consists of the Corporate, Corporate Working Cash, and Reserve Claim Divisions, which are presented and explained in Note 1b on pages 57-58.

The General Corporate Fund ended the year with an unassigned fund balance deficit of (\$19,151,000) due to the required reserve claims restriction, non-spendable inventories, restricted working cash, as well as revenues exceeding expenditures.

## Management's Discussion and Analysis (MD&A) - Unaudited

Year ended December 31, 2012

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2012 and 2011, is shown in the following schedule (in thousands of dollars):

### General Corporate Fund Comparative Revenue Schedule

|                                       | 2012              |                | 2011              |                | Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|---------------------------------------|-------------------|----------------|-------------------|----------------|------------------------|-----------------------------------|
|                                       | Amount            | % of<br>Total  | Amount            | % of<br>Total  |                        |                                   |
| Revenues:                             |                   |                |                   |                |                        |                                   |
| Property taxes                        | \$ 257,656        | 67.1 %         | \$ 259,076        | 67.9 %         | \$ (1,420)             | (0.5)%                            |
| Personal property<br>replacement tax  | 27,093            | 7.1            | 27,119            | 7.1            | (26)                   | (0.1)                             |
| Total tax revenue                     | 284,749           | 74.2           | 286,195           | 75.0           | (1,446)                | (0.5)                             |
| Interest on investments               | 4,755             | 1.2            | 4,061             | 1.1            | 694                    | 17.1                              |
| Land sales                            | -                 | -              | 2,326             | 0.6            | (2,326)                | (100.0)                           |
| Tax increment financing distributions | 6,239             | 1.6            | 12,715            | 3.3            | (6,476)                | (50.9)                            |
| Claims and damage settlements         | 110               | 0.0            | 1,298             | 0.4            | (1,188)                | (91.5)                            |
| Government grants                     | 152               | 0.0            | 103               | 0.0            | 49                     | 47.6                              |
| Miscellaneous                         | 4,058             | 1.1            | 3,148             | 0.8            | 910                    | 28.9                              |
| User charges                          | 69,022            | 18.0           | 57,169            | 15.0           | 11,853                 | 20.7                              |
| Land rentals                          | 12,081            | 3.2            | 12,161            | 3.2            | (80)                   | (0.7)                             |
| Fees, forfeits, and penalties         | 2,575             | 0.7            | 2,311             | 0.6            | 264                    | 11.4                              |
| Total revenues                        | <u>\$ 383,741</u> | <u>100.0 %</u> | <u>\$ 381,487</u> | <u>100.0 %</u> | <u>\$ 2,254</u>        | <u>0.6 %</u>                      |

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments and rental income. In 2012, General Corporate Fund revenues totaled \$383,741,000, an increase of \$2,254,000, or 0.6%, from 2011. The major variances in revenues are previously explained under "Key Financial Comparisons" on pages 32-33.

A comparative analysis of the General Corporate Fund expenditures by object class for the years ended December 31, 2012 and 2011, is shown in the following schedule (in thousands of dollars):

### General Corporate Fund Comparative Expenditures Schedule

|                                | 2012              |                | 2011              |                | Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|--------------------------------|-------------------|----------------|-------------------|----------------|------------------------|-----------------------------------|
|                                | Amount            | % of<br>Total  | Amount            | % of<br>Total  |                        |                                   |
| Expenditures:                  |                   |                |                   |                |                        |                                   |
| Employee cost                  | \$ 199,466        | 65.8 %         | \$ 187,816        | 60.7 %         | \$ 11,650              | 6.2 %                             |
| Energy cost                    | 30,985            | 10.2           | 46,992            | 15.2           | (16,007)               | (34.1)                            |
| Chemicals                      | 6,725             | 2.2            | 6,067             | 2.0            | 658                    | 10.8                              |
| Solids disposal                | 12,220            | 4.0            | 9,082             | 2.9            | 3,138                  | 34.6                              |
| Repair to structures/equipment | 16,765            | 5.5            | 15,978            | 5.2            | 787                    | 4.9                               |
| Materials, parts & supplies    | 10,193            | 3.4            | 12,665            | 4.1            | (2,472)                | (19.5)                            |
| Machinery & equipment          | 1,081             | 0.3            | 780               | 0.3            | 301                    | 38.6                              |
| Claims and judgments           | 5,998             | 2.0            | 6,923             | 2.2            | (925)                  | (13.4)                            |
| All other                      | 19,901            | 6.6            | 22,873            | 7.4            | (2,972)                | (13.0)                            |
| Total expenditures             | <u>\$ 303,334</u> | <u>100.0 %</u> | <u>\$ 309,176</u> | <u>100.0 %</u> | <u>\$ (5,842)</u>      | <u>(1.9)%</u>                     |

In 2012, General Corporate Fund expenditures totaled \$303,334,000, an overall decrease of \$5,842,000, or 1.9%, from 2011. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2012, accounting for 76.0% of total expenditures versus 75.9% in 2011. The major variances in expenses are previously explained under “Key Financial Comparisons” on pages 32-33.

**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 \$136,173,000. The fund balance represented 73.3% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Fund decreased by \$1,044,000 in the current year, which represents the amount debt service costs exceeded revenues. The increase in the interest on bonds was primarily due to early redemption of callable bonds in 2012.

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 fund balance of the Construction Fund at the end of the current fiscal year totaled \$30,876,000 including restricted working cash of \$21,649,000. The fund balance for the Construction Fund decreased by \$2,578,000 due to an increase in construction costs in 2012.

The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled \$346,871,000. This amount will provide resources for the 2013 construction program. The fund balance represented 146.4% of the fund’s expenditures. The fund balance decrease of \$189,969,000 in the current year was a result of expenditures exceeding revenues by \$219,853,000, offset by net other financing sources of \$29,884,000. Revenues increased by \$3,543,000 as a result of increased federal grants, while expenditures decreased by \$87,304,000 due to fewer construction projects being awarded.

#### **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 2012 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 2012 budget and actual results at the appropriation line item level is presented in Combining and Individual Fund Statements and Schedules (Exhibit C-1).

## Management's Discussion and Analysis (MD&A) - Unaudited

Year ended December 31, 2012

A condensed summary of the 2012 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

|  | Budget     |            | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|--|------------|------------|-------------------|--|
|  | Original   | Final      |                   |  |
| Revenues:  |            |            |                   |  |
| Property and personal property replacement taxes | \$ 261,491 | \$ 261,491 | \$ 261,349        | \$ (142)   |
| Adjustment for working cash borrowing            | (4,906)    | (4,906)    | (4,906)           | -  |
| Adjustment for estimated tax collections         | -          | -          | 1,707             | 1,707  |
| Tax revenue available for current operations     | 256,585    | 256,585    | 258,150           | 1,565  |
| User charges                                     | 42,000     | 42,000     | 77,638            | 35,638   |
| Interest on investments                          | 2,700      | 2,700      | 3,362             | 662  |
| Tax increment financing distributions            | 925        | 925        | 6,331             | 5,406  |
| Land rentals                                     | 11,500     | 11,500     | 12,831            | 1,331  |
| Other  | 3,494      | 3,494      | 6,884             | 3,390  |
| Total revenues                                   | 317,204    | 317,204    | 365,196           | 47,992   |
| Operating expenditures:                          |            |            |                   |  |
| Board of Commissioners                           | 3,689      | 3,689      | 3,463             | 226  |
| General Administration                           | 16,116     | 16,046     | 13,887            | 2,159  |
| Monitoring and Research                          | 25,678     | 25,776     | 23,933            | 1,843  |
| Procurement and Materials Management             | 8,487      | 8,487      | 7,838             | 649  |
| Human Resources                                  | 65,670     | 65,740     | 63,078            | 2,662  |
| Information Technology                           | 17,357     | 17,357     | 13,205            | 4,152  |
| Law  | 7,680      | 7,680      | 5,933             | 1,747  |
| Finance  | 3,326      | 3,326      | 3,171             | 155  |
| Engineering                                      | 6,755      | 6,680      | 3,706             | 2,974  |
| Maintenance and Operations                       | 184,687    | 184,664    | 159,459           | 25,205   |
| Claims and judgments                             | 61,000     | 61,000     | 5,998             | 55,002   |
| Total expenditures                               | 400,445    | 400,445    | 303,671           | 96,774   |
| Revenues over (under) expenditures               | (83,241)   | (83,241)   | 61,525            | 144,766  |
| Fund balance at beginning of year                | 144,391    | 144,391    | 194,389           | 49,998   |
| Net assets available for future use              | (61,150)   | (61,150)   | -                 | 61,150   |
| Fund balance at beginning of year as adjusted    | 83,241     | 83,241     | 194,389           | 111,148  |
| Fund balance at end of the year                  | \$ -       | \$ -       | \$ 255,914        | \$ 255,914   |

Actual revenues on a budgetary basis for 2012 in the General Corporate Fund totaled \$365,196,000 or \$47,992,000 more than budgeted revenues, a 13.1% variation. Property taxes and personal property replacement taxes were \$1,565,000 more than the budget because of the adjustment for estimated tax collections over and above the working cash borrowings. User charge receipts were \$35,638,000 more than the budget due to a larger customer base and the settlement of prior years uncollected user charges being collected in 2012. Interest on investments had a \$662,000 positive variance over budget because of the increase in interest rates earned on investments in 2012. Land rentals were \$1,331,000 more than the budget due to the rental market starting to improve. All other revenues had an \$8,796,000 positive variance because of better-than-expected results for fines, and revenues from tax increment financing districts.

The 2012 General Corporate Fund final appropriation of \$400,445,000 did not change from the original amount. Actual budgetary expenditures totaled \$303,671,000, or 75.8%, of the total appropriation. The \$96,774,000 excess of appropriations over actual expenditures was primarily due to claims and judgments being \$55,002,000 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 \$25,205,000 below appropriations, mainly because of variances for electricity, chemicals, waste disposal costs, repairs, and repair parts. 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, 2012, amounted to \$6,809,326,000. Reportable capital assets, net of accumulated depreciation, for 2012 as compared to 2011 are as follows (in thousands of dollars):

|                            | 2012         | 2011         | Increase<br>(Decrease) | Percent<br>Increase<br>(Decrease) |
|----------------------------|--------------|--------------|------------------------|-----------------------------------|
| Land                       | \$ 129,584   | \$ 129,495   | \$ 89                  | 0.1 %                             |
| Permanent easements        | 1,330        | 1,330        | -                      | -                                 |
| Buildings                  | 7,910        | 8,095        | (185)                  | (2.3)                             |
| Machinery and equipment    | 29,429       | 31,197       | (1,768)                | (5.7)                             |
| Computer software          | 2,219        | 2,916        | (697)                  | (23.9)                            |
| Depreciable infrastructure | 1,708,099    | 1,719,699    | (11,600)               | (0.7)                             |
| Modified infrastructure    | 4,147,230    | 3,505,052    | 642,178                | 18.3                              |
| Construction in progress   | 783,525      | 1,243,757    | (460,232)              | (37.0)                            |
| Total                      | \$ 6,809,326 | \$ 6,641,541 | \$ 167,785             | 2.5 %                             |

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

- Total capital asset additions exceeded retirements and depreciation by \$167,785,000 in 2012.
- Construction in progress decreased by \$460,232,000 from 2011 to 2012 due to the completion of construction projects. Major projects in 2012 include the Thornton Composite Reservoir, Final Reservoir Preparation and Tollway Dam projects for \$69,415,000, the Stickney Sludge Thickening Facilities for \$32,749,000 and the 39th Street Conduit Rehabilitation Phase 1 Project for \$14,481,000.

In addition to the above, commitments totaling \$406,366,267 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

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

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Year ended December 31, 2012

The Kirie, Hanover, Egan, Central (Stickney), O'Brien, Calumet, Lemont, and Waterways network assets had their initial condition assessments completed between 2002 and 2006. The Egan and O'Brien networks each had its most recent condition assessment completed in 2010. The Kirie, Central (Stickney) and Waterways networks each had its most recent condition assessment completed in 2011. The Hanover, Calumet and Lemont networks each had its most recent condition assessment completed in 2012. (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, 2012, totaled \$ 2,969,075,000. The breakdown of this debt and changes from 2011 to 2012 are as follows (in thousands of dollars):

|                         | <u>2012</u>         | <u>2011</u>         | <u>Increase<br/>(Decrease)</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> |
|-------------------------|---------------------|---------------------|--------------------------------|--|
| Bonds payable, net      | \$ 2,576,682        | \$ 2,529,954        | \$ 46,728                      | 1.8 %                                      |
| Bond anticipation notes | 44,527              | 108,008             | (63,481)                       | (58.8)                                     |
| Claims payable          | 79,597              | 59,857              | 19,740                         | 33.0                                       |
| Compensated absences    | 28,356              | 28,784              | (428)                          | (1.5)                                      |
| Capital lease           | 49,837              | 51,784              | (1,947)                        | (3.8)                                      |
| Net OPEB obligation     | 69,425              | 76,580              | (7,155)                        | (9.3)                                      |
| Net Pension liability   | 120,651             | 108,482             | 12,169                         | 11.2                                       |
| Total                   | <u>\$ 2,969,075</u> | <u>\$ 2,963,449</u> | <u>\$ 5,626</u>                | 0.2 %                                      |

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

- Bonds payable, net, increased by \$46,728,000 in 2012 as a result of the issuance of debt.
- Bond anticipation notes decreased by \$63,481,000 in 2012 as a result of the issuance of \$54,884,000 in notes and the conversion of \$118,365,000 from bond anticipation notes to bonds.
- Claims payable increased by \$19,740,000 due to increases in general and construction claims.

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

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

In August 2011, Standard & Poor's Corporation changed the credit rating from AAA to AA+ for the District's pre-funding escrow related to the District's General Obligation Capital Improvement Bonds, Limited and Unlimited Tax Series of July, 2006. This rating change follows Standard & Poor's credit rating downgrade of the U.S. Government in 2011, which resulted in the downgrade of all pre-funded bonds secured by State and Local Government securities issued by the U.S. Treasury.



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

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

The amount of the District’s debt may not exceed 5.75% of the last published equalized assessed valuation of taxable real estate within the District, which was \$149,048,493,249 for the 2011 property tax levy. At December 31, 2012, the District’s statutory debt limit of \$8,570,288,000 exceeded the applicable net debt amount of \$2,651,499,000 by \$5,918,789,000.

The Illinois Compiled Statutes provide authorization for the funding of the District Capital Improvement Program by the issuance of non-referendum capital improvement bonds. Starting in 2003, bonds may be issued during any budget year in an amount not to exceed \$150 million (\$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. This limitation is not applicable to refunding bonds, money received from the Water Pollution Control Revolving Fund and obligations issued as part of the American Recovery and Reinvestment Act of 2009, issued prior to January 1, 2011, commonly known as “Build America Bonds”. Bonds authorized and unissued were \$350,000,000 for the budget year ended December 31, 2012.

The District has non-referendum bonding authority until the year 2024. When the Property Tax Extension Limitation Law was made applicable to Cook County, the legislature recognized that the completion of the Tunnel and Reservoir Plan (TARP) was such a high priority that it exempted TARP bonds from tax cap limits. In 2010, the Local Government Debt Reform Act was amended. The District’s debt service extension base for the 2012 levy year is \$152,038,464 (the “Debt Service Extension Base”), which can be increased each year by the lesser of 5% or the percentage increase in the Consumer Price Index (as defined in the Limitation Law). The Property Tax Extension Limitation Law has been amended so that the issuance of bonds by the District to construct TARP will not reduce the District’s ability to issue limited bonds for other major capital projects. The amount of outstanding non-referendum Capital Improvement Bonds may not exceed 3.35% of the last known equalized assessed valuation of taxable property within the District. At December 31, 2012, the District’s outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding State Revolving Fund bonds) of \$1,896,370,000 did not exceed the limitation of \$4,993,125,000.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2012, are indicated in the following schedule (in millions of dollars):

**Capital Improvement and Refunding Bonds  
Outstanding and Remaining Authorization**

| <u>Year of Issue</u>                              | <u>Total</u> | <u>Capital<br/>Improvement</u> | <u>Refunding</u> |
|---|--------------|--------------------------------|------------------|
| 2002  | 17           | 17                             | -                |
| 2006  | 497          | 100                            | 397              |
| 2007  | 382          | -                              | 382              |
| 2009  | 600          | 600                            | -                |
| 2011  | 400          | 400                            | -                |
| Total bonds outstanding at December 31, 2012      | 1,896        | \$ 1,117                       | \$ 779           |
| Remaining bond authorization at December 31, 2012 | 3,097        |                                |                  |
| Total bond authorization at December 31, 2012     | \$ 4,993     |                                |                  |

# Management's Discussion and Analysis (MD&A) - Unaudited

Year ended December 31, 2012

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, 2012, the District's remaining Corporate Working Cash Fund bond authorization is \$298,177,000.

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

## ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT

The equalized assessed valuation of the District has experienced a 5.1% average growth rate over the last ten years although the current equalized assessed valuation of \$149,048,493,249 is 10.7% lower than the previous year. The Cook County Assessor's office is in the process of gauging the impact of housing price declines and foreclosures on property values, which may result in decreased valuations in the next reassessment. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels. The boundaries of the District encompass 91% of the land area of Cook County. The District is located in one of the strongest and economically diverse geographical areas of Cook County. The area's economy is beginning to slowly emerge and recover from the impact of the recession. Unemployment for the Chicago-Naperville-Joliet Metropolitan Division decreased to a seasonally adjusted rate of 8.8% for 2012 from 9.8% a year earlier. Employment, tourism, manufacturing, and the commercial and residential real estate markets have rebounded in 2012 and this trend is expected to continue through most, if not all, of 2013.

**Corporate Fund.** The Corporate Fund is the District's general operating fund and includes appropriation requests for all the day-to-day operational costs anticipated for 2013. The total appropriation for the Corporate Fund in 2013 is \$383.6 million, an increase of \$44.2 million, or 13.0 percent from 2012. The increase in appropriation is primarily due to the reclassification of 217 positions from the Construction Fund and Capital Improvements Bond Fund to the Corporate Fund and to increased funding of the OPEB Trust.

The 2013 tax levy for the Corporate Fund is \$224.1 million, a decrease of \$13.1 million or 5.5 percent compared to the 2012 Adjusted Budget. It is the District's intent over the next few years to reduce, then maintain the fund balance, or net assets appropriable for the Corporate Fund in the \$46 to \$57 million range. This fund balance level balances the competing imperatives of minimizing the annual levy and providing for unexpected shortfalls in revenues.

Continuing through 2013, economically sensitive non-property tax revenues, such as interest income, are expected to remain stagnant based on forecasted local and national economic indicators.

Property taxes and user charges are the primary funding sources for the District's Corporate Fund. Illinois law limits the tax rate of this fund to 41 cents per \$100 of equalized assessed valuation. The estimated tax rate for the Corporate Fund in 2013 is 15.04 cents a decrease of 0.87 cents from 2012 as adjusted. User charges are collected from industrial, commercial, and non-profit organizations to recover operations, maintenance, and replacement costs proportional to their sewage discharges, in excess of property taxes collected. The major categories of payers: chemical manufacturers, food processors, and government services, are generally expected to maintain their recent level of discharges.

**Stormwater Management Fund.** The Stormwater Management Fund was established by Public Act 93-1049 on January 1, 2005. This fund accounts for tax levies and other revenue to be used for stormwater management activities throughout all of Cook County, including areas that currently lie outside the District's boundaries. Public Act 94-474 authorized the creation and use of a Stormwater Management Working Cash Fund for the sole purpose of providing temporary loans to the Stormwater Management Fund in anticipation of tax collections.

The fund consolidates the stormwater management activities of the Engineering and Maintenance & Operations Departments.

The Stormwater Management Fund appropriation for 2013 totals \$61.3 million, an increase of \$10.3 million or 20.1 percent from the 2012 Adjusted Budget.

Detailed Watershed Plans (DWP) have been developed for the watersheds in Cook County. Potential projects from the completed plans are prioritized on a countywide basis with the final selection of specific projects for implementation by the Board of Commissioners. Two categories have been established for DWP projects. The first category is streambank stabilization, which involves addressing critical active streambank erosion threatening public safety, structures, and/or infrastructure. The second category of projects addresses regional overbank flooding. The selected projects constitute the Stormwater Capital Improvement Program, and will be scheduled according to funding availability. Prior to DWP completion, the District considered funding regional flood control projects studied by other agencies. The Heritage Park Flood Control Facility is one such project.

The Heritage Park Flood Control Facility project was awarded in 2012. The project will provide regional benefits and has been studied by regional agencies such as the Illinois Department of Natural Resources/Office of Water Resources and the United States Army Corps of Engineers. The project will provide the required compensatory storage for the United States Army Corp of Engineer's Levee 37 project along the Des Plaines River. In 1999, the United States Army Corps of Engineers approved a study for the Upper Des Plaines River from the Wisconsin/Illinois state line to Riverside, Illinois. Known as the Des Plaines River Phase 1 Study, its purpose is to identify solutions to flooding along the main stem of the river. Subsequently, the District began negotiations with the Wheeling Park District and the Village of Wheeling for the use of Heritage Park in Wheeling as the site of the compensatory storage required for Levee 37. The District entered into an intergovernmental agreement with the Wheeling Park District and the Village of Wheeling on April 1, 2010 and final design of the Heritage Park Flood Control Facility commenced shortly thereafter. Final design was completed in 2011 and construction commenced in 2012.

The Board of Commissioners granted authority in 2011 for the establishment of a Green Infrastructure, which will facilitate the planning, design, and construction of multiple green infrastructure projects throughout Cook County in partnership with a variety of stakeholders.

Property taxes are the primary funding source for the District's Stormwater Management Fund. Illinois law limits the tax rate of this fund to 5 cents per \$100 of equalized assessed valuation. The estimated tax rate for the Stormwater Management Fund in 2013 is 1.34 cents, which is no change from 2012 as adjusted.

**Capital Improvement Program: Construction Fund and Capital Improvements Bond Fund.** The District's overall Capital Program includes 2012 project awards, land acquisition, support, future projects, and projects under construction, with a total cost of approximately \$2.6 billion. Capital projects involve the acquisition, improvement, replacement, remodeling, completing, altering, constructing, and enlarging of District facilities. Included are all fixtures which are permanently attached to and made a part of such structures and non-structural improvements, and which cannot be removed without, in some way, impairing the facility or structure.

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

The District utilizes two funds for its Capital program, the Construction Fund and the Capital Improvements Bond Fund. The Construction Fund is utilized as a "pay as you go" capital rehabilitation and modernization program. Capital projects are financed by a tax levy sufficient to pay for project costs as they are constructed. As the District replaces, rehabilitates, and modernizes aged and less effective infrastructure, capital projects are assigned to the Corporate, Construction, or Capital

## Management's Discussion and Analysis (MD&A) - Unaudited

*Year ended December 31, 2012*

Improvements Bond Fund based on the nature of the project, dollar magnitude, and useful life of the improvement. The Construction Fund is used for operations related projects, where the useful life of the improvement is less than 20 years or when the values are less than \$0.5 million dollars.

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

The 1995 Tax Extension Limitation Law (Tax Cap), and subsequent amendments to the bill, dramatically impacted the methods of financing the Capital Improvements Bond Fund. The original legislation required, in general, that all new debt be approved by referendum. However, an exemption for projects initiated before October 1, 1991 was granted to the District to enable completion of the Tunnel and Reservoir Plan (TARP). The bill was later amended to establish a "debt extension base," which allowed local governments, with non-referendum authority, to continue to issue non-referendum debt in terms of "limited bonds," as long as their annual debt service levies did not exceed 1994 levels. This law was further amended in 1997 to exclude TARP project debt from this debt service extension base. The passage of legislation in 1997 allowing for expanded authority to issue "limited bonds" by excluding pre-existing TARP projects provides additional financing flexibility to proceed with our capital program. In 2009, a further modification to the law allows the debt extension base to increase annually by the Consumer Price Index or five percent, whichever is less. These changes allow the District to effectively utilize "limited bonds" as a source of financing.

**Construction Fund.** The Construction fund appropriation for 2013 totals \$40.8 million, an increase of \$7.0 million or 20.8 percent from the 2012 Adjusted Budget.

Beginning in 2002, the budgeting of Engineering Department staff working on capital projects was split between the Construction Fund and the Capital Improvements Bond Fund. For 2013, positions budgeted in both capital funds were transferred to the Corporate Fund along with personnel-related costs such as health care.

Capital projects in the Construction Fund are primarily supported by property taxes and thus subject to the Tax Cap. The 2013 tax levy planned for the Construction Fund is \$11.1 million, a decrease of \$9.3 million or 45.7 percent from the 2012 Adjusted Levy.

**Capital Improvements Bond Fund.** The 2013 appropriation for the Capital Improvements Bond Fund is \$349.6 million, an increase of \$44.1 million or 14.4 percent from the 2012 Adjusted Budget. The appropriation is based on the scheduled award of \$278.3 million in projects. Capital Improvements Bond Fund projects scheduled for award in 2013 with estimated award values consist of seven plant expansion and improvement projects at \$152.9 million; four collection projects at \$93.2 million; and one facilities replacement project at \$32.2 million.

The decrease in appropriation for the Capital Improvements Bond Fund of \$44.1 million reflects the pattern in the award of major projects. An appropriation for the open value of existing contracts is also carried forward from the prior year.

The remaining \$71.3 million appropriation for this fund will provide for studies, services, and supplies to support District design and administration of proposed and ongoing construction activity, including the TARP reservoirs. A comprehensive narrative, and exhibits detailing our entire CIP, is provided in the Capital Budget (Section V), of this budget document.

A listing and description of proposed projects, and projects under construction, scheduled for 2013, can be found in the Capital Budget (Section V), of the 2013 Budget document.

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

The Board adopted staff's policy recommendation on July 13, 2006, to establish an irrevocable trust for funding the future liability with the following operating parameters:

- 50 percent funded level target;
- 50 years to reach funding level;
- An initial investment mixture of 50 percent equities and 50 percent bonds with a maximum limit of 65 percent equities that allows for investment growth.

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

In 2006, the District proposed state legislation to give authority to establish an OPEB trust. Public Act 95-394 became effective on August 23, 2007. Since inception, the District has budgeted and transferred a total of \$72 million into the OPEB trust fund. The District contributed \$22 million in 2012 to reach that level. Total net position was \$86,102,000 as of December 31, 2012. The accumulated unfunded OPEB obligation was estimated at approximately \$340 million at both December 31, 2012 and December 31, 2011.

**Organized Labor.** The District has six collective bargaining agreements that cover fifteen unions and include approximately 768 of the District's employees for purposes of determining wages and benefits. Three-year successor agreements were negotiated with all bargaining units in 2011 and will expire in 2014.

**Retirement Fund.** In 2008, the state legislature granted authority that would allow the Board of Commissioners to transfer interest earned to the MWRD Retirement Fund.

On August 3, 2012 Governor Quinn signed House Bill 4513, now Public Act 97-0894, into law. Employer contributions will increase from \$2.19 for each employee dollar contributed two years prior to the lesser \$4.19 for each employee dollar contributed or the actuarially determined contribution requirement. The employee contributions for tier 1 employees (those hired before January 1, 2011) will increase 1% each year for the next 3 years beginning January 1, 2013, increasing the contribution rate from the current 9% to 12%. The employee contributions will remain at 12% until the funded ratio reaches 90% then the contribution rate will be reduced to 9%.

#### **REQUESTS FOR ADDITIONAL INFORMATION**

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

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# **BASIC FINANCIAL STATEMENTS**

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

Year ended December 31, 2012  
(with comparative amounts for prior year)

|  | General<br>Corporate Fund        |                   | Debt Service<br>Fund |                   | Capital Improvements<br>Bond Fund |                   |
|--|----------------------------------|-------------------|----------------------|-------------------|-----------------------------------|-------------------|
|  | 2012                             | 2011              | 2012                 | 2011              | 2012                              | 2011              |
|  | <i>(in thousands of dollars)</i> |                   |                      |                   |                                   |                   |
| <b>Assets</b>  |                                  |                   |                      |                   |                                   |                   |
| Cash   | \$ 11,903                        | \$ 6,209          | \$ 1,893             | \$ 221            | \$ 10,996                         | \$ 15,764         |
| Certificates of deposit (note 4)                         | 3,006                            | 17,457            | 3,503                | 2,505             | 49,200                            | 33,766            |
| Investments (note 4)                                     | 297,608                          | 215,735           | 99,889               | 111,618           | 316,157                           | 505,219           |
| Taxes receivable, net (note 5)                           | 235,839                          | 243,084           | 178,482              | 163,708           | -                                 | -                 |
| Other receivables, net (note 5)                          | 2,934                            | 12,721            | 1,001                | 1,001             | 14,072                            | 41,338            |
| Due from other funds (note 12)                           | 1,004                            | 904               | -                    | -                 | -                                 | -                 |
| Inventories  | 39,467                           | 38,922            | -                    | -                 | -                                 | -                 |
| Restricted cash - real estate escrow                     | 2,018                            | 1,967             | -                    | -                 | -                                 | -                 |
| Capital assets not being depreciated/amortized (note 6)  | -                                | -                 | -                    | -                 | -                                 | -                 |
| Capital assets being depreciated/amortized, net (note 6) | -                                | -                 | -                    | -                 | -                                 | -                 |
| Total assets   | <u>\$ 593,779</u>                | <u>\$ 536,999</u> | <u>\$ 284,768</u>    | <u>\$ 279,053</u> | <u>\$ 390,425</u>                 | <u>\$ 596,087</u> |
| <b>Liabilities, Fund Balances / Net Position</b>         |                                  |                   |                      |                   |                                   |                   |
| Liabilities:   |                                  |                   |                      |                   |                                   |                   |
| Deferred tax revenue (note 5)                            | \$ 194,980                       | \$ 212,630        | \$ 147,594           | \$ 140,835        | \$ -                              | \$ -              |
| Other deferred/unearned revenue (note 5)                 | 3,111                            | 2,546             | 1,001                | 1,001             | -                                 | -                 |
| Accounts payable and other liabilities (note 5)          | 31,186                           | 36,728            | -                    | -                 | 42,798                            | 58,543            |
| Due to Pension Trust Fund (note 12)                      | -                                | -                 | -                    | -                 | -                                 | -                 |
| Due to other funds (note 12)                             | -                                | -                 | -                    | -                 | 756                               | 704               |
| Accrued interest payable                                 | -                                | -                 | -                    | -                 | -                                 | -                 |
| Long-term liabilities: (note 11)                         |                                  |                   |                      |                   |                                   |                   |
| Due within one year                                      | -                                | -                 | -                    | -                 | -                                 | -                 |
| Due in more than one year                                | -                                | -                 | -                    | -                 | -                                 | -                 |
| Total liabilities  | <u>229,277</u>                   | <u>251,904</u>    | <u>148,595</u>       | <u>141,836</u>    | <u>43,554</u>                     | <u>59,247</u>     |
| Fund balances/net position                               |                                  |                   |                      |                   |                                   |                   |
| Fund balances:   |                                  |                   |                      |                   |                                   |                   |
| Nonspendable:  |                                  |                   |                      |                   |                                   |                   |
| Inventories  | 39,467                           | 38,922            | -                    | -                 | -                                 | -                 |
| Restricted for:  |                                  |                   |                      |                   |                                   |                   |
| Real estate escrow                                       | 2,018                            | 1,967             | -                    | -                 | -                                 | -                 |
| Working cash   | 277,006                          | 277,270           | -                    | -                 | -                                 | -                 |
| Reserve claims   | 65,162                           | 63,161            | -                    | -                 | -                                 | -                 |
| Debt service   | -                                | -                 | 136,173              | 137,217           | -                                 | -                 |
| Capital projects   | -                                | -                 | -                    | -                 | 346,871                           | 536,840           |
| Unassigned (Deficit)                                     | (19,151)                         | (96,225)          | -                    | -                 | -                                 | -                 |
| Total fund balances                                      | <u>364,502</u>                   | <u>285,095</u>    | <u>136,173</u>       | <u>137,217</u>    | <u>346,871</u>                    | <u>536,840</u>    |
| Total liabilities and fund balances                      | <u>\$ 593,779</u>                | <u>\$ 536,999</u> | <u>\$ 284,768</u>    | <u>\$ 279,053</u> | <u>\$ 390,425</u>                 | <u>\$ 596,087</u> |
| Net position:  |                                  |                   |                      |                   |                                   |                   |
| Net investment in capital assets                         |                                  |                   |                      |                   |                                   |                   |
| Restricted for corporate working cash                    |                                  |                   |                      |                   |                                   |                   |
| Restricted for reserve claim                             |                                  |                   |                      |                   |                                   |                   |
| Restricted for debt service                              |                                  |                   |                      |                   |                                   |                   |
| Restricted for capital projects                          |                                  |                   |                      |                   |                                   |                   |
| Restricted for construction working cash                 |                                  |                   |                      |                   |                                   |                   |
| Restricted for stormwater working cash                   |                                  |                   |                      |                   |                                   |                   |
| Unrestricted (Deficit)                                   |                                  |                   |                      |                   |                                   |                   |
| Total net position                                       |                                  |                   |                      |                   |                                   |                   |

See accompanying notes to the basic financial statements.



*Metropolitan Water Reclamation District of Greater Chicago*

| Construction Fund |                  | Other Governmental / Nonmajor Funds |                   | Total Governmental Activities |                     | Adjustments (Note 2a) |                     | Statements of Net Position |                     |
|-------------------|------------------|-------------------------------------|-------------------|-------------------------------|---------------------|-----------------------|---------------------|----------------------------|---------------------|
| 2012              | 2011             | 2012                                | 2011              | 2012                          | 2011                | 2012                  | 2011                | 2012                       | 2011                |
| \$ 97             | \$ 3,005         | \$ 1,191                            | \$ 3,059          | \$ 26,080                     | \$ 28,258           | \$ -                  | \$ -                | \$ 26,080                  | \$ 28,258           |
| 501               | 3,410            | 1,001                               | 2,507             | 57,211                        | 59,645              | -                     | -                   | 57,211                     | 59,645              |
| 31,080            | 28,017           | 58,958                              | 49,049            | 803,692                       | 909,638             | -                     | -                   | 803,692                    | 909,638             |
| 19,703            | 4,632            | 52,203                              | 55,709            | 486,227                       | 467,133             | -                     | -                   | 486,227                    | 467,133             |
| 745               | 745              | -                                   | -                 | 18,752                        | 55,805              | -                     | -                   | 18,752                     | 55,805              |
| -                 | -                | -                                   | -                 | 1,004                         | 904                 | (1,004)               | (904)               | -                          | -                   |
| -                 | -                | -                                   | -                 | 39,467                        | 38,922              | -                     | -                   | 39,467                     | 38,922              |
| -                 | -                | -                                   | -                 | 2,018                         | 1,967               | -                     | -                   | 2,018                      | 1,967               |
| -                 | -                | -                                   | -                 | -                             | -                   | 5,061,669             | 4,879,634           | 5,061,669                  | 4,879,634           |
| -                 | -                | -                                   | -                 | -                             | -                   | 1,747,657             | 1,761,907           | 1,747,657                  | 1,761,907           |
| <u>\$ 52,126</u>  | <u>\$ 39,809</u> | <u>\$ 113,353</u>                   | <u>\$ 110,324</u> | <u>\$ 1,434,451</u>           | <u>\$ 1,562,272</u> | <u>\$ 6,808,322</u>   | <u>\$ 6,640,637</u> | <u>\$ 8,242,773</u>        | <u>\$ 8,202,909</u> |
| <br>              |                  |                                     |                   |                               |                     |                       |                     |                            |                     |
| \$ 16,357         | \$ 3,981         | \$ 38,646                           | \$ 44,021         | \$ 397,577                    | \$ 401,467          | \$ (397,577)          | \$ (401,467)        | \$ -                       | \$ -                |
| 745               | 745              | -                                   | -                 | 4,857                         | 4,292               | (1,742)               | (1,745)             | 3,115                      | 2,547               |
| 4,062             | 1,542            | 2,496                               | 1,956             | 80,542                        | 98,769              | -                     | -                   | 80,542                     | 98,769              |
| -                 | -                | 10,173                              | 8,681             | 10,173                        | 8,681               | 22,730                | 23,771              | 32,903                     | 32,452              |
| 86                | 87               | 162                                 | 113               | 1,004                         | 904                 | (1,004)               | (904)               | -                          | -                   |
| -                 | -                | -                                   | -                 | -                             | -                   | 15,007                | 20,634              | 15,007                     | 20,634              |
| -                 | -                | -                                   | -                 | -                             | -                   | 148,656               | 91,236              | 148,656                    | 91,236              |
| -                 | -                | -                                   | -                 | -                             | -                   | 2,820,419             | 2,872,213           | 2,820,419                  | 2,872,213           |
| <u>21,250</u>     | <u>6,355</u>     | <u>51,477</u>                       | <u>54,771</u>     | <u>494,153</u>                | <u>514,113</u>      | <u>2,606,489</u>      | <u>2,603,738</u>    | <u>3,100,642</u>           | <u>3,117,851</u>    |
| <br>              |                  |                                     |                   |                               |                     |                       |                     |                            |                     |
| -                 | -                | -                                   | -                 | 39,467                        | 38,922              | (39,467)              | (38,922)            |                            |                     |
| -                 | -                | -                                   | -                 | 2,018                         | 1,967               | (2,018)               | (1,967)             |                            |                     |
| 21,649            | 21,611           | 37,737                              | 39,573            | 336,392                       | 338,454             | (336,392)             | (338,454)           |                            |                     |
| -                 | -                | -                                   | -                 | 65,162                        | 63,161              | (65,162)              | (63,161)            |                            |                     |
| -                 | -                | -                                   | -                 | 136,173                       | 137,217             | (136,173)             | (137,217)           |                            |                     |
| 9,227             | 11,843           | 24,139                              | 15,980            | 380,237                       | 564,663             | (380,237)             | (564,663)           |                            |                     |
| -                 | -                | -                                   | -                 | (19,151)                      | (96,225)            | 19,151                | 96,225              |                            |                     |
| <u>30,876</u>     | <u>33,454</u>    | <u>61,876</u>                       | <u>55,553</u>     | <u>940,298</u>                | <u>1,048,159</u>    | <u>(940,298)</u>      | <u>(1,048,159)</u>  |                            |                     |
| <u>\$ 52,126</u>  | <u>\$ 39,809</u> | <u>\$ 113,353</u>                   | <u>\$ 110,324</u> | <u>\$ 1,434,451</u>           | <u>\$ 1,562,272</u> |                       |                     |                            |                     |
|                   |                  |                                     |                   |                               |                     | 4,514,633             | 4,506,544           | 4,514,633                  | 4,506,544           |
|                   |                  |                                     |                   |                               |                     | 277,006               | 277,270             | 277,006                    | 277,270             |
|                   |                  |                                     |                   |                               |                     | 4,524                 | 6,211               | 4,524                      | 6,211               |
|                   |                  |                                     |                   |                               |                     | 268,760               | 257,418             | 268,760                    | 257,418             |
|                   |                  |                                     |                   |                               |                     | 18,828                | 29,908              | 18,828                     | 29,908              |
|                   |                  |                                     |                   |                               |                     | 21,649                | 21,611              | 21,649                     | 21,611              |
|                   |                  |                                     |                   |                               |                     | 37,737                | 39,573              | 37,737                     | 39,573              |
|                   |                  |                                     |                   |                               |                     | (1,006)               | (53,477)            | (1,006)                    | (53,477)            |
|                   |                  |                                     |                   |                               |                     | <u>\$ 5,142,131</u>   | <u>\$ 5,085,058</u> | <u>\$ 5,142,131</u>        | <u>\$ 5,085,058</u> |

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

Year ended December 31, 2012  
(with comparative amounts for prior year)

|   | General        |                | Debt Service   |                | Capital Improvements |                |
|---|----------------|----------------|----------------|----------------|----------------------|----------------|
|   | Corporate Fund |                | Fund           |                | Bond Fund            |                |
|   | 2012           | 2011           | 2012           | 2011           | 2012                 | 2011           |
| (in thousands of dollars)   |                |                |                |                |                      |                |
| <b>Revenues</b>   |                |                |                |                |                      |                |
| General revenues:   |                |                |                |                |                      |                |
| Property taxes  | \$ 257,656     | \$ 259,076     | \$ 173,803     | \$ 170,854     | \$ -                 | \$ -           |
| Personal property replacement tax                                     | 27,093         | 27,119         | -              | -              | -                    | -              |
| Interest on investments   | 4,755          | 4,061          | 996            | 1,013          | 4,004                | 6,793          |
| Land sales  | -              | 2,326          | -              | -              | -                    | -              |
| Tax increment financing distributions                                 | 6,239          | 12,715         | -              | -              | -                    | -              |
| Claims and damage settlements   | 110            | 1,298          | -              | -              | 1,362                | -              |
| Miscellaneous   | 4,058          | 3,148          | 9              | 21             | 1,754                | 1,681          |
| Gain on sale of capital assets  | -              | -              | -              | -              | -                    | -              |
| Program revenues:   |                |                |                |                |                      |                |
| Charges for services:   |                |                |                |                |                      |                |
| User charges  | 69,022         | 57,169         | -              | -              | -                    | -              |
| Land rentals  | 12,081         | 12,161         | -              | -              | -                    | -              |
| Fees, forfeits, and penalties   | 2,575          | 2,311          | -              | -              | -                    | -              |
| Capital grants and contributions:                                     |                |                |                |                |                      |                |
| Federal and state grants  | 152            | 103            | 12,012         | 12,012         | 10,000               | 5,103          |
| <b>Total revenues</b>   | <b>383,741</b> | <b>381,487</b> | <b>186,820</b> | <b>183,900</b> | <b>17,120</b>        | <b>13,577</b>  |
| <b>Expenditures/Expenses</b>  |                |                |                |                |                      |                |
| Operations:   |                |                |                |                |                      |                |
| Board of Commissioners  | 3,463          | 3,344          | -              | -              | -                    | -              |
| General Administration  | 13,877         | 14,332         | -              | -              | -                    | -              |
| Monitoring and Research   | 24,495         | 25,084         | -              | -              | -                    | -              |
| Procurement and Materials Management                                  | 5,698          | 6,949          | -              | -              | -                    | -              |
| Human Resources   | 63,105         | 47,710         | -              | -              | -                    | -              |
| Information Technology  | 13,167         | 13,820         | -              | -              | -                    | -              |
| Law   | 5,942          | 7,166          | -              | -              | -                    | -              |
| Finance   | 3,172          | 2,965          | -              | -              | -                    | -              |
| Engineering   | 3,229          | 2,975          | -              | -              | -                    | -              |
| Maintenance and Operations  | 161,188        | 177,908        | -              | -              | -                    | -              |
| Pension costs   | -              | -              | -              | -              | -                    | -              |
| OPEB costs  | -              | -              | -              | -              | -                    | -              |
| Claims and judgments  | 5,998          | 6,923          | -              | -              | -                    | -              |
| Construction costs  | -              | -              | -              | -              | 232,583              | 317,688        |
| Loss on disposal of capital assets                                    | -              | -              | -              | -              | -                    | -              |
| Depreciation and amortization (unallocated)                           | -              | -              | -              | -              | -                    | -              |
| Debt service:   |                |                |                |                |                      |                |
| Redemption of bonds and capital lease                                 | -              | -              | 69,453         | 62,208         | 1,947                | 1,904          |
| Interest on bonds and issuance costs                                  | -              | -              | 116,411        | 93,330         | 2,443                | 4,685          |
| <b>Total expenditures/expenses</b>                                    | <b>303,334</b> | <b>309,176</b> | <b>185,864</b> | <b>155,538</b> | <b>236,973</b>       | <b>324,277</b> |
| Revenues over (under) expenditures                                    | 80,407         | 72,311         | 956            | 28,362         | (219,853)            | (310,700)      |
| Other financing sources (uses):                                       |                |                |                |                |                      |                |
| Payment to escrow agent   | -              | -              | -              | -              | -                    | -              |
| State revolving fund loans  | -              | -              | -              | -              | 54,884               | 78,481         |
| Bond anticipation notes converted                                     | -              | -              | -              | -              | 118,365              | 166,698        |
| Bond anticipation notes refunded                                      | -              | -              | -              | -              | (118,365)            | (166,698)      |
| Issuance of bonds   | -              | -              | -              | -              | -                    | 400,000        |
| Premium on sale of bonds  | -              | -              | -              | -              | -                    | 37,344         |
| Transfers   | (1,000)        | 8,000          | (2,000)        | (2,200)        | (25,000)             | -              |
| <b>Total other financing sources (uses)</b>                           | <b>(1,000)</b> | <b>8,000</b>   | <b>(2,000)</b> | <b>(2,200)</b> | <b>29,884</b>        | <b>515,825</b> |
| Revenues and other financing sources (uses) over (under) expenditures | 79,407         | 80,311         | (1,044)        | 26,162         | (189,969)            | 205,125        |
| Change in net position  | -              | -              | -              | -              | -                    | -              |
| Fund balances/net position:   |                |                |                |                |                      |                |
| Beginning of the year   | 285,095        | 204,784        | 137,217        | 111,055        | 536,840              | 331,715        |
| End of the year   | \$ 364,502     | \$ 285,095     | \$ 136,173     | \$ 137,217     | \$ 346,871           | \$ 536,840     |

See accompanying notes to the basic financial statements.

*Metropolitan Water Reclamation District of Greater Chicago*

| Construction Fund |                  | Other Governmental / Nonmajor Funds |                  | Total Governmental Activities |                     | Adjustments (Note 2b) |                  | Statements of Activities |                     |
|-------------------|------------------|-------------------------------------|------------------|-------------------------------|---------------------|-----------------------|------------------|--------------------------|---------------------|
| 2012              | 2011             | 2012                                | 2011             | 2012                          | 2011                | 2012                  | 2011             | 2012                     | 2011                |
| \$ 4,535          | \$ 8,872         | \$ 53,174                           | \$ 53,949        | \$ 489,168                    | \$ 492,751          | \$ (2,852)            | \$ 14,137        | \$ 486,316               | \$ 506,888          |
| 1,193             | 1,532            | 7,319                               | 8,198            | 35,605                        | 36,849              | -                     | -                | 35,605                   | 36,849              |
| 563               | 458              | 805                                 | 831              | 11,123                        | 13,156              | -                     | -                | 11,123                   | 13,156              |
| -                 | -                | -                                   | -                | -                             | 2,326               | -                     | (2,326)          | -                        | -                   |
| -                 | -                | -                                   | -                | 6,239                         | 12,715              | -                     | -                | 6,239                    | 12,715              |
| -                 | -                | -                                   | -                | 1,472                         | 1,298               | -                     | -                | 1,472                    | 1,298               |
| -                 | 1                | 1                                   | 8                | 5,822                         | 4,859               | -                     | -                | 5,822                    | 4,859               |
| -                 | -                | -                                   | -                | -                             | -                   | -                     | 676              | -                        | 676                 |
| 300               | 300              | -                                   | -                | 69,322                        | 57,469              | -                     | -                | 69,322                   | 57,469              |
| -                 | -                | -                                   | -                | 12,081                        | 12,161              | -                     | -                | 12,081                   | 12,161              |
| 774               | 158              | 4                                   | 65               | 3,353                         | 2,534               | -                     | 745              | 3,353                    | 3,279               |
| -                 | -                | -                                   | -                | 22,164                        | 17,218              | -                     | -                | 22,164                   | 17,218              |
| <u>7,365</u>      | <u>11,321</u>    | <u>61,303</u>                       | <u>63,051</u>    | <u>656,349</u>                | <u>653,336</u>      | <u>(2,852)</u>        | <u>13,232</u>    | <u>653,497</u>           | <u>666,568</u>      |
| -                 | -                | -                                   | -                | 3,463                         | 3,344               | 8                     | 4                | 3,471                    | 3,348               |
| -                 | -                | -                                   | -                | 13,877                        | 14,332              | 419                   | 512              | 14,296                   | 14,844              |
| -                 | -                | -                                   | -                | 24,495                        | 25,084              | 194                   | 137              | 24,689                   | 25,221              |
| -                 | -                | -                                   | -                | 5,698                         | 6,949               | (4)                   | (21)             | 5,694                    | 6,928               |
| -                 | -                | -                                   | -                | 63,105                        | 47,710              | (2)                   | (27)             | 63,103                   | 47,683              |
| -                 | -                | -                                   | -                | 13,167                        | 13,820              | 547                   | 603              | 13,714                   | 14,423              |
| -                 | -                | -                                   | -                | 5,942                         | 7,166               | -                     | (15)             | 5,942                    | 7,151               |
| -                 | -                | -                                   | -                | 3,172                         | 2,965               | 3                     | (3)              | 3,175                    | 2,962               |
| -                 | -                | -                                   | -                | 3,229                         | 2,975               | 1,103                 | 1,053            | 4,332                    | 4,028               |
| -                 | -                | -                                   | -                | 161,188                       | 177,908             | 731                   | 530              | 161,919                  | 178,438             |
| -                 | -                | 66,191                              | 36,635           | 66,191                        | 36,635              | 12,169                | 33,696           | 78,360                   | 70,331              |
| -                 | -                | -                                   | -                | -                             | -                   | (7,155)               | 10,251           | (7,155)                  | 10,251              |
| -                 | -                | -                                   | -                | 5,998                         | 6,923               | 19,740                | 18,565           | 25,738                   | 25,488              |
| 9,943             | 6,392            | 16,789                              | 12,971           | 259,315                       | 337,051             | (183,819)             | (252,811)        | 75,496                   | 84,240              |
| -                 | -                | -                                   | -                | -                             | -                   | 147                   | 95               | 147                      | 95                  |
| -                 | -                | -                                   | -                | -                             | -                   | 12,459                | 12,235           | 12,459                   | 12,235              |
| -                 | -                | -                                   | -                | 71,400                        | 64,112              | (71,400)              | (64,112)         | -                        | -                   |
| -                 | -                | -                                   | -                | 118,854                       | 98,015              | (7,810)               | 3,745            | 111,044                  | 101,760             |
| <u>9,943</u>      | <u>6,392</u>     | <u>82,980</u>                       | <u>49,606</u>    | <u>819,094</u>                | <u>844,989</u>      | <u>(222,670)</u>      | <u>(235,563)</u> | <u>596,424</u>           | <u>609,426</u>      |
| <u>(2,578)</u>    | <u>4,929</u>     | <u>(21,677)</u>                     | <u>13,445</u>    | <u>(162,745)</u>              | <u>(191,653)</u>    | <u>219,818</u>        | <u>248,795</u>   |                          |                     |
| -                 | -                | -                                   | (253)            | -                             | (253)               | -                     | 253              | -                        | -                   |
| -                 | -                | -                                   | -                | 54,884                        | 78,481              | (54,884)              | (78,481)         | -                        | -                   |
| -                 | -                | -                                   | -                | 118,365                       | 166,698             | (118,365)             | (166,698)        | -                        | -                   |
| -                 | -                | -                                   | -                | (118,365)                     | (166,698)           | 118,365               | 166,698          | -                        | -                   |
| -                 | -                | -                                   | -                | -                             | 400,000             | -                     | (400,000)        | -                        | -                   |
| -                 | -                | -                                   | -                | -                             | 37,344              | -                     | (37,344)         | -                        | -                   |
| -                 | (5,800)          | 28,000                              | -                | -                             | -                   | -                     | -                | -                        | -                   |
| -                 | <u>(5,800)</u>   | <u>28,000</u>                       | <u>(253)</u>     | <u>54,884</u>                 | <u>515,572</u>      | <u>(54,884)</u>       | <u>(515,572)</u> | <u>-</u>                 | <u>-</u>            |
| (2,578)           | (871)            | 6,323                               | 13,192           | (107,861)                     | 323,919             | 107,861               | (323,919)        | -                        | -                   |
| -                 | -                | -                                   | -                | -                             | -                   | 57,073                | 57,142           | 57,073                   | 57,142              |
| 33,454            | 34,325           | 55,553                              | 42,361           | 1,048,159                     | 724,240             | -                     | -                | 5,085,058                | 5,027,916           |
| <u>\$ 30,876</u>  | <u>\$ 33,454</u> | <u>\$ 61,876</u>                    | <u>\$ 55,553</u> | <u>\$ 940,298</u>             | <u>\$ 1,048,159</u> | <u>\$ -</u>           | <u>\$ -</u>      | <u>\$ 5,142,131</u>      | <u>\$ 5,085,058</u> |

**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, 2012

(in thousands of dollars)

|  | Budget     |            | Actual<br>Amounts | Actual<br>Variance<br>With Final<br>Budget -<br>Positive<br>(Negative) |
|--|------------|------------|-------------------|--|
|  | Original   | Final      |                   |  |
| Revenues:  |            |            |                   |  |
| Property taxes:                                    |            |            |                   |  |
| Gross levy   | \$ 237,193 | \$ 237,193 | \$ 237,193        | \$ -   |
| Allowance for uncollectible taxes                  | (8,302)    | (8,302)    | (8,302)           | -  |
| Net property tax levy                              | 228,891    | 228,891    | 228,891           | -  |
| Property tax collections                           | 3,085      | 3,085      | 3,214             | 129  |
| Personal property replacement tax:                 |            |            |                   |  |
| Entitlement  | 26,215     | 26,215     | 26,215            | -  |
| Collections  | 3,300      | 3,300      | 3,029             | (271)  |
| Total tax revenue                                  | 261,491    | 261,491    | 261,349           | (142)  |
| Adjustment for working cash borrowing              | (4,906)    | (4,906)    | (4,906)           | -  |
| Adjustment for estimated tax collections           | -          | -          | 1,707             | 1,707  |
| Tax revenue available for current operation        | 256,585    | 256,585    | 258,150           | 1,565  |
| Interest on investments                            | 2,700      | 2,700      | 3,362             | 662  |
| Land sales   | 2          | 2          | -                 | (2)  |
| Tax increment financing distributions              | 925        | 925        | 6,331             | 5,406  |
| Claims and damage settlements                      | -          | -          | 26                | 26   |
| Miscellaneous                                      | 3,490      | 3,490      | 6,834             | 3,344  |
| User charges                                       | 42,000     | 42,000     | 77,638            | 35,638   |
| Land rentals                                       | 11,500     | 11,500     | 12,831            | 1,331  |
| Fees, forfeits, and penalties                      | 2          | 2          | 24                | 22   |
| Total revenues                                     | 317,204    | 317,204    | 365,196           | 47,992   |
| Expenditures:                                      |            |            |                   |  |
| Board of Commissioners                             | 3,689      | 3,689      | 3,463             | 226  |
| General Administration                             | 16,116     | 16,046     | 13,887            | 2,159  |
| Monitoring and Research                            | 25,678     | 25,776     | 23,933            | 1,843  |
| Procurement and Materials Management               | 8,487      | 8,487      | 7,838             | 649  |
| Human Resources                                    | 65,670     | 65,740     | 63,078            | 2,662  |
| Information Technology                             | 17,357     | 17,357     | 13,205            | 4,152  |
| Law  | 7,680      | 7,680      | 5,933             | 1,747  |
| Finance  | 3,326      | 3,326      | 3,171             | 155  |
| Engineering  | 6,755      | 6,680      | 3,706             | 2,974  |
| Maintenance and Operations                         | 184,687    | 184,664    | 159,459           | 25,205   |
| Claims and judgments                               | 61,000     | 61,000     | 5,998             | 55,002   |
| Total expenditures                                 | 400,445    | 400,445    | 303,671           | 96,774   |
| Revenues over (under) expenditures                 | (83,241)   | (83,241)   | 61,525            | 144,766  |
| Fund balances at beginning of year                 | 144,391    | 144,391    | 194,389           | 49,998   |
| Net assets available for future use                | (61,150)   | (61,150)   | -                 | 61,150   |
| Fund balances at beginning of the year as adjusted | 83,241     | 83,241     | 194,389           | 111,148  |
| Fund balances at end of year                       | \$ -       | \$ -       | \$ 255,914        | \$ 255,914   |

See accompanying notes to the basic financial statements.

**Exhibit A-4**  
**Pension and Other Post Employment Benefits Trust Funds**  
**Statements of Fiduciary Net Position**

December 31, 2012

(with comparative amounts for prior year)

(in thousands of dollars)

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| <u>Assets</u>  |                     |                     |
| Cash   | \$ 2,274            | \$ 1,505            |
| Receivables  |                     |                     |
| Employer contributions-taxes (net of allowance for uncollectibles of \$4,402 in 2012; \$4,568 in 2011) | 34,761              | 34,362              |
| Securities sold  | 5,264               | 9,411               |
| Forward foreign exchange contracts   | 20,077              | 15,095              |
| Accrued interest and dividends   | 2,305               | 1,268               |
| Accounts receivable  | 49                  | 34                  |
| Total receivables  | <u>62,456</u>       | <u>60,170</u>       |
| Investments at fair value  |                     |                     |
| Corporate bonds and notes  | 167,027             | -                   |
| Illinois funds investment pool   | 10,095              | 67                  |
| Pooled funds- fixed income   | 228,209             | 343,247             |
| Pooled funds - equities  | 49,674              | 31,956              |
| Common and preferred stocks  | 663,897             | 639,574             |
| Short-term investments   | 29,535              | 17,848              |
| Total investments  | <u>1,148,437</u>    | <u>1,032,692</u>    |
| Securities lending capital   | 49,637              | 25,340              |
| Total assets   | <u>\$ 1,262,804</u> | <u>\$ 1,119,707</u> |
| <u>Liabilities</u>   |                     |                     |
| Accounts payable   | \$ 1,368            | \$ 1,728            |
| Securities lending collateral  | 49,637              | 25,340              |
| Forward foreign exchange contracts   | 20,077              | 15,094              |
| Securities purchased   | 13,218              | 1,078               |
| Total liabilities  | <u>84,300</u>       | <u>43,240</u>       |
| Net position held in trust for pension and OPEB benefits   | <u>\$ 1,178,504</u> | <u>\$ 1,076,467</u> |

See accompanying notes to the basic financial statements.

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

Year ended December 31, 2012  
(with comparative amounts for prior year)

(in thousands of dollars)

|  | 2012         | 2011         |
|--|--------------|--------------|
| Additions:   |              |              |
| Contributions:   |              |              |
| Employer contributions                                       | \$ 100,524   | \$ 55,399    |
| Employee contributions                                       | 14,714       | 15,032       |
| Retiree contributions  | 5,821        | 5,577        |
| Total contributions  | 121,059      | 76,008       |
| Investment income:   |              |              |
| Net appreciation (depreciation) in fair value of investments | 110,532      | (10,896)     |
| Interest on short-term investments                           | 4,661        | 1,391        |
| Dividend income  | 13,886       | 12,103       |
| Total investment income                                      | 129,079      | 2,598        |
| Less investment expenses                                     | (4,800)      | (4,434)      |
| Investment income (loss) net of expenses                     | 124,279      | (1,836)      |
| Security lending activities:                                 |              |              |
| Security lending income                                      | 131          | 93           |
| Borrower rebates   | 852          | 275          |
| Bank fees  | (234)        | (77)         |
| Net income from securities lending activities                | 749          | 291          |
| Other  | 40           | 42           |
| Total additions  | 246,127      | 74,505       |
| Deductions:  |              |              |
| Annuities and benefits:                                      |              |              |
| Employee annuitants  | 103,044      | 99,601       |
| Retiree health care benefits                                 | 18,847       | 20,597       |
| Surviving spouse annuitants                                  | 18,674       | 17,523       |
| Child annuitants   | 114          | 112          |
| Ordinary disability benefits                                 | 678          | 650          |
| Duty disability benefits                                     | 204          | 216          |
| Total annuities and benefits                                 | 141,561      | 138,699      |
| Refunds of employee contributions                            | 1,196        | 2,711        |
| Administrative expenses                                      | 1,333        | 1,429        |
| Total deductions   | 144,090      | 142,839      |
| Net increase (decrease)                                      | 102,037      | (68,334)     |
| Net position held in trust for pension and OPEB benefits     |              |              |
| Beginning of year  | 1,076,467    | 1,144,801    |
| End of year  | \$ 1,178,504 | \$ 1,076,467 |

See accompanying notes to the basic financial statements.

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

# Notes to the Basic Financial Statements

Year ended December 31, 2012

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## Notes to the Basic Financial Statements

*Metropolitan Water Reclamation District of Greater Chicago*

### 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 units, the Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund - Note 7) and the Metropolitan Water Reclamation District Retiree Health Care Trust Fund (OPEB Trust Fund - Note 8). The Board of Trustees for the Pension Trust Fund is composed of seven members. Two of these Trustees are Commissioners appointed by the Board of Commissioners of the District, four are District employees elected by members of the fund and one is a retired employee of the District. Although the Pension Trust Fund and OPEB Trust Fund are legally separate entities, for which the primary government is not financially accountable, they are included in the District’s basic financial statements as fiduciary funds. The nature and significance of the Pension Trust Fund and OPEB Trust Fund’s relationship with the primary government is such that exclusion would render the District’s financial statements incomplete or misleading. Complete financial statements of the Pension Trust Fund can be obtained from their administrative office at 111 East Erie Street, Chicago, Illinois, 60611-2898. Complete financial statements of the OPEB Trust Fund can be obtained from the Treasurer of the Metropolitan Water Reclamation District at 100 East Erie Street, Chicago, Illinois 60611-5498.
- b. **Government-wide and Fund Financial Statements** - The District’s basic financial statements include government-wide financial statements and fund financial statements.

The government-wide financial statements include the Statements of Net Position and the Statements of Activities, and contain information for all the District’s governmental activities but exclude the Pension Trust Fund and the OPEB Trust Fund, fiduciary funds whose resources are not available to finance the District’s operations. The effect of interfund transactions has been removed from the government-wide statements. The Statements of Net Position report the financial condition of the District. This statement includes all existing resources and obligations, both current and noncurrent, with the difference between the two reported as net position. The Statements of Activities report the District’s operating results for the year with the difference between expenses and revenues representing the changes in net position. Expenses are reported by department while revenues are segregated by program revenues and general revenues. Program revenues 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 major governmental funds. The emphasis of the governmental fund financial statements is on major funds, with each major fund displayed as a separate column. The governmental fund financial statements include a budgetary statement for the General Corporate Fund.

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

## Notes to the Basic Financial Statements

Year ended December 31, 2012

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 restricted to making temporary loans to the Corporate Fund. These accounts were established under Chapter 70, ILCS 2605/9b of the Illinois Compiled Statutes, which refers to these accounts as a "Working Cash Fund." Amounts borrowed from the Working Cash Fund in one year are generally repaid by the Corporate Fund from tax collections received during the subsequent year. Also included in this fund are accounts of the "Reserve Claim Fund," established under Chapter 70, ILCS 2605/12 of the Illinois Compiled Statutes, which is restricted for the payment of claims, awards, losses, judgments or liabilities which might be imposed against the District, and for the repair or replacement of certain property maintained by the District. The assets, liabilities, and fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions at December 31, 2012, are as follows (in thousands of dollars):

|   | <b>Total<br/>General<br/>Corporate<br/>Fund</b> | <b>Corporate<br/>Division</b> | <b>Corporate<br/>Working<br/>Cash<br/>Division</b> | <b>Reserve<br/>Claim<br/>Division</b> |
|---|---|-------------------------------|--|---------------------------------------|
| <b>Assets</b>                                     |   |                               |  |                                       |
| Cash  | \$ 11,903                                       | \$ 11,415                     | \$ 7   | \$ 481                                |
| Certificates of deposit                           | 3,006   | 1,002                         | -  | 2,004                                 |
| Investments                                       | 297,608   | 148,011                       | 86,999   | 62,598                                |
| Receivables:                                      |   |                               |  |                                       |
| Property taxes receivable                         | 276,067   | 268,249                       | -  | 7,818                                 |
| Allowance for uncollectible taxes                 | (40,228)  | (39,358)                      | -  | (870)                                 |
| Taxes receivable, net                             | 235,839   | 228,891                       | -  | 6,948                                 |
| User charges                                      | 1,907   | 1,907                         | -  | -                                     |
| Miscellaneous                                     | 1,027   | 1,027                         | -  | -                                     |
| Due from Capital Improvements Bond Fund           | 756   | 756                           | -  | -                                     |
| Due from Construction Fund                        | 86  | 86                            | -  | -                                     |
| Due from Stormwater Management Fund               | 162   | 162                           | -  | -                                     |
| Due from Corporate Fund to Corporate Working Cash | -   | (190,000)                     | 190,000  | -                                     |
| Inventories                                       | 39,467  | 39,467                        | -  | -                                     |
| Restricted cash                                   | 2,018   | 2,018                         | -  | -                                     |
| Total assets                                      | <u>\$ 593,779</u>                               | <u>\$ 244,742</u>             | <u>\$ 277,006</u>                                  | <u>\$ 72,031</u>                      |
| <b>Liabilities and Fund Balances</b>              |   |                               |  |                                       |
| Liabilities:                                      |   |                               |  |                                       |
| Deferred tax revenue                              | \$ 194,980                                      | \$ 189,221                    | \$ -   | \$ 5,759                              |
| Other deferred revenue                            | 3,111   | 3,111                         | -  | -                                     |
| Accounts payable and other liabilities            | 31,186  | 30,076                        | -  | 1,110                                 |
| Total liabilities                                 | <u>229,277</u>                                  | <u>222,408</u>                | <u>-</u>   | <u>6,869</u>                          |
| Fund balances:                                    |   |                               |  |                                       |
| Nonspendable:                                     |   |                               |  |                                       |
| Inventories                                       | 39,467  | 39,467                        | -  | -                                     |
| Restricted for:                                   |   |                               |  |                                       |
| Cash real estate escrow                           | 2,018   | 2,018                         | -  | -                                     |
| Working cash                                      | 277,006   | -                             | 277,006  | -                                     |
| Reserve claims                                    | 65,162  | -                             | -  | 65,162                                |
| Unassigned  | (19,151)  | (19,151)                      | -  | -                                     |
| Total fund balances                               | <u>364,502</u>                                  | <u>22,334</u>                 | <u>277,006</u>                                     | <u>65,162</u>                         |
| Total liabilities and fund balances               | <u>\$ 593,779</u>                               | <u>\$ 244,742</u>             | <u>\$ 277,006</u>                                  | <u>\$ 72,031</u>                      |

*Metropolitan Water Reclamation District of Greater Chicago*

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, 2012, are as follows (in thousands of dollars):

|  | <b>Total<br/>General<br/>Corporate<br/>Fund</b> | <b>Corporate<br/>Division</b> | <b>Corporate<br/>Working<br/>Cash<br/>Division</b> | <b>Reserve<br/>Claim<br/>Division</b> |
|--|---|-------------------------------|--|---------------------------------------|
| <b>Revenues:</b>                       |   |                               |  |                                       |
| Property taxes                         | \$ 257,656                                      | \$ 253,627                    | \$ -   | \$ 4,029                              |
| Personal property replacement tax      | 27,093  | 24,064                        | -  | 3,029                                 |
| Total tax revenue                      | <u>284,749</u>                                  | <u>277,691</u>                | <u>-</u>   | <u>7,058</u>                          |
| Interest on investments                | 4,755   | 3,104                         | 736  | 915                                   |
| Tax increment financing distributions  | 6,239   | 6,239                         | -  | -                                     |
| Claims and damage settlements          | 110   | 84                            | -  | 26                                    |
| Miscellaneous                          | 4,058   | 4,058                         | -  | -                                     |
| User charges                           | 69,022  | 69,022                        | -  | -                                     |
| Land rentals                           | 12,081  | 12,081                        | -  | -                                     |
| Fees, forfeits and penalties           | 2,575   | 2,575                         | -  | -                                     |
| Federal grants                         | 152   | 152                           | -  | -                                     |
| Total revenues                         | <u>383,741</u>                                  | <u>375,006</u>                | <u>736</u>   | <u>7,999</u>                          |
| <b>Operations:</b>                     |   |                               |  |                                       |
| Board of Commissioners                 | 3,463   | 3,463                         | -  | -                                     |
| General Administration                 | 13,877  | 13,877                        | -  | -                                     |
| Monitoring and Research                | 24,495  | 24,495                        | -  | -                                     |
| Procurement and Materials Management   | 5,698   | 5,698                         | -  | -                                     |
| Human Resources                        | 63,105  | 63,105                        | -  | -                                     |
| Information Technology                 | 13,167  | 13,167                        | -  | -                                     |
| Law                                    | 5,942   | 5,942                         | -  | -                                     |
| Finance                                | 3,172   | 3,172                         | -  | -                                     |
| Engineering                            | 3,229   | 3,229                         | -  | -                                     |
| Maintenance and Operations             | 161,188   | 161,188                       | -  | -                                     |
| Claims and judgments                   | 5,998   | -                             | -  | 5,998                                 |
| Total expenditures                     | <u>303,334</u>                                  | <u>297,336</u>                | <u>-</u>   | <u>5,998</u>                          |
| Revenues over (under) expenditures     | 80,407  | 77,670                        | 736  | 2,001                                 |
| <b>Other financing sources (uses):</b> |   |                               |  |                                       |
| Transfer out to the Pension Fund       | (1,000)   | -                             | (1,000)  | -                                     |
| Net Change in Fund balance             | <u>79,407</u>                                   | <u>77,670</u>                 | <u>(264)</u>                                       | <u>2,001</u>                          |
| Fund balance at the beginning of year  | <u>285,095</u>                                  | <u>(55,336)</u>               | <u>277,270</u>                                     | <u>63,161</u>                         |
| Fund balance at the end of year        | <u>\$ 364,502</u>                               | <u>\$ 22,334</u>              | <u>\$ 277,006</u>                                  | <u>\$ 65,162</u>                      |

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Debt Service Fund

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

### Capital Improvements Bond Fund

A capital projects fund established to account for the proceeds of bonds authorized by the Illinois General Assembly, bond anticipation notes net of redemptions, government grants, and certain other revenues, all are restricted 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 restricted to 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, 2012, are as follows (in thousands of dollars):

|  | <b>Total<br/>Construction<br/>Fund</b> | <b>Construction<br/>Division</b> | <b>Construction<br/>Working<br/>Cash<br/>Division</b> |
|--|--|----------------------------------|---|
| <b>Assets</b>                          |  |                                  |   |
| Cash                                   | \$ 97                                  | \$ 55                            | \$ 42   |
| Certificates of deposit                | 501                                    | 501                              | -   |
| Investments                            | 31,080                                 | 25,722                           | 5,358   |
| Receivables:                           |  |                                  |   |
| Property taxes receivable              | 21,363                                 | 21,363                           | -   |
| Allowance for uncollectible taxes      | (1,660)                                | (1,660)                          | -   |
| Taxes receivable, net                  | 19,703                                 | 19,703                           | -   |
| Miscellaneous receivable               | 745                                    | 745                              | -   |
| Total assets                           | <u>\$ 52,126</u>                       | <u>\$ 46,726</u>                 | <u>\$ 5,400</u>                                       |
| <b>Liabilities and Fund Balances</b>   |  |                                  |   |
| Liabilities:                           |  |                                  |   |
| Deferred tax revenue                   | \$ 16,357                              | \$ 16,357                        | \$ -  |
| Other deferred/unearned revenue        | 745                                    | 745                              | -   |
| Accounts payable and other liabilities | 4,062                                  | 4,062                            | -   |
| Due to Corporate Fund                  | 86                                     | 86                               | -   |
| Due to Construction Fund from          |  |                                  |   |
| Construction Working Cash              | -                                      | 16,249                           | (16,249)  |
| Total liabilities                      | <u>21,250</u>                          | <u>37,499</u>                    | <u>(16,249)</u>                                       |
| Fund balances:                         |  |                                  |   |
| Restricted for:                        |  |                                  |   |
| Working cash                           | 21,649                                 | -                                | 21,649  |
| Capital projects                       | 9,227                                  | 9,227                            | -   |
| Total fund balances                    | <u>30,876</u>                          | <u>9,227</u>                     | <u>21,649</u>   |
| Total liabilities and fund balances    | <u>\$ 52,126</u>                       | <u>\$ 46,726</u>                 | <u>\$ 5,400</u>                                       |

*Metropolitan Water Reclamation District of Greater Chicago*

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, 2012, are as follows (in thousands of dollars):

|                                       | <b>Total<br/>Construction<br/>Fund</b> | <b>Construction<br/>Division</b> | <b>Working<br/>Cash<br/>Division</b> |
|---------------------------------------|--|----------------------------------|--------------------------------------|
| <b>Revenues:</b>                      |  |                                  |                                      |
| Property taxes                        | \$ 4,535                               | \$ 4,535                         | \$ -                                 |
| Personal property replacement tax     | 1,193                                  | 1,193                            | -                                    |
| Total tax revenue                     | 5,727                                  | 5,727                            | -                                    |
| Interest on investments               | 563                                    | 525                              | 38                                   |
| Miscellaneous                         | -                                      | -                                | -                                    |
| User charge                           | 300                                    | 300                              | -                                    |
| Fees, forfeits and penalties          | 774                                    | 774                              | -                                    |
| Total revenues                        | 7,365                                  | 7,327                            | 38                                   |
| <b>Construction Costs:</b>            |  |                                  |                                      |
| Personal services                     | 3,525                                  | 3,525                            | -                                    |
| Contractual services                  | 53                                     | 53                               | -                                    |
| Materials and supplies                | 70                                     | 70                               | -                                    |
| Machinery and equipment               | 1,054                                  | 1,054                            | -                                    |
| Capital projects                      | 5,241                                  | 5,241                            | -                                    |
| Total expenditures                    | 9,943                                  | 9,943                            | -                                    |
| Revenues over (under) expenditures    | (2,578)                                | (2,616)                          | 38                                   |
| Net Change in Fund balance            | (2,578)                                | (2,616)                          | 38                                   |
| Fund balance at the beginning of year | 33,454                                 | 11,843                           | 21,611                               |
| Fund balance at the end of year       | \$ 30,876                              | \$ 9,227                         | \$ 21,649                            |

The District reports the following non-major governmental funds:

**Retirement Fund**

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

**Stormwater Management Fund**

A capital projects fund established to account for the annual property taxes which are specifically levied to finance all activities associated with stormwater management, including construction projects. Included in this fund are accounts maintained by the District restricted to 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.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

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, 2012, are as follows (in thousands of dollars):

|   | <b>Total<br/>Stormwater<br/>Management<br/>Fund</b> | <b>Stormwater<br/>Management<br/>Division</b> | <b>Stormwater<br/>Working<br/>Cash<br/>Division</b> |
|---|---|---|---|
| <b>Assets</b>   |   |   |   |
| Cash  | \$ 1,191  | \$ 1,182                                      | \$ 9  |
| Certificates of deposit   | 1,001   | 1,001   | -   |
| Investments   | 58,958  | 40,230  | 18,728  |
| Receivables:  |   |   |   |
| Property taxes receivable   | 21,852  | 21,852  | -   |
| Allowance for uncollectible taxes                                 | (2,552)   | (2,552)                                       | -   |
| Taxes receivable, net   | 19,300  | 19,300  | -   |
| Total assets  | <u>\$ 80,450</u>                                    | <u>\$ 61,713</u>                              | <u>\$ 18,737</u>                                    |
| <b>Liabilities and Fund Balances</b>                              |   |   |   |
| Liabilities:  |   |   |   |
| Deferred tax revenue  | \$ 15,916   | \$ 15,916                                     | \$ -  |
| Accounts payable and other liabilities                            | 2,496   | 2,496   | -   |
| Due to Corporate Fund   | 162   | 162   | -   |
| Due to Stormwater Management Fund<br>from Stormwater Working Cash | -   | 19,000  | (19,000)  |
| Total liabilities   | <u>18,574</u>                                       | <u>37,574</u>                                 | <u>(19,000)</u>                                     |
| Fund balances:  |   |   |   |
| Restricted for:   |   |   |   |
| Working cash  | 37,737  | -   | 37,737  |
| Capital projects  | 24,139  | 24,139  | -   |
| Total fund balances   | <u>61,876</u>                                       | <u>24,139</u>                                 | <u>37,737</u>                                       |
| Total liabilities and fund balances                               | <u>\$ 80,450</u>                                    | <u>\$ 61,713</u>                              | <u>\$ 18,737</u>                                    |

*Metropolitan Water Reclamation District of Greater Chicago*

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, 2012, are as follows (in thousands of dollars):

|                                       | <b>Total<br/>Stormwater<br/>Management<br/>Fund</b> | <b>Stormwater<br/>Management<br/>Division</b> | <b>Stormwater<br/>Working<br/>Cash<br/>Division</b> |
|---------------------------------------|---|---|---|
| Revenues:                             |   |   |   |
| Property taxes                        | \$ 24,302   | \$ 24,302                                     | \$ -  |
| Total tax revenue                     | 24,302  | 24,302  | -   |
| Interest on investments               | 805   | 641   | 164   |
| Miscellaneous                         | 1   | 1   | -   |
| Fees, forfeits and penalties          | 4   | 4   | -   |
| Total revenues                        | <u>25,112</u>                                       | <u>24,948</u>                                 | <u>164</u>  |
| Construction Costs:                   |   |   |   |
| Personal services                     | 9,827   | 9,827   | -   |
| Contractual services                  | 2,305   | 2,305   | -   |
| Materials and supplies                | 23  | 23  | -   |
| Capital projects                      | 4,634   | 4,634   | -   |
| Total expenditures                    | <u>16,789</u>                                       | <u>16,789</u>                                 | <u>-</u>  |
| Revenues over (under) expenditures    | 8,323   | 8,159   | 164   |
| Other financing sources (uses):       |   |   |   |
| Transfer out to pension fund          | (2,000)   | -   | (2,000)   |
| Net Change in Fund balance            | <u>6,323</u>  | <u>8,159</u>                                  | <u>(1,836)</u>                                      |
| Fund balance at the beginning of year | 55,553  | 15,980  | 39,573  |
| Fund balance at end of year           | <u>\$ 61,876</u>                                    | <u>\$ 24,139</u>                              | <u>\$ 37,737</u>                                    |

In addition, the District reports the following fiduciary funds:

**Pension Trust Fund**

A fiduciary fund established to account for employer/employee contributions, investment earnings, and expenses for employee pensions. The balance reflected as employer contributions receivable represents amounts due from the property tax levies authorized by the District's Retirement Fund.

**OPEB Trust Fund**

A fund established (pursuant to 70 ILCS 2605/9.6d) to administer the defined benefit, post-employment healthcare plan. The intention of the District is that the plan will satisfy the requirements of Section 115 of the Internal Revenue Code of 1986, as amended.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### 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 revenue recognition 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 Executive Director, 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 Executive Director 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 Executive Director 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 class (object) 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). Transfers of appropriations between objects of expenditure or between departments must be presented to the Board of Commissioners in accordance with applicable statutes. The District's Annual Appropriation Ordinance further requires line item class appropriations be supported by a schedule of line items, and expenditures be made in accordance with such schedule of line items. The Executive Director is authorized to transfer appropriations between line items within an object class of expenditure within a department. For the Debt Service Fund and the Retirement Fund, the level of control is on a fund basis;
  - (8) The Executive Director 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. Transfers out to other funds are budgeted as expenditures, while transfers in are considered other financing sources. 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, Retirement, 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.
- e. **Deposits with escrow agent** (if any) represent cash with the escrow agent for the subsequent payment of interest on debt.
  - f. **Certificates of deposit** are stated at cost plus accrued interest.
  - g. **Investments** of the Governmental Funds are 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 are not registered with the SEC. State statute requires the State Treasurer's Illinois Funds to comply with the Illinois Public Funds Investment Act (30 ILCS 235). Oversight is provided by the Auditor General's Office of the State. Investments of the Pension and OPEB Trust Funds, other than short-term investments, are stated at fair value.
  - h. **Inventory**, consisting mainly of materials, supplies, and repair parts which maintain and extend the life of the District's treatment facilities, is reported on the Balance Sheet of the General Corporate Fund and the government-wide Statements of Net Position. The District maintains a perpetual record-keeping system and uses a moving-average method, based on cost, for pricing its storeroom inventories. Materials, supplies, and repair parts are recorded as

## Notes to the Basic Financial Statements

Year ended December 31, 2012

expenditures/expenses when consumed. Inventory balances held at year-end are reported as nonspendable fund balance in the governmental funds.

- i. **Restricted assets** represent cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.
- 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, computer software, infrastructure, acquired easements, and construction in progress are recorded at historical cost or estimated historical cost in the government-wide financial statements. Interest costs are not capitalized. Infrastructure assets include the District's sewers, water reclamation plants (WRP,) waterway assets, TARP deep tunnels, and drop shafts. The thresholds for reporting capital assets are as follows:

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

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

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

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

In compliance with Governmental Accounting Standards Board (GASB) Statement 34, existing infrastructure assets accounted for with the modified approach are not reported in the government-wide financial statements until an initial condition assessment is completed for the assets' network. Currently, all the District's WRP's infrastructure assets are reported as infrastructure under the modified approach in the government-wide financial statements. Condition assessments of eligible infrastructure assets must be completed at least every three years following the initial assessments. The Kirie, Central (Stickney), Hanover, O'Brien, Egan, Calumet, Lemont WRP's, and Waterways had their initial condition assessments completed between 2002 and 2006. The Egan and O'Brien networks each had its most recent condition assessment completed in 2010. The Kirie, Central (Stickney) and Waterways networks each

had its most recent condition assessment completed in 2011. The Hanover, Calumet and Lemont networks each had its most recent condition assessment completed in 2012.

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 upon retirement or termination. An employee is eligible to receive 100 percent of earned vacation, holiday and overtime pay. Depending upon the date of hire and/or collective bargaining agreements, employees may also be eligible to receive severance pay and 50 % of accumulated sick pay up to a maximum of sixty days. Compensated absences are accrued as they are earned in the government-wide financial statements. Expenditures and liabilities for compensated absences are recorded in the fund financial statements when due and payable. Included in the long-term liabilities of the Statements of Net Position at December 31, 2012, are liabilities for compensated absences of \$1,269,000, due within one year, and \$27,087,000, 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 Position. 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.

- n. Fund Balances** - The Board of Commissioners on December 9, 2010, adopted a new fund balance classification policy in accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions: The policy categorizes the balances of governmental funds into the following categories: nonspendable, restricted, committed, assigned and unassigned fund balances. The categories are described as follows:
- **Nonspendable Fund Balance** – This consists of amounts that cannot be spent because they are either not in spendable form, or are legally or contractually required to be maintained intact.
  - **Restricted Fund Balance** – Reported when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
  - **Committed Fund Balance** – This consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board. The District’s commissioners shall establish, modify, or rescind a fund balance commitment by vote of a motion presented to the Board.
  - **Assigned Fund Balances** – This consists of amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. The District’s Board of Commissioners approved a motion authorizing the Executive Director to assign amounts of fund balances to a specific purpose.
  - **Unassigned Fund Balances** – This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

- In the General Corporate Fund, the District considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, followed by committed amounts, and then assigned amounts. Unassigned amounts are used only after the other categories of fund balance have been fully utilized. For each budget year, the total fund balance in the General Corporate Fund is to be maintained between 12% and 15% of total appropriations. In governmental funds other than the General Corporate Fund, the District considers restricted amounts to have been spent last. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District will first utilize assigned amounts, followed by committed amounts, and then restricted amounts.
- o. Net Position** – The government-wide Statements of Net Position display three components of net position, as follows:
  - Net investment in capital assets - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any debt attributable to capital assets.
  - Restricted Net Position - This consists of net position that is legally restricted by outside parties, or by law through constitutional provisions or enabling legislation. Net position restricted for working cash and reserve claims is based on legal restrictions, while net position restricted for debt service and capital projects is based on legal restrictions and/or outside parties. The government-wide statement of net position reports \$622,567,000 of restricted net position.
  - Unrestricted Net Position - This consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”
- p. User Charge** – The Environmental Protection Agency requires grant recipients to charge certain users of waste water treatment services a proportionate share of the cost of operations and maintenance. The District has utilized a User Charge System since January 1, 1980. The system was developed in accordance with 70 ILCS 2305/7.1.
- q. Comparative data and reclassifications** – The basic financial statements present comparative data for the prior year to provide an understanding of the changes in financial position and results of operations.
- r. 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.
- s. New Accounting Pronouncement** - The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 61, The Financial Reporting Entity: Omnibus – and amendment of GASB Statements No. 14 and No. 34; GASB Statement No. 65, Items Previously Reported as Assets and Liabilities; Statement No. 66, Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25; Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27; and Statement No. 69 Government Combinations and Disposals of Government Operations. Application of these standards may restate portions of these financial statements.

## 2. Reconciliation of Fund and Government-wide Financial Statements

- a. **Reconciliation of Total Fund Balances to Total Net Position** - The following explanations are provided for the reconciling adjustments shown in the Governmental Funds Balance Sheets/Statements of Net Position at December 31, 2012 (in thousands of dollars):

|  |                     |
|--|---------------------|
| Total fund balances of governmental funds  | \$ 940,298          |
| <i>Amounts reported for governmental activities in the Statements of Net Position are different because:</i>   |                     |
| Capital assets are not current financial resources and therefore are not reported as assets in governmental funds. However, capital assets are reported in the Statements of Net Position. The cost of capital assets and accumulated depreciation is as follows:  |                     |
| Capital assets   | 7,033,819           |
| Accumulated depreciation   | (224,493)           |
| Capital assets, net  | <u>6,809,326</u>    |
| Long-term liabilities are not due and payable in the current period and accordingly are not reported as liabilities in governmental funds. However, long-term liabilities are reported in the Statements of Net Position. The long-term liabilities consist of :   |                     |
| Compensated absences   | (28,356)            |
| Claims and judgments   | (79,597)            |
| Capital lease  | (49,837)            |
| Bond anticipation notes  | (44,527)            |
| General obligation debt  | (2,515,375)         |
| Net OPEB obligation  | (69,425)            |
| Net Pension liability  | (120,651)           |
| Total long-term liabilities  | <u>(2,907,768)</u>  |
| 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 Position. They consist of:  |                     |
| Deferral of bond premium   | (88,610)            |
| Deferral of bond issuance costs and refunding transactions   | 27,303              |
| Total deferrals  | <u>(61,307)</u>     |
| Interest on debt is not accrued in governmental funds, but rather is recognized as a liability and an expenditure when due. Interest is recorded as a liability as it is incurred in the Statements of Net Position. The 2012 amount is:   |                     |
| Accrued interest   | <u>(15,007)</u>     |
| 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 revenues (liabilities) in the governmental funds. However, these deferred revenues are recognized as revenues in the Statements of Net Position. They consist of: |                     |
| Property taxes and personal property replacement tax deferrals   | 397,577             |
| Adjustment for pension trust fund  | (22,730)            |
| Grants and rents   | 1,742               |
| Adjustment to deferred revenues  | <u>376,589</u>      |
| Interfund transactions are eliminated for Government-wide reporting. These transactions consist of:  |                     |
| Due from other funds   | 1,004               |
| Due to other funds   | (1,004)             |
| Total interfund  | <u>-</u>            |
| Total net position of governmental activities  | <u>\$ 5,142,131</u> |

## Notes to the Basic Financial Statements

Year ended December 31, 2012

- b. Reconciliation of the Change in Fund Balances to the Change in Net Position** - The following explanations are provided for the adjustments shown in the Statements of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statements of Activities for the year ended December 31, 2012 (in thousands of dollars):

|   |              |
|---|--------------|
| Net change in fund balances of governmental funds | \$ (107,861) |
|---|--------------|

*Amounts reported for governmental activities in the Statements of Activities are different because:*

Construction costs for capital outlays are reported as expenditures in governmental funds. However, in the Statements of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense except for those assets under the modified approach. In the current period, these amounts are:

|   |                |
|---|----------------|
| Construction costs and other capital outlays                              | 183,819        |
| Depreciation expense-allocated to various departments                     | (3,427)        |
| Depreciation/amortization expense-unallocated                             | (12,459)       |
| Excess of construction and capital outlay costs over depreciation expense | <u>167,933</u> |

Debt proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statements of Net Position. In the current period, debt proceeds and related items were:

|                                |                 |
|--------------------------------|-----------------|
| Bond anticipation notes issued | (54,884)        |
| Debt proceeds total            | <u>(54,884)</u> |

Repayment of long-term debt is reported as an expenditure in the governmental funds, or as an other financing use in the case of refunding, but the repayment reduces the long-term liabilities in the Statements of Net Position. In the current year, the repayments consist of :

|                                   |               |
|-----------------------------------|---------------|
| Debt service principal retirement | <u>71,400</u> |
|-----------------------------------|---------------|

Some expenses reported in the Statements of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

|   |                 |
|---|-----------------|
| Change in compensated absences-allocated to various departments | 428             |
| Change in claims and judgments                                  | (19,740)        |
| Change in bond interest   | 5,991           |
| Change in bond anticipation notes interest                      | (364)           |
| Amortization of bond issuance/refunding costs                   | (3,467)         |
| Amortization of bond premium                                    | 5,650           |
| Change in net pension obligation                                | (12,169)        |
| Change in OPEB costs  | <u>7,155</u>    |
| Total additional expenses                                       | <u>(16,516)</u> |

The proceeds from the sale of land and equipment are reported as revenue in the governmental funds. However, the cost of the land and equipment is removed from the capital assets account in the Statements of Net Position and offset against sale proceeds resulting in gain or (loss) in the Statements of Activities. The net effect of miscellaneous transactions involving capital asset sales:

|                                |              |
|--------------------------------|--------------|
| Total land and equipment sales | <u>(147)</u> |
|--------------------------------|--------------|

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 | (2,852)        |
| Total adjustments  | <u>(2,852)</u> |

|   |                  |
|---|------------------|
| Change in net position of governmental activities | <u>\$ 57,073</u> |
|---|------------------|

### 3. Reconciliation of Budgetary Basis Accounting to GAAP Basis Accounting

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

|  | <b>General Corporate<br/>Fund</b> |
|--|-----------------------------------|
| Revenues and other sources (uses) over (under) expenditures on a budgetary basis | \$ 61,525                         |
| Adjustment from Budget to GAAP for:  |                                   |
| Tax revenues   | 26,599                            |
| Transfers from other sources (uses)  |                                   |
| Transfer from Corporate Fund to Retirement Fund                                  | (1,000)                           |
| Cash basis other revenues  | (8,054)                           |
| GAAP versus budgetary expenditure differences                                    | 337                               |
| Revenues and other sources (uses) over (under) expenditures on GAAP Basis        | \$ 79,407                         |

### 4. Deposits and Investments

#### Deposits

As of December 31, 2012, the District, the Pension Trust Fund and OPEB Trust Fund deposits were fully insured and collateralized.

#### Investments (excluding Trust Funds)

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

## Notes to the Basic Financial Statements

Year ended December 31, 2012

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the District's investments at December 31, 2012 (in thousands of dollars):

| Investment Type                  | Fair Value        | Investment Maturities (in Years) |                   |
|----------------------------------|-------------------|----------------------------------|-------------------|
|                                  |                   | Less Than 1 Year                 | 1- 5 Years        |
| U.S. Agencies                    | \$ 304,373        | \$ 29,980                        | \$ 274,393        |
| Municipal Bond                   | 416,200           | 122,066                          | 294,134           |
| Commercial Paper                 | 75,018            | 75,018                           | -                 |
| State Treasurer's Illinois Funds | 3,928             | 3,928                            | -                 |
| Total Investments                | <u>\$ 799,519</u> | <u>\$ 230,992</u>                | <u>\$ 568,527</u> |

The Illinois 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. The above fair value amount excludes accrued interest receivable of \$4,173,000.

### Interest Rate Risk

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

### Credit Risk

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



*Metropolitan Water Reclamation District of Greater Chicago*

Credit ratings for the District's investments in debt securities as described by Standard & Poor's, Moody's and Fitch at December 31, 2012 (excluding investments in U.S. Treasuries, if any, which are not considered to have credit risk), are as follows:

| <u>Investment Type</u>                                   | <u>Credit Ratings at<br/>12/31/12<br/>S&amp;P/Moody's/Fitch</u> | <u>% of Investment<br/>Type</u> | <u>% of Total<br/>Investments in<br/>Debt Securities</u> |
|--|---|---------------------------------|--|
| U.S. Agencies  |   |                                 |  |
| Federal National Mortgage Association (FNMA)             | NR/Aaa/AAA  | 70.4%                           |  |
| Federal Home Loan Mortgage Corporation (FHLMC)           | NR/Aaa/AAA  | 16.4%                           |  |
| Federal Home Loan Banks (FHLB)                           | AA+/Aaa/NR  | 8.3%                            |  |
| Federal Farm Credit Banks (FFCB)                         | AA+/Aaa/AAA   | 4.9%                            |  |
| Total U.S. Agencies                                      |   | 100.0%                          | 38.1%  |
| Commercial Paper   |   |                                 |  |
| State Treasurer's Illinois Funds                         | AAAm  | 100.0%                          | 9.4%   |
| State of Illinois *                                      | A/A2/A  | 46.4%                           | 24.1%  |
| Regional Transit Authority (Illinois) *                  | AA/Aa3/AA   | 12.3%                           | 6.4%   |
| State of California Revenue Anticipation Note            | SP-1+/MIG1/F1   | 10.9%                           | 5.7%   |
| Colorado Housing & Finance Authority *                   | NR/Aa2/AA   | 9.4%                            | 4.9%   |
| New York City Transitional Finance Authority *           | AAA/Aa1/AAA   | 3.3%                            | 1.7%   |
| State of California *                                    | A-/A1/A-  | 3.0%                            | 1.6%   |
| State of Connecticut *                                   | AA/Aa3/AA   | 2.5%                            | 1.3%   |
| State of New York Dormitory Authority *                  | AAA/NR/AA   | 2.4%                            | 1.3%   |
| Long Beach California Bond Finance Authority *           | A+/NR/AA-   | 1.5%                            | 0.8%   |
| Rosemont, Illinois *                                     | AA-/A1/NR   | 1.4%                            | 0.7%   |
| Bloomington, Illinois *                                  | AA-/NR/NR   | 1.1%                            | 0.6%   |
| Indiana University *                                     | AA+/Aaa/NR  | 1.0%                            | 0.5%   |
| Peoria County Illinois School District *                 | NR/Aa2/NR   | 1.0%                            | 0.5%   |
| Massachusetts Department of Transportation *             | NR/Aa3/AA-  | 1.0%                            | 0.5%   |
| Cook County Illinois *                                   | AA/Aa3/AA-  | 0.9%                            | 0.5%   |
| Cook County Illinois School District #68 Skokie *        | NR/Aa1/NR   | 0.8%                            | 0.4%   |
| California Department of Water Resources *               | AAA/Aa1/NR  | 0.4%                            | 0.2%   |
| Cook County Illinois School District #62 Des Plaines *   | AA+/NR/NR   | 0.3%                            | 0.1%   |
| Kane County Illinois School District *                   | A+/NR/NR  | 0.2%                            | 0.1%   |
| Tampa-Hillsborough County Florida Expressway Authority * | A-/A3/NR  | 0.2%                            | 0.1%   |
|  |   |                                 | 100.0%   |

\* Municipal Bond

NR - Not Rated

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Calculation of Compliance (1)

(in thousands in dollars)

| <u>Investments</u>               | <u>Fair Value</u> | <u>% of<br/>Fair Value</u> |
|----------------------------------|-------------------|----------------------------|
| Municipal Bond                   | \$ 416,200        | 48.6%                      |
| U.S. Agencies                    | 304,373           | 35.4%                      |
| Commercial Paper                 | 75,018            | 8.8%                       |
| Certificate of Deposit           | 57,100            | 6.7%                       |
| State Treasurer's Illinois Funds | 3,928             | 0.5%                       |
|                                  | <u>\$ 856,619</u> | <u>100.0%</u>              |

(1) Utilizes market value of investments excluding High-Yield Savings, which is reclassified to cash for CAFR reporting.

### Concentration of Credit Risk

The District's goal is to limit the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than 20% of the amount invested in commercial paper can be invested in any one entity. In 2012 the market value of commercial paper represented 8.8% of the District's total investments. None of the District's commercial paper in any one entity exceeded the 20% goal. As of December 31, 2012, the following investments were greater than 5% of total investments (in thousands of dollars):

| <u>Investment</u>                              | <u>Fair Value</u> |
|--|-------------------|
| Federal National Mortgage Association (FNMA)   | \$ 214,269        |
| State of Illinois Municipal Bonds              | 193,458           |
| State of California Municipal Bonds            | 59,534            |
| Regional Transit Authority Municipal Bonds     | 51,174            |
| Federal Home Loan Mortgage Corporation (FHLMC) | 49,895            |

### 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 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.

The OPEB Trust Fund is authorized under State Statute 70 ILCS 2605/9.6d. In accordance with the Statute, the Trust Fund shall be managed by the District Treasurer in any manner deemed appropriate subject only to the prudent person standard. The Trust adopted its investment policy on November 19, 2009.

At December 31, 2012, the OPEB Trust’s assets were invested in fixed income and equity mutual funds traded on national securities exchanges. Investments are stated at fair value. The fair value of mutual fund units traded on national securities exchanges is the last reported sales price on the last business day of the fiscal year of the Trust. Purchases and sales of mutual fund units are accounted for on the trade dates. For purposes of determining realized gains or losses on the disposal of investments, the average cost of investments sold, determined at the time of sale, is used.

**Interest Rate Risk**

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities (using the weighted average maturity method) for the Pension Trust Fund’s investments at December 31, 2012 (in thousands of dollars):

| <u>Investment Type</u>                | <u>Fair Value</u> | <u>Average Maturities (years)</u> |
|---------------------------------------|-------------------|-----------------------------------|
| Fixed Income:                         |                   |                                   |
| Pooled Funds - Long Term investments  | \$ 204,128        | 6.8                               |
| Pooled Funds - Short Term investments | 29,535            | 0.1                               |
| Corporate bonds and notes             | 167,027           |                                   |
| Total Fixed Income                    | 400,690           |                                   |
| Equities:                             |                   |                                   |
| Common and Preferred Stock            | 663,897           |                                   |
| Securities lending Collateral         | 49,637            |                                   |
| Total Equities                        | 713,534           |                                   |
| Total Investments                     | \$ 1,114,224      |                                   |

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 a long-term focus on its investment decision-making process. The Fund’s fixed income performance objective is the Barclays Capital Aggregate Bond Index.

The OPEB Trust’s benefit liabilities extend many years into the future, and the Trust’s policy is to maintain a long-term focus on its investment decision-making process. Fixed income investments susceptible to interest rate risk are monitored to prevent such investments from exceeding established allocation targets.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities for the OPEB Trust Fund's investments at December 31, 2012 (in thousands of dollars):

| Investment Type                     | Fair Value | Percentage | Average Maturities (years) |
|-------------------------------------|------------|------------|----------------------------|
| Fixed Income Mutual Funds:          |            |            |                            |
| Dodge & Cox Income                  | \$ 5,657   | 23.4%      | 6.6                        |
| Payden Core Bond Fund               | 1,805      | 7.5%       | 6.8                        |
| PIMCO Total Return Instl.           | 8,338      | 34.6%      | 6.1                        |
| Vanguard Inflation Protected Secs.  | 8,281      | 34.5%      | 9.3                        |
| Total Fixed Income                  | 24,081     |            |                            |
| Equities:                           |            |            |                            |
| American Funds Fundamental          | 7,703      |            |                            |
| Artisan International Institutional | 3,969      |            |                            |
| Fidelity Contra Fund                | 6,624      |            |                            |
| Harbor International Instl.         | 7,922      |            |                            |
| Invesco Equally-Weighted S&P 500    | 3,743      |            |                            |
| MFS Massachusetts Investors         | 6,740      |            |                            |
| The Profit Fund                     | 1,793      |            |                            |
| Vanguard REIT Index                 | 3,641      |            |                            |
| Vanguard Small Cap Index Instl.     | 7,539      |            |                            |
| Total Equities                      | 49,674     |            |                            |
| Illinois Funds Investment Pool      | 10,095     |            |                            |
| Total Plan Assets at Fair Value     | 83,850     |            |                            |
| Cash & Cash Equivalents             | 2,150      |            |                            |
| Total Investments                   | \$ 86,000  |            |                            |

### 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 Pension Trust Fund's debt securities at December 31, 2012 (in thousands of dollars):

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

| <u>Credit Rating</u> | <u>Investment Type</u>                | <u>Fair Value</u> | <u>%</u>      |
|----------------------|---------------------------------------|-------------------|---------------|
| Aaa                  | Pooled Funds - Long Term investments  | 149,626           | 64.0          |
| Aa                   | Pooled Funds - Long Term investments  | 9,635             | 4.1           |
| A                    | Pooled Funds - Long Term investments  | 22,454            | 9.6           |
| Baa                  | Pooled Funds - Long Term investments  | 22,413            | 9.6           |
| Not Rated            | Pooled Funds - Short Term investments | 29,535            | 12.7          |
|                      |                                       | <u>\$ 233,663</u> | <u>100.0%</u> |

(1) Report details the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Standard & Poor's or Moody's credit rating agencies.

The OPEB Trust's Investment Policy requires a minimum of 85% of the fixed income holdings of an actively managed fixed income mutual fund be of investment grade quality or higher at purchase; rated no lower than "Baa" by Moody's and no lower than "BBB" by Standard and Poor's. The Trustee, at its discretion, may impose a higher standard on an individual investment's circumstances or as investment objectives dictate. Fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by the U.S. Government, Canadian Government, or any agency or instrumentality thereof, or to corporate and municipal issues.

The following reports the credit ratings for the OPEB Trust Fund's debt securities at December 31, 2012; excluded are U.S. government obligations or obligations explicitly guaranteed by the U.S. Government, if any, which are classified under the headings U.S. Treasuries and U.S. Agencies:

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

| <u>Credit Rating</u> | <u>Dodge &amp; Cox<br/>Income</u> | <u>Payden Core<br/>Bond Fund</u> | <u>PIMCO Total<br/>Return Instl.</u> | <u>Vanguard<br/>Protect Secs.</u> |
|----------------------|-----------------------------------|----------------------------------|--------------------------------------|-----------------------------------|
| AAA                  | 43.7 %                            | 3.0 %                            | 58.0 %                               | 100.0 %                           |
| AA                   | 2.2                               | 48.0                             | 11.0                                 | -                                 |
| A                    | 17.3                              | 10.0                             | 8.0                                  | -                                 |
| BBB                  | 26.9                              | 25.0                             | 15.0                                 | -                                 |
| BB                   | 4.5                               | 7.0                              | 3.0                                  | -                                 |
| B                    | 3.4                               | 6.0                              | 2.0                                  | -                                 |
| Below B              | -                                 | 1.0                              | 3.0                                  | -                                 |
| Not Rated            | 2.0                               | -                                | -                                    | -                                 |
|                      | <u>100.0 %</u>                    | <u>100.0 %</u>                   | <u>100.0 %</u>                       | <u>100.0 %</u>                    |

Morningstar Inc. provided the percentage of fixed-income securities that fall within each credit-quality rating as assigned by Standard & Poor's or Moody's credit rating agencies for Dodge & Cox, Payden Core and Vanguard. PIMCO Investments LLC provided the information for PIMCO Total Return as it was not available from Morningstar Inc.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in currency exchange rates. All foreign currency-denominated investments are in equities and cash. The Pension Trust Fund does not maintain an investment policy relative to foreign currency risk. The Pension Trust Fund's exposure to foreign currency risk at December 31, 2012 was as follows:

| <b><u>Equities</u></b> | <b><u>Fair Value</u></b> | <b><u>%</u></b> |
|------------------------|--------------------------|-----------------|
| Australian Dollar      | \$ 5,363,393             | 6.6             |
| Canadian Dollar        | 9,628,548                | 11.9            |
| Danish Krone           | 1,918,035                | 2.4             |
| Euro                   | 17,663,867               | 21.9            |
| Hong Kong Dollar       | 1,707,589                | 2.1             |
| Israeli Shekel         | 200,806                  | 0.2             |
| Japanese Yen           | 9,178,828                | 11.4            |
| Norwegian Krone        | 542,484                  | 0.7             |
| Singapore Dollar       | 251,248                  | 0.3             |
| Swedish Krona          | 1,258,951                | 1.6             |
| Swiss Franc            | 11,601,992               | 14.4            |
| British Pound Sterling | 21,373,438               | 26.5            |
| Total                  | <u>\$ 80,689,179</u>     | <u>100.0%</u>   |

| <b><u>Fixed Income</u></b> | <b><u>Fair Value</u></b> | <b><u>%</u></b> |
|----------------------------|--------------------------|-----------------|
| Brazil Real                | \$ 348,278               | 6.5             |
| Canadian Dollar            | 1,182,021                | 22.2            |
| Euro                       | 434,320                  | 8.2             |
| Indonesian Rupiah          | 991,930                  | 18.6            |
| Mexican New Peso           | 374,993                  | 7.0             |
| Malaysian Ringgit          | 194,975                  | 3.7             |
| Norwegian Krone            | 423,484                  | 8.0             |
| Philippines Peso           | 808,930                  | 15.2            |
| Polish Zloty               | 163,099                  | 3.1             |
| New Turkish Lira           | 397,489                  | 7.5             |
| Total                      | <u>\$ 5,319,519</u>      | <u>100.0%</u>   |

*Metropolitan Water Reclamation District of Greater Chicago*

| <b><u>Foreign Cash</u></b> | <b><u>Fair Value</u></b> | <b><u>%</u></b> |
|----------------------------|--------------------------|-----------------|
| Australian Dollar          | \$ 608,482               | 18.3            |
| Canadian Dollar            | 231,994                  | 7.0             |
| Swiss Franc                | 677                      | 0.0             |
| Danish Krone               | 125,339                  | 3.8             |
| Euro                       | 888,738                  | 26.6            |
| British Pound Sterling     | 35,099                   | 1.1             |
| Hong Kong Dollar           | 486,286                  | 14.6            |
| Indonesian Rupiah          | 27,502                   | 0.8             |
| Israeli Shekel             | 42,419                   | 1.3             |
| Japanese Yen               | 136,654                  | 4.1             |
| Mexican New Peso           | 11,387                   | 0.3             |
| Norwegian Krone            | 432,239                  | 13.0            |
| Philippines Peso           | 13,163                   | 0.4             |
| Polish Zloty               | 27,438                   | 0.8             |
| Swedish Krona              | 448                      | 0.0             |
| Singapore Dollar           | 263,228                  | 7.9             |
| New Turkish Lira           | 75                       | 0.0             |
| Total                      | <u>\$ 3,331,168</u>      | <u>100.0%</u>   |

The OPEB Trust Fund's policy is to disclose any investment denomination in a foreign currency. Exposure to foreign currency risk is limited to the international investment allocation target maximum of 20% of the fair value of the investment portfolio.

As of December 31, 2012, the OPEB Trust investments in international equity mutual funds stated at fair market value are as follows (in thousands of dollars):

| <b><u>Fund Name</u></b>     | <b><u>Fair Value</u></b> |
|-----------------------------|--------------------------|
| Harbor International Instl. | \$ 7,922                 |
| Artisan International Fund  | 3,969                    |
|                             | <u>\$ 11,891</u>         |

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Securities Lending

The Pension Trust Fund lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank of New York Mellon, the Fund's master custodian, lends for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities' market value, and international securities for collateral worth at least 105%. Securities lent at year end for cash collateral are presented as not categorized in the preceding summarization of investment market values; securities lent for securities collateral are classified according to the risk categorization of the collateral received. At year-end, the Fund has no credit risk exposure to borrowers because the exact amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Pension Trust Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 33 days.

The relationship between the maturities of the investment pool and the Pension Trust Fund's loans are affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Pension Trust Fund cannot pledge or sell collateral securities without borrower default.

The Pension Trust Fund also participates in the securities lending programs offered by Northern Trust Global Investments (NTGI) and State Street Global Advisors (SSGA) with regards to their pooled bond and equity index funds. NTGI's securities lending performance is reflected in the returns of the index fund. Securities lending income earned by SSGA serves as a credit to quarterly management fees, and any remainder is used for purchasing additional units in the bond index fund. NTGI's securities lending income or loss is reflected in the net asset value of the index funds.

A summary of securities loaned at fair value as of December 31, 2012 is as follows:

|   |                      |
|---|----------------------|
| Market value of securities loaned for cash collateral     | \$ 48,333,485        |
| Market value of securities loaned for non-cash collateral | -                    |
| Total market value of securities loaned                   | <u>\$ 48,333,485</u> |
| Market value of cash collateral from borrowers            | 49,637,240           |
| Market value of non-cash collateral from borrowers        | -                    |
| Total market value of collateral from borrowers           | <u>\$ 49,637,240</u> |



## 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, 2012 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

|   | General<br>Corporate | Debt<br>Service | Capital<br>Improve-<br>ments<br>Bond | Construc-<br>tion | Other<br>Govern-<br>mental | Total<br>Govern-<br>mental | Statement<br>of Net<br>Position |
|---|----------------------|-----------------|--------------------------------------|-------------------|----------------------------|----------------------------|---------------------------------|
| Receivables at December 31, 2012:           |                      |                 |                                      |                   |                            |                            |                                 |
| Property taxes:                             | \$ 276,067           | \$ 204,756      | \$ -                                 | \$ 21,363         | \$ 53,746                  | \$ 555,932                 | \$ 555,932                      |
| Allowance for uncollectible taxes           | (40,228)             | (26,274)        | -                                    | (1,660)           | (6,954)                    | (75,116)                   | (75,116)                        |
| Net property taxes                          | 235,839              | 178,482         | -                                    | 19,703            | 46,792                     | 480,816                    | 480,816                         |
| Personal property replacement tax           | -                    | -               | -                                    | -                 | 5,411                      | 5,411                      | 5,411                           |
| Total taxes receivable, net                 | 235,839              | 178,482         | -                                    | 19,703            | 52,203                     | 486,227                    | 486,227                         |
| Other receivables:                          |                      |                 |                                      |                   |                            |                            |                                 |
| User charges                                | 1,907                | -               | -                                    | -                 | -                          | 1,907                      | 1,907                           |
| State revolving fund loans                  | -                    | -               | 13,592                               | -                 | -                          | 13,592                     | 13,592                          |
| Federal subsidy                             | -                    | 1,001           | -                                    | -                 | -                          | 1,001                      | 1,001                           |
| Miscellaneous                               | 1,027                | -               | 480                                  | 745               | -                          | 2,252                      | 2,252                           |
| Total other receivables, net                | 2,934                | 1,001           | 14,072                               | 745               | -                          | 18,752                     | 18,752                          |
| Total net receivables,<br>December 31, 2012 | \$ 238,773           | \$ 179,483      | \$ 14,072                            | \$ 20,448         | \$ 52,203                  | \$ 504,979                 | \$ 504,979                      |

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. Other deferred revenue is reported in the Governmental Funds Balance Sheets and the government-wide Statements of Net Position for rental resources that have been received, but not earned. Other deferred revenue is reported in the Governmental Funds Balance Sheets for the federal subsidy accrual relating to the direct reimbursement for the District's Build America Bonds. A summary of deferred revenue as of December 31, 2012 is as follows (in thousands of dollars).

|  | General<br>Corporate | Debt<br>Service | Construction | Other<br>Govern-<br>mental | Total<br>Govern-<br>mental | Adjust-<br>ments | Statement<br>of Net<br>Position |
|--|----------------------|-----------------|--------------|----------------------------|----------------------------|------------------|---------------------------------|
| Deferred revenue at December 31, 2012:         |                      |                 |              |                            |                            |                  |                                 |
| Deferred tax revenue                           | \$ 194,980           | \$ 147,594      | \$ 16,357    | \$ 38,646                  | \$ 397,577                 | \$(397,577)      | \$ -                            |
| Other deferred revenue:                        |                      |                 |              |                            |                            |                  |                                 |
| Rental income                                  | 3,111                | -               | -            | -                          | 3,111                      | 4                | 3,115                           |
| Grant revenue                                  | -                    | 1,001           | -            | -                          | 1,001                      | (1,001)          | -                               |
| Service fee                                    | -                    | -               | 745          | -                          | 745                        | (745)            | -                               |
| Total other deferred revenue                   | 3,111                | 1,001           | 745          | -                          | 4,857                      | (1,742)          | 3,115                           |
| Total deferred revenue at<br>December 31, 2012 | \$ 198,091           | \$ 148,595      | \$ 17,102    | \$ 38,646                  | \$ 402,434                 | \$(399,319)      | \$ 3,115                        |

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Payables

Payables reported as “Accounts payable and other liabilities” at December 31, 2012 in the District’s governmental funds and government-wide financial statements are detailed as follows (in thousands of dollars):

|   | <u>General<br/>Corporate</u> | <u>Capital<br/>Improve-<br/>ments<br/>Bond</u> | <u>Construc-<br/>tion</u> | <u>Other<br/>Govern-<br/>mental</u> | <u>Total<br/>Govern-<br/>mental</u> | <u>Statement<br/>of Net<br/>Position</u> |
|---|------------------------------|--|---------------------------|-------------------------------------|-------------------------------------|--|
| Accounts payable and other liabilities at<br>December 31, 2012:         |                              |  |                           |                                     |                                     |  |
| Vouchers payable and other liabilities                                  | \$ 23,343                    | \$ 42,798                                      | \$ 4,062                  | \$ 2,496                            | \$ 72,699                           | \$ 72,699                                |
| Accrued payroll and withholdings  | 6,958                        | -  | -                         | -                                   | 6,958                               | 6,958                                    |
| Bid deposits  | 885                          | -  | -                         | -                                   | 885                                 | 885                                      |
| Total accounts payable and other liabilities<br>as of December 31, 2012 | <u>\$ 31,186</u>             | <u>\$ 42,798</u>                               | <u>\$ 4,062</u>           | <u>\$ 2,496</u>                     | <u>\$ 80,542</u>                    | <u>\$ 80,542</u>                         |

## 6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2012, are as follows (in thousands of dollars):

|  | <u>Balances<br/>January 1, 2012</u> | <u>Additions</u>  | <u>Retirements</u> | <u>Balances<br/>December 31, 2012</u> |
|--|-------------------------------------|-------------------|--------------------|---------------------------------------|
| Governmental activities:                         |                                     |                   |                    |                                       |
| Capital assets not depreciated/amortized:        |                                     |                   |                    |                                       |
| Land   | \$ 129,495                          | \$ 89             | \$ -               | \$ 129,584                            |
| Permanent easements                              | 1,330                               | -                 | -                  | 1,330                                 |
| Construction in progress                         | 1,243,757                           | 190,254           | 650,486            | 783,525                               |
| Infrastructure under modified approach           | 3,505,052                           | 649,199           | 7,021              | 4,147,230                             |
| Total capital assets not depreciated/amortized   | <u>4,879,634</u>                    | <u>839,542</u>    | <u>657,507</u>     | <u>5,061,669</u>                      |
| Capital assets depreciated/amortized:            |                                     |                   |                    |                                       |
| Buildings  | 13,226                              | -                 | -                  | 13,226                                |
| Equipment  | 55,269                              | 1,621             | 919                | 55,971                                |
| Computer software                                | 4,408                               | 162               | -                  | 4,570                                 |
| Infrastructure and easements                     | 1,898,383                           | -                 | -                  | 1,898,383                             |
| Total capital assets being depreciated/amortized | <u>1,971,286</u>                    | <u>1,783</u>      | <u>919</u>         | <u>1,972,150</u>                      |
| Less accumulated depreciation/amortization:      |                                     |                   |                    |                                       |
| Buildings  | 5,131                               | 185               | -                  | 5,316                                 |
| Equipment  | 24,072                              | 3,242             | 772                | 26,542                                |
| Computer software                                | 1,492                               | 859               | -                  | 2,351                                 |
| Infrastructure and easements                     | 178,684                             | 11,600            | -                  | 190,284                               |
| Total accumulated depreciation/amortization      | <u>209,379</u>                      | <u>15,886</u>     | <u>772</u>         | <u>224,493</u>                        |
| Total capital assets depreciated/amortized, net  | <u>1,761,907</u>                    | <u>(14,103)</u>   | <u>147</u>         | <u>1,747,657</u>                      |
| Governmental activities capital assets, net      | <u>\$ 6,641,541</u>                 | <u>\$ 825,439</u> | <u>\$ 657,654</u>  | <u>\$ 6,809,326</u>                   |

Depreciation and amortization expense in the government-wide Statements of Activities, for the year ended December 31, 2012, was charged to the District's governmental functions as follows (in thousands of dollars):

| <b>Department</b>                       | <b>Amount</b> |
|---|---------------|
| Board of Commissioners                  | \$ 10         |
| General Administration                  | 438           |
| Monitoring and Research                 | 250           |
| Procurement and Materials Management    | 7             |
| Human Resources                         | 16            |
| Information Technology                  | 568           |
| Law                                     | 10            |
| Finance                                 | 9             |
| Engineering                             | 1,165         |
| Maintenance and Operations              | 954           |
| Total allocated depreciation            | 3,427         |
| Unallocated infrastructure depreciation | 12,459        |
| Total depreciation                      | \$ 15,886     |

## 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, 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 for which the annual applicable tax is levied, multiplied by a factor of 2.19 annually. As of January 1, 2013, this factor will increase to 4.19 annually.

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

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension asset (obligation) of the Plan for the year ended December 31, 2012, were as follows (in thousands of dollars):

|  |                          |
|--|--------------------------|
| Annual required contribution               | \$ 74,829                |
| Interest on net pension obligation         | 8,407                    |
| Adjustment to annual required contribution | (5,969)                  |
| Annual pension cost                        | <u>77,267</u>            |
| Contributions made                         | (65,098)                 |
| Increase in net pension obligation         | 12,169                   |
| Net pension obligation beginning of year   | <u>108,482</u>           |
| Net pension obligation end of year         | <u><u>\$ 120,651</u></u> |

The net pension obligation is reported in the government-wide Statements of Net Position.

### Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation, using the Entry Age Normal actuarial cost method and the Level Percentage of Payroll 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 3.00% per year for employees hired before January 1, 2011 and surviving spouse annuitants and 1.25% per year for employees hired after January 1, 2011; and (d) 3.00% 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, 2012, was 30 years.

### Trend Information

The annual pension cost, percentage of annual pension contributed and net pension obligation for the past three years ending December 31, 2012, are presented below (in thousands of dollars):

| Fiscal<br>Year Ending | Employer Contributions       |                                  | Net Pension<br>Obligation |
|-----------------------|------------------------------|----------------------------------|---------------------------|
|                       | Annual Pension<br>Cost (APC) | Percentage of<br>APC Contributed |                           |
| 12/31/2012            | \$ 77,267                    | 84.25%                           | \$ (120,651)              |
| 12/31/2011            | 71,075                       | 52.59%                           | (108,482)                 |
| 12/31/2010            | 62,815                       | 47.63%                           | (74,786)                  |

### Funding Status of Plan

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows (in thousands of dollars):

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>Entry Age (b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(b-a)/c |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 12/31/2012                     | \$ 1,076,740                           | \$ 2,136,508  | \$ 1,059,768                       | 50.40%                   | \$ 163,817                | 646.92%   |

The schedule of funding progress, presented as required supplementary information (RSI) following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarially accrued liability for benefits. The projection of benefits for financial reporting does not explicitly incorporate the potential effects of legal or contractual funding limitations.

## **8. OPEB - Other Post-Employment Benefits**

### **Plan Description**

The Metropolitan Water Reclamation District Retiree Health Care Trust (OPEB Trust) administers the financing of OPEB and the payment of benefits for the Metropolitan Water Reclamation District of Greater Chicago. Pursuant to Illinois Statute 70 ILCS 2605/9.6d, the District adopted the Metropolitan Water Reclamation District Retiree Health Care Plan (the "Plan") effective December 6, 2007. The purpose of the "Plan" is to provide postretirement medical and prescription drug coverage benefits to retirees as well as spouses and dependants of retirees that fulfill certain eligibility requirements. Retirees and annuitants receiving a pension through the Pension Trust Fund are eligible for District-sponsored health insurance. As of December 31, 2011, the date of the last actuarial valuation, there are 1,893 active employees and 2,889 retirees and beneficiaries currently receiving health care coverage.

The OPEB Trust Fund issues a financial report that includes financial statements and required supplementary information establishing the financial position of the Plan. That report may be obtained by writing to the Metropolitan Water Reclamation District Retiree Health Care Trust Fund, 100 E. Erie, Chicago, IL, 60611-2898 or calling 312-751-5150.

### **Basis of Accounting**

The financial statements of the Trust are prepared using the accrual basis of accounting. Employer contributions to the Trust are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

### **Contributions**

The District has not entered into any long-term contracts for contributions to the plan as of the date of this report. State Statute 70 ILCS 2605/9.6d is the legislation establishing the Trust and gives the District Board of Commissioners discretionary authority to determine contribution amounts to be paid by the District. The OPEB Funding Policy includes a target funded ratio of 50% with an expected funding period of 50 years (beginning in 2007), with \$50,000,000 to be contributed by the end of 2011. In 2012, \$22,000,000 was contributed by the District to the OPEB Trust Fund bringing the total contributed through December 31, 2012 to \$72,000,000. In succeeding fiscal years, the Trust will receive the District (employer) contribution as determined by the Board of Commissioners. There is currently no requirement for the District to partially or fully fund the Trust, and any funding is on a voluntary basis. Plan participants do not contribute to the plan other than providing premium contributions as discussed below.

The District allows employees who retire and meet certain eligibility requirements to continue medical coverage as participants in the Metropolitan Water Reclamation District Retiree Health Care Plan. The plan allows for subsidized health care benefits for its retirees. Retirees contribute 27.5% of the premium and the District pays the remaining 72.5%. Every year for the next nine retiree contributions will rise by 2.5% until the premium reaches 50%. Each year, the Board approves an appropriation to fund retiree medical costs as part of the Personnel Department, General Corporate Fund budget. The amount of OPEB expenditure recognized during 2012 by the District was \$35,426,000, all claims paid (net of participant contributions).

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### Annual OPEB Cost and Net OPEB Obligation

The following OPEB cost and net OPEB obligation was determined for the year ended December 31, 2012 (in thousands of dollars).

|  |                         |
|--|-------------------------|
| Annual required contribution (ARC)         | \$ 27,264               |
| Interest on net OPEB obligation            | 4,643                   |
| Adjustment to annual required contribution | (3,636)                 |
| Annual OPEB cost                           | <u>28,271</u>           |
| Contributions made                         | <u>(35,426)</u>         |
| Increase (decrease) in net OPEB obligation | (7,155)                 |
| Net OPEB obligation beginning of year      | <u>76,580</u>           |
| Net OPEB obligation end of year            | <u><u>\$ 69,425</u></u> |

### Funding Status and Progress

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

| Period Ended | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL)-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) |
|--------------|--------------------------|-------------------------------|---|----------------------------|--------------------|---------------------|---|
| 12/31/2012   | 12/31/2011               | \$ 54,996                     | \$ 394,676                                      | \$ 339,680                 | 13.93%             | \$ 162,853          | 208.6%  |

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual required contribution for the current year actuarial valuation using the Project Unit Credit actuarial cost method and the level percentage of payroll amortization method. Additional assumptions are summarized in the following table:

|                                      |  |
|--------------------------------------|--|
| Valuation date                       | December 31, 2011                              |
| Actuarial cost method                | Projected unit credit                          |
| Amortization method and period       | 30 years, open, level percentage of payroll    |
| Asset valuation method               | Fair market value                              |
| Discount rate                        | 7.00%  |
| Inflation Rate                       | 3.00%  |
| Health care cost trend rates         | 8.5% Initial rate, 5% Ultimate rate, Year 2018 |
| Annual projected payroll growth rate | 3.60%  |

**Trend Information**

The OPEB annual cost, percentage of annual cost contributed and net OPEB obligation for the year ending December 31, 2012, are presented below (in thousands of dollars):

| <u>Period Ended</u> | <u>Schedule of Employer Contributions</u> |                                   | <u>Net OPEB<br/>Obligation</u> |
|---------------------|---|-----------------------------------|--------------------------------|
|                     | <u>Annual<br/>OPEB Cost</u>               | <u>Percentage<br/>Contributed</u> |                                |
| 12/31/2012          | \$ 28,271                                 | 125.3%                            | \$ 69,425                      |
| 12/31/2011          | 28,271                                    | 63.7%                             | 76,580                         |
| 12/31/2010          | 40,056                                    | 38.7%                             | 66,329                         |

**9. Commitments and Rebatable Arbitrage Earnings**

The General Corporate Fund has existing purchase order encumbrances of \$2,994,043 at December 31, 2012. Construction, Stormwater Management, and Capital Improvements Bond Funds’ contract commitments (encumbrances) were \$406,366,267 at December 31, 2012. State Revolving Fund Loan commitments of \$47,843,415 at December 31, 2012, are also collectible as contract expenditures are incurred.

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. The Internal Revenue Code offers certain “safe harbors” permitting qualified governments to keep extra earnings that result from arbitrage. The District has made a determination of their probable liability for amounts potentially due to the United States government. As of December 31, 2012, the District has no arbitrage rebate liability.

On August 26, 2009, the District issued its \$600,000,000 Taxable General Obligation Capital Improvement Bonds Limited Tax Series of August, 2009 (Build America Bonds - Direct Payment) (the “2009 Bonds”).

On April 29, 2010, the District received notice of an informal inquiry relating to the 2009 Bonds by the United States Securities and Exchange Commission (“SEC”). The SEC requested production of all documents related to the issuance and sale of the 2009 Bonds. The District furnished various documents to the SEC during the summer of 2010. The District will continue to cooperate with the SEC.

On September 24, 2010, the Tax-Exempt Bond function of the Internal Revenue Service notified the District that it is conducting an examination of the 2009 Bonds. The District believes that all requirements of the Internal Revenue Code relating to Build America Bonds were satisfied. On March 19, 2012, the District received a letter from the IRS that the examination was completed. As a result, the determination was made to close the examination with no-change in position.

On January 30, 2012, the Tax-Exempt Bond function of the Internal Revenue Service notified the District that it is conducting an examination of the 2006 Refunding Bonds. The District believes that all requirements of the Internal Revenue Code for the refunding were satisfied. On May 8, 2012, the District received a letter from the IRS that the examination was completed. As a result, the determination was made to close the examination with no-change in position.

The District is participating in the rulemaking process before the Illinois Pollution Control Board involving a Use Attainability Analysis (UAA)(Docket R08-9) that seeks to upgrade the recreational and aquatic use for the Chicago Area Waterway System (CAWS). In connection with the rulemaking process, the District has agreed to add disinfection processes at its O’Brien and Calumet water reclamation plants. The cost of the capital improvements to add the disinfection processes is approximately \$110 million.

The District is a defendant in a lawsuit wherein the United States Environmental Protection Agency (USEPA) alleges that the District violated certain conditions of its operating permits. An agreement has been reached with the USEPA, subject to court approval, that would require entry of an agreed upon consent decree that will obligate the District to pay a civil penalty

## Notes to the Basic Financial Statements

*Year ended December 31, 2012*

of approximately \$675,000, commit the District to complete the Tunnel & Reservoir Plan as already intended, and undertake certain other obligations to address the alleged violations. The District anticipates that the court will either accept or reject the decree within the next 6 months.

Currently, with respect to the Districts' three major plants, the existing NDPES permits contain no effluent limits for phosphorus nor are water quality standards in place for phosphorus with respect to the bodies of water to which they discharge. In an effort to promote sustainability and resource recovery, the District is voluntarily moving forward with a plan to achieve over time a 1.0 mg/L phosphorus discharge limit at its three major plants. The District anticipates the 1.0 limit being contained in the District's NPDES permits. The current amount of capital costs budgeted to achieve this standard at two of the plants is \$50 million. As the District is in the early stages of developing the treatment processes, the actual capital costs incurred could be different from the initial budget. The district plans to sell the recovered phosphorus as a fertilizer component.

The District is a defendant in a lawsuit wherein certain environmental groups allege that the District is violating its operating permits and certain water quality standards. The district contests the allegations in the complaint and intends to vigorously defend the lawsuit.

In March 2011, the Illinois Environmental Protection Agency approved the District's Long Term Control Plan (LTCP) to address combined sewer overflows in the Lemont basin. The District is currently in the process of designing and constructing the projects listed in the approved LTCP.

### 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, environmental regulations, 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. The range of such estimated costs at December 31, 2012, is between \$69.5 million and \$100.6 million. The District is of the opinion that the tenants (except for those who are bankrupt, out of business, or otherwise financially unable to perform) would ultimately be liable for the bulk, if not all, of these site clean-up costs. Negotiations are ongoing between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. The current estimated cost was determined to be \$84,775,000 with an estimated cost recoverable amount of \$74,350,000 resulting in \$10,425,000 being recognized at December 31, 2012 in the liabilities of the government-wide financial statements. Of this amount, \$2,000,000 is classified as a short-term liability and the remaining \$8,425,000 is considered a long-term liability. These estimates are subject to changes as a result of price increases, changes in technology and new laws and regulations. These estimates were generated using the expected cash flows technique. GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments



and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset.

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

Additional insurance policies in effect at December 31, 2012, are listed below. There were no reductions in insurance coverage from the prior year. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

|  |               |
|--|---------------|
| <i>Automobiles, Trucks, and Trailers</i>   |               |
| Excess liability .....   | \$5,000,000   |
| Deductible .....   | \$1,000,000   |
| <i>Public Employee Dishonesty</i>  |               |
| Aggregate Limit .....  | \$6,000,000   |
| Deductible .....   | \$30,000      |
| <i>Faithful Performance</i>  |               |
| Aggregate Limit .....  | \$6,000,000   |
| Deductible .....   | \$30,000      |
| <i>Public Employee Forgery or Alteration</i>   |               |
| Each occurrence .....  | \$500,000     |
| Deductible .....   | \$0           |
| <i>Marine Liability</i>  |               |
| Excess liability .....   | \$10,000,000  |
| Deductible .....   | \$10,000      |
| <i>Group Travel Accidental</i>   |               |
| Accidental death benefits .....  | \$500,000     |
| Dismemberment benefits.....  | sliding scale |
| Aggregate limits .....   | \$5,000,000   |
| <i>Non-owned Aircraft Liability</i>  |               |
| Each occurrence .....  | \$5,000,000   |
| <i>Pension &amp; Welfare Fiduciary Liability for Deferred Compensation Plan/Retiree Health Care Trust/OPEB</i> |               |
| Aggregate limit.....   | \$5,000,000   |
| Deductible.....  | \$25,000      |

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

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Claims Payable at January 1             | \$ 59,857   | \$ 41,292   |
| Claims incurred                         | 5,998       | 6,923       |
| Changes in prior years' claims estimate | 19,740      | 18,565      |
| Claim payments                          | (5,998)     | (6,923)     |
| Claims Payable at December 31           | \$ 79,597   | \$ 59,857   |

## Notes to the Basic Financial Statements

Year ended December 31, 2012

### 11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2012 (in thousands of dollars):

|  | Balance<br>January 1,<br>2012 | Additions         | Reductions          | Balance<br>December 31,<br>2012 | Due<br>Within<br>One Year |
|--|-------------------------------|-------------------|---------------------|---------------------------------|---------------------------|
| <b>Governmental long-term liabilities:</b> |                               |                   |                     |                                 |                           |
| Bonds and notes payable:                   |                               |                   |                     |                                 |                           |
| General obligation debt                    | \$ 1,965,824                  | \$ -              | \$ (69,453)         | \$ 1,896,371                    | \$ 38,640                 |
| Converted bond anticipation notes          | 500,640                       | 118,365           | -                   | 619,005                         | 45,045                    |
| Total general obligation debt              | 2,466,464                     | 118,365           | (69,453)            | 2,515,376                       | 83,685                    |
| Deferred amounts:                          |                               |                   |                     |                                 |                           |
| Issuance costs                             | (8,316)                       | -                 | 427                 | (7,889)                         | (422)                     |
| Premium                                    | 94,260                        | -                 | (5,650)             | 88,610                          | 5,584                     |
| Refunding transactions                     | (22,454)                      | -                 | 3,039               | (19,415)                        | (3,039)                   |
| Bonds payable, net                         | 2,529,954                     | 118,365           | (71,637)            | 2,576,682                       | 85,808                    |
| Bond anticipation notes                    | 108,008                       | 54,884            | (118,365)           | 44,527                          | -                         |
| Net bonds and notes payable                | 2,637,962                     | 173,249           | (190,002)           | 2,621,209                       | 85,808                    |
| Other liabilities:                         |                               |                   |                     |                                 |                           |
| Claims and judgments                       | 59,857                        | 25,738            | (5,998)             | 79,597                          | 59,537                    |
| Compensated absences                       | 28,784                        | 40                | (468)               | 28,356                          | 1,269                     |
| Capital lease (note 14)                    | 51,784                        | -                 | (1,947)             | 49,837                          | 2,042                     |
| Net OPEB obligation (note 8)               | 76,580                        | -                 | (7,155)             | 69,425                          | -                         |
| Net Pension liability (note 9)             | 108,482                       | 12,169            | -                   | 120,651                         | -                         |
| Total governmental long-term liabilities   | <u>\$ 2,963,449</u>           | <u>\$ 211,196</u> | <u>\$ (205,570)</u> | <u>\$ 2,969,075</u>             | <u>\$ 148,656</u>         |

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, 2012, the annual debt service requirements for general obligation bonds are shown below (in thousands of dollars):

**Bonds Payable Maturity Table**

| <b>Maturing</b> | <b>Capital Improvement<br/>Bond Series<br/>(3.0-5.720%)<br/>(Issued 12/02<br/>to 07/11)</b> | <b>Refunding<br/>(4.00-5.00%)<br/>(Issued 05/06<br/>to 03/07)</b> | <b>State Revolving<br/>Funds Series<br/>(0.0-3.745%)<br/>(Issued 12/91<br/>to 07/12)</b> | <b>Total<br/>Principal</b> | <b>Total<br/>Interest</b> |
|-----------------|---|---|--|----------------------------|---------------------------|
|                 |   |   |  |                            |                           |
| 2013            | \$ 38,640   | \$ -  | \$ 45,045  | \$ 83,685                  | \$ 109,300                |
| 2014            | 22,175  | 18,760  | 43,780   | 84,715                     | 106,928                   |
| 2015            | 33,070  | 19,675  | 42,799   | 95,544                     | 104,686                   |
| 2016            | 26,695  | 20,585  | 42,395   | 89,675                     | 101,348                   |
| 2017            | 22,220  | 17,955  | 42,192   | 82,367                     | 98,270                    |
| 2018-2022       | 136,235   | 111,340   | 183,227  | 430,802                    | 444,003                   |
| 2023-2027       | 55,575  | 206,985   | 145,660  | 408,220                    | 364,870                   |
| 2028-2032       | 182,350   | 244,055   | 73,907   | 500,312                    | 281,724                   |
| 2033-2037       | 475,000   | 140,055   | -  | 615,055                    | 140,424                   |
| 2038-2039       | 125,000   | -   | -  | 125,000                    | 7,150                     |
|                 | <u>\$ 1,116,960</u>   | <u>\$ 779,410</u>   | <u>\$ 619,005</u>  | <u>\$ 2,515,375</u>        | <u>\$ 1,758,703</u>       |

Expenditures for principal and interest made on January 1, 2013 approximated \$22,614,000 and \$5,797,000 respectively.

**2011 Bond Issues**

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

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

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

**2009 Bond Issues**

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

**2007 Bond Issues**

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

## Notes to the Basic Financial Statements

*Year ended December 31, 2012*

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

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

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

### **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.

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. \$110,435,000 of these bonds were due to mature in the years 2027 to 2033 and were refunded in March 2007.

In July 2006, the District issued \$100,000,000 of General Obligation Capital Improvement Bonds, Unlimited Tax Series, with a maturity date of December 1, 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. These bonds were refunded in March 2007.

### **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 2008 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 December 1 and June 1.

### **Capital Improvement Bonds, IEPA Series**

The District has adopted bond ordinances authorizing issuance of its general obligation bonds to the Illinois Environmental Protection Agency (IEPA). The most recent such authorization was pursuant to a bond ordinance adopted in calendar year 2012 in the amount of \$300,000,000 for Capital Improvement Bonds, 2012 IEPA Series. The IEPA approves various wastewater system improvement projects for funding from the State Water Pollution Control Revolving Loan Fund (RLF). Once a project has been approved, the State offers the District a loan from the RLF, which the District incorporates into the form of the bond which is issued to the IEPA (the Loan/Bond). When work on the project begins, the District pays the contractor, then receives from the IEPA a corresponding amount of advance on the Loan/Bond. This form of loan is commonly referred to as a drawdown loan. The advances continue on the Loan/Bond until the project is completed or the amount of the loan is fully advanced, whichever occurs first. In general, within two years of the first advance on a Loan/Bond, the IEPA promulgates a repayment schedule on such Loan/Bond. The repayment schedules call

for level payments of principal and interest, collectively, over a 20 year period beginning within six months of the date the repayment schedule is promulgated. Under this authority, the IEPA has approved the following loan amount:

2012..... \$ 30,728,000

In 2009, the District authorized the issuance of \$ 258,000,000 of Capital Improvement Bonds, 2009 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The terms and conditions are similar to the 2012 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts. Under this authority, the IEPA has subsequently approved the following loan amounts:

2012..... \$ 40,000,000  
 2011..... \$ 97,500,000  
 2010..... \$102,911,000  
 2009..... \$ 11,442,000

In 2007, the District authorized the issuance of \$160,000,000 of Capital Improvement Bonds, 2008 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The terms and conditions are similar to the 2009 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

2009..... \$ 65,000,000  
 2008..... \$ 39,257,000  
 2007..... \$ 43,000,000

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 terms and conditions are similar to the 2007 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

2009.....\$ 5,648,000  
 2008..... \$ 47,099,000  
 2006..... \$ 71,664,000

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 Position.

The District refinances bond anticipation notes through the issuance of its Capital Improvement Bonds in the amount of the bond anticipation notes, plus accrued interest 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 Position.

The converted amount of \$118,365,000 in 2012 represented the sum of bond anticipation note principal of \$121,840,000, principal forgiveness of (\$5,000,000) and interest in the amount of \$1,525,000.

**2012 Bond Issues** and adjustments to existing issues under the IEPA 2007 and 2009 authority, included:

- August 2012 – The District issued \$64,312,400 of Capital Improvement Bonds - IEPA Series 09F, through the conversion of the sum of bond anticipation note principal of \$66,303,900, principal forgiveness of (\$2,500,000), and interest of \$508,500 with maturity dates from January 1, 2013 to July 1, 2032. Interest on the bonds accrues at a rate of 1.25%, payable January 1 and July 1.
- August 2012 – The District issued \$63,600 of Capital Improvement Bonds – IEPA Series 09B, through the conversion of the sum of bond anticipation note principal of \$63,600 with maturity dates from January 1, 2013 to January 1, 2031. Terms of the loan agreement provide for the forgiveness of all accrued interest. Payments of principal are made on January 1 and July 1.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

- August 2012 – The District issued \$731,900 of Capital Improvement Bonds - IEPA Series 09I, through the conversion of the sum of bond anticipation note principal of \$727,100 and interest of \$4,800 with maturity dates from January 1, 2013 to January 1, 2031. Interest on the bonds accrues at a rate of 1.25%, payable January 1 and July 1.
- August 2012 – The District issued \$4,617,000 of Capital Improvement Bonds - IEPA Series 07A, through the conversion of the sum of bond anticipation note principal of \$4,544,000 and interest of \$73,000 with maturity dates from January 1, 2013 to January 1, 2030. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.
- August 2012 – The District issued \$1,364,200 of Capital Improvement Bonds - IEPA Series 07D, through the conversion of the sum of bond anticipation note principal of \$1,345,600 and interest of \$18,600 with maturity dates from January 1, 2013 to January 1, 2030. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.
- December 2012 – The District issued \$47,275,900 of Capital Improvement Bonds - IEPA Series 09A, through the conversion of the sum of bond anticipation note principal of \$48,855,800, principal forgiveness of (\$2,500,000), and interest of \$920,100 with maturity dates from January 1, 2013 to July 1, 2032. Interest on the bonds accrues at a rate of 1.25%, payable January 1 and July 1.

Beginning in 1991, the District's Board of Commissioners adopted ordinances providing for the issuance of bond anticipation notes. The bond anticipation notes are issued exclusively to cover interim project loan advances from the Illinois Environmental Protection Agency. Principal and interest liabilities related to the bond anticipation notes were \$44,526,900 at December 31, 2012. Of the bond anticipation notes outstanding at December 31, 2012, \$1,936,700 will be refinanced through IEPA Series 2004 bonds, \$1,410,200 will be refinanced through IEPA Series 2007 bonds, and the remaining \$41,180,000 will be refinanced through IEPA series 2009 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 \$210,435,000 were considered defeased at December 31, 2012.

## 12. Interfund Transactions

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

Individual interfund receivable and payable balances at December 31, 2012 are as follows (in thousands of dollars):

|  | <b>Interfund</b>   |                 |
|--|--------------------|-----------------|
|  | <b>Receivables</b> | <b>Payables</b> |
| General Corporate Fund                     | \$ 1,004           | \$ -            |
| Capital Projects Funds:                    |                    |                 |
| Capital Improvements Bond Fund             | -                  | 756             |
| Construction Fund                          | -                  | 86              |
| Stormwater Management Fund (Nonmajor Fund) | -                  | 162             |
|  | \$ 1,004           | \$ 1,004        |

In addition to the previous table, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2012 that represented earned but uncollected property taxes in the Retirement Fund and the government-wide Statements of Net Position.

Transfers between funds as authorized in the budget are recorded as “other financing sources (uses)” in the fund operating statements. Transfers are eliminated in the government-wide Statements of Activities. During the year ended December 31, 2012, the Board of Commissioners authorized net transfers to the Retirement Fund of \$30,000,000; \$1,000,000 to the Retirement Fund from the Corporate Fund, \$2,000,000 to the Retirement Fund from the Storm Water Management Fund, \$2,000,000 to the Retirement Fund from the Debt Service Fund and \$25,000,000 to the Retirement Fund from the Capital Improvements Bond Fund.

### **13. Property Tax Extension Limitation Law**

Effective March 1, 1995, the Property Tax Extension Limitation Law limits the amount of property taxes the District can extend for years subsequent to 1993. The law limits the District’s increase in aggregate tax levy extension to 5% of the previous year or to the percentage increase in the consumer price index, whichever is less. The limitation does not apply to the District’s Debt Service and 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 Stormwater Management Fund levy cannot exceed .05% of the equalized assessed valuation as a result of statutory changes.

### **14. Leases**

#### **Capital Lease**

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, and beneficially use the final product for a period of twenty years.

The cost of the biosolids processing facility is considered a capital lease since it will become the property of the District at the end of the contract. The District also has an option to purchase the facility at the end of the fifth, tenth, and fifteenth year of operation for the remaining principal portion of the debt. Total payments for the capital lease are estimated at \$83,123,000 for the full term of the contract, which will be paid from the Capital Improvements Bond Fund. The gross amount of assets acquired under the capital lease is \$54,535,000. During 2012, the District incurred expenses of approximately \$1,947,000 for principal and \$2,443,000 for interest. The contract expires twenty years from the date of commercial operation, which was declared in July 2010.

## Notes to the Basic Financial Statements

Year ended December 31, 2012

As of December 31, 2012, the future minimum lease payments for the biosolids facility are shown below (in thousands of dollars):

### Capital Lease Payable Maturity Table

| Maturing                     | Total<br>Principal | Total<br>Interest | Total<br>Payments |
|------------------------------|--------------------|-------------------|-------------------|
| 2013                         | 2,042              | 2,348             | 4,390             |
| 2014                         | 2,143              | 2,247             | 4,390             |
| 2015                         | 2,248              | 2,142             | 4,390             |
| 2016                         | 2,358              | 2,032             | 4,390             |
| 2017                         | 2,474              | 1,916             | 4,390             |
| 2018-2022                    | 14,312             | 7,636             | 21,948            |
| 2023-2027                    | 18,185             | 3,763             | 21,948            |
| 2028-2029                    | 6,075              | 224               | 6,299             |
| Total Minimum Lease Payments | \$ 49,837          | \$ 22,308         | \$ 72,145         |

### Lease Rentals

The District leases land to governmental and commercial tenants under operating lease agreements for periods of up to 99 years. There were no contingent lease rentals for the period. The commercial leases are considered non-cancellable and the following is a summary of the minimum future rentals for these leases at December 31, 2012, (in thousands of dollars):

|                                    |            |
|------------------------------------|------------|
| 2013                               | \$ 7,478   |
| 2014                               | 7,474      |
| 2015                               | 7,474      |
| 2016                               | 7,411      |
| 2017                               | 7,225      |
| Later Years                        | 189,486    |
| Total Minimum Future Rental Income | \$ 226,548 |

The cost of the land associated with the commercial leases is \$4,490,000. The District does not lease any depreciable assets.



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

## **Required Supplementary Information (RSI) Other than MD&A - Unaudited**

*Year ended December 31, 2012*

### **Modified Approach for Eligible Infrastructure Assets**

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

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

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

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

| <b><u>Asset Condition</u></b> | <b><u>Assessment Description</u></b>   |
|-------------------------------|--|
| (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, O'Brien, Central (Stickney), Calumet, Lemont and Waterways WRP networks were completed between 2002 and 2006.

Condition assessments of each network will continue at least every three years following the initial assessment. The Egan and O'Brien WRP's were re-assessed in 2010, the Kirie and Central (Stickney) WRP's, along with Waterways, were re-assessed in 2011, and the Hanover, Calumet, and Lemont WRP's were re-assessed in 2012.

## Required Supplementary Information (RSI) Other than MD&A - Unaudited

Year ended December 31, 2012

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

|                                       | <u>Collection<br/>Processes<br/>System</u> | <u>Treatment<br/>Processes<br/>System</u> | <u>Solids<br/>Processing<br/>System</u> | <u>Flood and<br/>Pollution<br/>Control<br/>System</u> | <u>Solids<br/>Drying/<br/>Utilization<br/>System</u> |
|---------------------------------------|--|---|---|---|--|
| <b>Condition Assessment Ratings</b>   |  |   |   |   |  |
| <b>Kirie WRP Network</b>              |  |   |   |   |  |
| Subsequent assessment - 2005          | 3  | 2   | 3                                       | NA  | NA   |
| Subsequent assessment - 2008          | 3  | 3   | 3                                       | NA  | NA   |
| Subsequent assessment - 2011          | 3  | 3   | 3                                       | NA  | NA   |
| <b>Hanover WRP Network</b>            |  |   |   |   |  |
| Subsequent assessment - 2006          | 3  | 2   | 2                                       | NA  | 2  |
| Subsequent assessment - 2009          | 3  | 2   | 2                                       | NA  | 2  |
| Subsequent assessment - 2012          | 3  | 2   | 3                                       | NA  | 2  |
| <b>Egan WRP Network</b>               |  |   |   |   |  |
| Initial Condition Assessment - 2004   | 2  | 2   | 2                                       | NA  | NA   |
| Subsequent assessment - 2007          | 3  | 2   | 2                                       | NA  | NA   |
| Subsequent assessment - 2010          | 3  | 3   | 3                                       | NA  | NA   |
| <b>O'Brien WRP Network</b>            |  |   |   |   |  |
| Initial Condition Assessment - 2004   | 3  | 3   | 3                                       | NA  | NA   |
| Subsequent assessments - 2007         | 3  | 3   | 3                                       | NA  | NA   |
| Subsequent assessment - 2010          | 3  | 3   | 3                                       | NA  | NA   |
| <b>Central (Stickney) WRP Network</b> |  |   |   |   |  |
| Initial Condition Assessment - 2005   | 3  | 3   | 2                                       | NA  | 2  |
| Subsequent assessment - 2008          | 3  | 3   | 3                                       | NA  | 2  |
| Subsequent assessment - 2011          | 3  | 3   | 3                                       | NA  | 2  |
| <b>Waterways WRP Network</b>          |  |   |   |   |  |
| Initial Condition Assessment - 2005   | NA   | NA  | NA                                      | 2   | NA   |
| Subsequent assessment - 2008          | NA   | NA  | NA                                      | 2   | NA   |
| Subsequent assessment - 2011          | NA   | NA  | NA                                      | 3   | NA   |
| <b>Calumet WRP Network</b>            |  |   |   |   |  |
| Initial Condition Assessment - 2006   | 3  | 3   | 3                                       | NA  | 3  |
| Subsequent assessment - 2009          | 3  | 3   | 3                                       | NA  | 2  |
| Subsequent assessment - 2012          | 3  | 2   | 2                                       | NA  | 2  |
| <b>Lemont WRP Network</b>             |  |   |   |   |  |
| Initial Condition Assessment - 2006   | 2  | 3   | 2                                       | NA  | NA   |
| Subsequent assessment - 2009          | 3  | 3   | 3                                       | NA  | NA   |
| Subsequent assessment - 2012          | 3  | NA  | NA                                      | NA  | NA   |
| <b>Maintenance/Preservation Costs</b> |  |   |   |   |  |
| <b>Kirie WRP Network</b>              |  |   |   |   |  |
| Estimated 2012                        | \$ 584,663                                 | \$ 7,960,196                              | \$ 210,624                              | \$ -  | \$ 5,728,926   |
| Actual 2012                           | 795,534                                    | 6,799,659                                 | 28,110                                  | -   | 5,440,496  |
| Estimated 2011                        | 2,735,300                                  | 2,773,048                                 | 6,400                                   | -   | -  |
| Actual 2011                           | 4,048,785                                  | 1,715,000                                 | 358,536                                 | -   | -  |
| Estimated 2010                        | 613,200                                    | 6,171,585                                 | -                                       | -   | -  |
| Actual 2010                           | 596,164                                    | 2,859,083                                 | 1,210                                   | -   | -  |
| Estimated 2009                        | 3,664,400                                  | 9,136,786                                 | 158,600                                 | -   | -  |
| Actual 2009                           | 463,677                                    | 7,345,024                                 | 1,362,495                               | -   | -  |
| Estimated 2008                        | 406,633                                    | 8,782,250                                 | 158,500                                 | -   | -  |
| Actual 2008                           | 531,475                                    | 4,413,531                                 | 545,837                                 | -   | -  |

(continued)

Metropolitan Water Reclamation District of Greater Chicago

|                                       | Collection<br>Processes<br>System | Treatment<br>Processes<br>System | Solids<br>Processing<br>System | Flood and<br>Pollution<br>Control<br>System | Solids<br>Drying/<br>Utilization<br>System |
|---------------------------------------|-----------------------------------|----------------------------------|--------------------------------|---|--|
| <b>Hanover WRP Network</b>            |                                   |                                  |                                |   |  |
| Estimated 2012                        | \$ 191,617                        | \$ 797,168                       | \$ 3,345,043                   | \$ -  | \$ 28,200                                  |
| Actual 2012                           | 199,915                           | 959,531                          | 567,985                        | -   | 28,416                                     |
| Estimated 2011                        | 170,200                           | 626,223                          | 190,200                        | -   | 27,400                                     |
| Actual 2011                           | 233,598                           | 985,072                          | 514,495                        | -   | 29,153                                     |
| Estimated 2010                        | 173,700                           | 678,205                          | 192,300                        | -   | 29,100                                     |
| Actual 2010                           | 170,921                           | 969,002                          | 254,706                        | -   | 28,605                                     |
| Estimated 2009                        | 180,200                           | 1,071,752                        | 289,623                        | -   | 105,229                                    |
| Actual 2009                           | 151,980                           | 1,123,785                        | 323,961                        | -   | 34,989                                     |
| Estimated 2008                        | 133,069                           | 904,488                          | 326,827                        | -   | 79,447                                     |
| Actual 2008                           | 111,148                           | 909,123                          | 286,703                        | -   | 68,470                                     |
| <b>Egan WRP Network</b>               |                                   |                                  |                                |   |  |
| Estimated 2012                        | 785,152                           | 4,419,441                        | 1,206,657                      | -   | -  |
| Actual 2012                           | 903,678                           | 4,488,430                        | 1,511,647                      | -   | -  |
| Estimated 2011                        | 639,479                           | 7,666,487                        | 651,528                        | 1,154,000                                   | -  |
| Actual 2011                           | 971,945                           | 4,473,685                        | 1,094,366                      | 1,042,670                                   | -  |
| Estimated 2010                        | 704,825                           | 3,406,512                        | 871,569                        | -   | -  |
| Actual 2010                           | 925,942                           | 3,299,260                        | 1,350,277                      | -   | -  |
| Estimated 2009                        | 442,114                           | 14,095,304                       | 775,216                        | 59,300                                      | -  |
| Actual 2009                           | 559,786                           | 11,166,975                       | 1,093,579                      | 64,945                                      | -  |
| Estimated 2008                        | 448,270                           | 10,155,227                       | 882,962                        | 65,600                                      | -  |
| Actual 2008                           | 515,844                           | 8,811,776                        | 940,624                        | 69,120                                      | -  |
| <b>O'Brien WRP Network</b>            |                                   |                                  |                                |   |  |
| Estimated 2012                        | 3,301,450                         | 4,565,194                        | 383,608                        | 7,236,000                                   | -  |
| Actual 2012                           | 4,232,213                         | 5,122,387                        | 541,287                        | 11,924,519                                  | -  |
| Estimated 2011                        | 7,861,157                         | 4,853,642                        | 572,747                        | 41,000                                      | -  |
| Actual 2011                           | 9,952,532                         | 6,111,578                        | 438,867                        | 2,243,730                                   | -  |
| Estimated 2010                        | 3,963,054                         | 6,070,964                        | 576,800                        | 11,493                                      | -  |
| Actual 2010                           | 4,048,224                         | 5,956,375                        | 605,929                        | 70,850                                      | -  |
| Estimated 2009                        | 8,151,138                         | 7,668,457                        | 2,022,200                      | 1,045,000                                   | -  |
| Actual 2009                           | 4,554,380                         | 7,224,353                        | 637,659                        | 2,165,558                                   | -  |
| Estimated 2008                        | 4,969,702                         | 7,469,780                        | 592,619                        | 393,700                                     | -  |
| Actual 2008                           | 4,664,926                         | 7,583,178                        | 661,543                        | 308,518                                     | -  |
| <b>Central (Stickney) WRP Network</b> |                                   |                                  |                                |   |  |
| Estimated 2012                        | 10,760,149                        | 11,999,337                       | 8,664,888                      | -   | 3,566,472                                  |
| Actual 2012                           | 10,777,690                        | 18,585,996                       | 10,922,993                     | -   | 3,135,077                                  |
| Estimated 2011                        | 11,279,737                        | 30,318,366                       | 8,293,784                      | -   | 6,667,383                                  |
| Actual 2011                           | 12,033,277                        | 33,694,435                       | 10,937,293                     | -   | 5,818,433                                  |
| Estimated 2010                        | 15,061,076                        | 19,329,365                       | 8,725,254                      | -   | 14,784,156                                 |
| Actual 2010                           | 14,219,095                        | 13,759,866                       | 12,745,392                     | -   | 12,175,411                                 |
| Estimated 2009                        | 24,507,569                        | 33,890,139                       | 15,331,569                     | -   | 11,697,814                                 |
| Actual 2009                           | 15,540,900                        | 24,895,356                       | 17,368,733                     | -   | 14,204,102                                 |
| Estimated 2008                        | 20,412,124                        | 17,058,681                       | 15,947,999                     | -   | 5,365,073                                  |
| Actual 2008                           | 14,528,403                        | 15,329,846                       | 16,639,862                     | -   | 1,651,578                                  |

(continued)

## Required Supplementary Information (RSI) Other than MD&A - Unaudited

Year ended December 31, 2012

|                              | Collection<br>Processes<br>System | Treatment<br>Processes<br>System | Solids<br>Processing<br>System | Flood and<br>Pollution<br>Control<br>System | Solids<br>Drying/<br>Utilization<br>System |
|------------------------------|-----------------------------------|----------------------------------|--------------------------------|---|--|
| <b>Waterways WRP Network</b> |                                   |                                  |                                |   |  |
| Estimated 2012               | \$ -                              | \$ -                             | \$ -                           | \$ 1,324,200                                | \$ -                                       |
| Actual 2012                  | -                                 | -                                | -                              | 1,552,914                                   | -  |
| Estimated 2011               | 15,000                            | -                                | -                              | 1,635,188                                   | -  |
| Actual 2011                  | 8,653                             | -                                | -                              | 1,177,533                                   | -  |
| Estimated 2010               | -                                 | -                                | -                              | 1,910,783                                   | -  |
| Actual 2010                  | -                                 | -                                | -                              | 1,262,520                                   | -  |
| Estimated 2009               | 1,800                             | -                                | -                              | 2,324,631                                   | -  |
| Actual 2009                  | 5,434                             | 297                              | -                              | 1,297,871                                   | -  |
| Estimated 2008               | 1,800                             | -                                | -                              | 1,800,451                                   | -  |
| Actual 2008                  | 1,546                             | 10,720                           | -                              | 1,315,055                                   | -  |
| <b>Calumet WRP Network</b>   |                                   |                                  |                                |   |  |
| Estimated 2012               | 5,325,141                         | 8,260,407                        | 2,095,308                      | 709,453                                     | -  |
| Actual 2012                  | 5,255,239                         | 6,140,875                        | 2,157,252                      | 1,042,053                                   | -  |
| Estimated 2011               | 7,089,465                         | 10,080,957                       | 3,432,425                      | 5,315,335                                   | -  |
| Actual 2011                  | 6,604,037                         | 8,195,502                        | 4,145,249                      | 4,582,004                                   | -  |
| Estimated 2010               | 6,270,304                         | 26,407,171                       | 3,136,498                      | 533,804                                     | -  |
| Actual 2010                  | 5,466,321                         | 23,313,873                       | 3,610,143                      | 554,878                                     | -  |
| Estimated 2009               | 7,086,894                         | 44,879,075                       | 3,871,945                      | 5,169,914                                   | -  |
| Actual 2009                  | 7,187,327                         | 57,258,251                       | 4,214,457                      | 1,290,778                                   | -  |
| Estimated 2008               | 6,980,720                         | 38,323,961                       | 3,099,557                      | 3,142,376                                   | -  |
| Actual 2008                  | 6,332,135                         | 37,285,024                       | 3,821,253                      | 1,734,287                                   | -  |
| <b>Lemont WRP Network</b>    |                                   |                                  |                                |   |  |
| Estimated 2012               | 48,004                            | 12,404                           | -                              | -   | -  |
| Actual 2012                  | 25,000                            | 31,200                           | -                              | -   | -  |
| Estimated 2011               | 97,000                            | 34,200                           | -                              | -   | -  |
| Actual 2011                  | 17,087                            | 7,240                            | -                              | -   | -  |
| Estimated 2010               | 47,000                            | 116,360                          | -                              | -   | -  |
| Actual 2010                  | 4,428                             | 11,724                           | -                              | -   | -  |
| Estimated 2009               | 47,000                            | 55,200                           | -                              | -   | -  |
| Actual 2009                  | 814                               | 33,048                           | -                              | -   | -  |
| Estimated 2008               | 47,000                            | 44,200                           | -                              | -   | -  |
| Actual 2008                  | 14,516                            | 23,966                           | -                              | -   | -  |

**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)

| Period Ended | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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) |
|--------------|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 12/31/2012   | 12/31/2012               | \$ 1,076,740                  | \$ 2,136,508                            | \$ 1,059,768              | 50.40%             | \$ 163,817          | 646.92%   |
| 12/31/2011   | 12/31/2011               | 1,097,397                     | 2,101,319                               | 1,003,922                 | 52.22%             | 164,275             | 611.12%   |
| 12/31/2010   | 12/31/2010               | 1,151,595                     | 2,036,680                               | 885,085                   | 56.54%             | 174,486             | 507.25%   |

A copy of the Pension Plan audit may be obtained by accessing the District's website at [www.mwrd.org](http://www.mwrd.org)

**Progress in Funding Other Post Employment Trust Funds**

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

(in thousands of dollars)

| Period Ended | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial 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) |
|--------------|--------------------------|-------------------------------|---|----------------------------|--------------------|---------------------|---|
| 12/31/2012   | 12/31/2011               | \$ 54,996                     | \$ 394,676                              | \$ 339,680                 | 13.93%             | \$ 162,853          | 208.58%   |
| 12/31/2011   | 12/31/2011               | 54,996                        | 394,676                                 | 339,680                    | 13.93%             | 162,853             | 208.58%   |
| 12/31/2010   | 12/31/2009               | 47,891                        | 526,476                                 | 478,585                    | 9.10%              | 170,392             | 280.87%   |

Actuarial valuations are required to be completed every two years. The most recent actuarial valuation was completed as of December 31, 2011. The reduction in the actuarial accrued liability and unfunded accrued liability was mainly due to the changes in the OPEB funding plan to increase retiree contributions to ultimately reach 50% of expected plan cost by 2021.

A copy of the OPEB Trust Fund audit may be obtained by accessing the District's website at [www.mwrd.org](http://www.mwrd.org)

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# **COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

## **NON-MAJOR GOVERNMENTAL FUNDS**

### **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.

### **STORMWATER MANAGEMENT FUND**

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

**Exhibit B-1****Combining Balance Sheets - Nonmajor Governmental Funds**

December 31, 2012

(with comparative amounts for prior year)

(in thousands of dollars)

|  | Retirement Fund  |                  | Stormwater Management Fund |                  | Total Nonmajor Governmental Funds |                   |
|--|------------------|------------------|----------------------------|------------------|-----------------------------------|-------------------|
|  | 2012             | 2011             | 2012                       | 2011             | 2012                              | 2011              |
| <b>Assets</b>                          |                  |                  |                            |                  |                                   |                   |
| Cash                                   | \$ -             | \$ -             | \$ 1,191                   | \$ 3,059         | \$ 1,191                          | \$ 3,059          |
| Certificates of deposit                | -                | -                | 1,001                      | 2,507            | 1,001                             | 2,507             |
| Investments                            | -                | -                | 58,958                     | 49,049           | 58,958                            | 49,049            |
| Taxes receivable, net                  | 32,903           | 32,453           | 19,300                     | 23,256           | 52,203                            | 55,709            |
| Total assets                           | <u>\$ 32,903</u> | <u>\$ 32,453</u> | <u>\$ 80,450</u>           | <u>\$ 77,871</u> | <u>\$ 113,353</u>                 | <u>\$ 110,324</u> |
| <b>Liabilities and Fund Balances</b>   |                  |                  |                            |                  |                                   |                   |
| Liabilities:                           |                  |                  |                            |                  |                                   |                   |
| Deferred tax revenue                   | \$ 22,730        | \$ 23,772        | \$ 15,916                  | \$ 20,249        | \$ 38,646                         | \$ 44,021         |
| Accounts payable and other liabilities | -                | -                | 2,496                      | 1,956            | 2,496                             | 1,956             |
| Due to Pension Trust Fund              | 10,173           | 8,681            | -                          | -                | 10,173                            | 8,681             |
| Due to other funds                     | -                | -                | 162                        | 113              | 162                               | 113               |
| Total liabilities                      | <u>32,903</u>    | <u>32,453</u>    | <u>18,574</u>              | <u>22,318</u>    | <u>51,477</u>                     | <u>54,771</u>     |
| Fund balances:                         |                  |                  |                            |                  |                                   |                   |
| Restricted for:                        |                  |                  |                            |                  |                                   |                   |
| Working Cash                           | -                | -                | 37,737                     | 39,573           | 37,737                            | 39,573            |
| Capital projects                       | -                | -                | 24,139                     | 15,980           | 24,139                            | 15,980            |
| Total fund balances                    | <u>-</u>         | <u>-</u>         | <u>61,876</u>              | <u>55,553</u>    | <u>61,876</u>                     | <u>55,553</u>     |
| Total liabilities and fund balances    | <u>\$ 32,903</u> | <u>\$ 32,453</u> | <u>\$ 80,450</u>           | <u>\$ 77,871</u> | <u>\$ 113,353</u>                 | <u>\$ 110,324</u> |

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

Year ended December 31, 2012

(with comparative amounts for prior year)

(in thousands of dollars)

|  | Retirement Fund |               | Stormwater Management Fund |                  | Total Nonmajor Governmental Funds |                  |
|--|-----------------|---------------|----------------------------|------------------|-----------------------------------|------------------|
|  | 2012            | 2011          | 2012                       | 2011             | 2012                              | 2011             |
| <b>Revenues</b>  |                 |               |                            |                  |                                   |                  |
| Revenues:  |                 |               |                            |                  |                                   |                  |
| Property taxes   | \$ 28,872       | \$ 28,437     | \$ 24,302                  | \$ 25,512        | \$ 53,174                         | \$ 53,949        |
| Personal property replacement tax                              | 7,319           | 8,198         | -                          | -                | 7,319                             | 8,198            |
| Interest on investments  | -               | -             | 805                        | 831              | 805                               | 831              |
| Fees, forfeits and penalties                                   | -               | -             | 4                          | 65               | 4                                 | 65               |
| Miscellaneous  | -               | -             | 1                          | 8                | 1                                 | 8                |
| Total revenues   | <u>36,191</u>   | <u>36,635</u> | <u>25,112</u>              | <u>26,416</u>    | <u>61,303</u>                     | <u>63,051</u>    |
| <b>Expenditures</b>  |                 |               |                            |                  |                                   |                  |
| Current Operations:  |                 |               |                            |                  |                                   |                  |
| Pension costs  | 66,191          | 36,635        | -                          | -                | 66,191                            | 36,635           |
| Construction costs   | -               | -             | 16,789                     | 12,971           | 16,789                            | 12,971           |
| Total expenditures/expenses                                    | <u>66,191</u>   | <u>36,635</u> | <u>16,789</u>              | <u>12,971</u>    | <u>82,980</u>                     | <u>49,606</u>    |
| Revenues over (under) expenditures                             | (30,000)        | -             | 8,323                      | 13,445           | (21,677)                          | 13,445           |
| Other financing sources (uses):                                |                 |               |                            |                  |                                   |                  |
| Payments to escrow agents                                      | -               | -             | -                          | (253)            | -                                 | (253)            |
| Transfer in to Pension Fund                                    | 30,000          | -             | -                          | -                | 30,000                            | -                |
| Transfer out to Pension Fund                                   | -               | -             | (2,000)                    | -                | (2,000)                           | -                |
| Total other financing sources (uses)                           | <u>30,000</u>   | <u>-</u>      | <u>(2,000)</u>             | <u>(253)</u>     | <u>28,000</u>                     | <u>(253)</u>     |
| Revenues and other financing sources over (under) expenditures | <u>-</u>        | <u>-</u>      | <u>6,323</u>               | <u>13,192</u>    | <u>6,323</u>                      | <u>13,192</u>    |
| Fund balances  |                 |               |                            |                  |                                   |                  |
| Beginning of the year  | -               | -             | 55,553                     | 42,361           | 55,553                            | 42,361           |
| End of the year  | <u>\$ -</u>     | <u>\$ -</u>   | <u>\$ 61,876</u>           | <u>\$ 55,553</u> | <u>\$ 61,876</u>                  | <u>\$ 55,553</u> |

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## **GENERAL CORPORATE FUND**

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

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

Year ended December 31, 2012

| Corporate Division                            | <i>(in thousands of dollars)</i> |                  |          | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|----------------------------------|------------------|----------|-------------------|--|
|   | Budget Amounts                   |                  |          |                   |  |
|   | Original                         | Net<br>Transfers | Final    |                   |  |
| Board of Commissioners:                       |                                  |                  |          |                   |  |
| Personal services                             |                                  |                  |          |                   |  |
| Salaries of regular employees                 | \$ 2,942                         | \$ -             | \$ 2,942 | \$ 2,842          | \$ 100   |
| Compensation plan adjustments                 | 105                              | (27)             | 78       | 22                | 56   |
| Tuition and training payments                 | 8                                | -                | 8        | 4                 | 4  |
| Payment for professional services             | 340                              | 59               | 399      | 351               | 48   |
| Personal services not otherwise classified    | 247                              | (32)             | 215      | 203               | 12   |
| Total personal services                       | 3,642                            | -                | 3,642    | 3,422             | 220  |
| Contractual services                          |                                  |                  |          |                   |  |
| Travel  | 4                                | 3                | 7        | 6                 | 1  |
| Meals and lodging                             | 4                                | (3)              | 1        | 1                 | -  |
| Subscriptions and membership dues             | 33                               | -                | 33       | 32                | 1  |
| Contractual services not otherwise classified | 1                                | -                | 1        | -                 | 1  |
| Total contractual services                    | 42                               | -                | 42       | 39                | 3  |
| Materials and supplies                        |                                  |                  |          |                   |  |
| Office, printing, and photographic supplies   | 5                                | -                | 5        | 2                 | 3  |
| Total materials and supplies                  | 5                                | -                | 5        | 2                 | 3  |
| Board of Commissioners total                  | 3,689                            | -                | 3,689    | 3,463             | 226  |
| General Administration:                       |                                  |                  |          |                   |  |
| Personal Services                             |                                  |                  |          |                   |  |
| Salaries of regular employees                 | 9,044                            | -                | 9,044    | 8,453             | 591  |
| Compensation plan adjustments                 | 971                              | -                | 971      | 771               | 200  |
| Tuition and training payments                 | 41                               | -                | 41       | 14                | 27   |
| Payment for professional services             | 1,113                            | (179)            | 934      | 632               | 302  |
| Total personal services                       | 11,169                           | (179)            | 10,990   | 9,870             | 1,120  |
| Contractual services                          |                                  |                  |          |                   |  |
| Travel  | 4                                | 2                | 6        | 4                 | 2  |
| Meals and lodging                             | 9                                | 1                | 10       | 9                 | 1  |
| Postage, freight, and delivery charges        | 229                              | (3)              | 226      | 109               | 117  |
| Compensation for personally owned autos       | 4                                | 4                | 8        | 6                 | 2  |
| Motor vehicle operating expenditures          | 81                               | -                | 81       | 68                | 13   |
| Reprographic services                         | 96                               | (6)              | 90       | 10                | 80   |
| Electrical energy                             | 555                              | (17)             | 538      | 323               | 215  |
| Natural gas                                   | 38                               | -                | 38       | 19                | 19   |
| Water and water services                      | 3                                | 1                | 4        | 4                 | -  |
| Communication services                        | 4                                | -                | 4        | 3                 | 1  |
| Subscriptions and membership dues             | 370                              | 1                | 371      | 371               | -  |
| Rental charges                                | 11                               | -                | 11       | 6                 | 5  |
| Administration building operation             | 872                              | 56               | 928      | 900               | 28   |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

| Corporate Division (continued)                     | Budget Amounts            |                  |        | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|--|---------------------------|------------------|--------|-------------------|--|
|  | (in thousands of dollars) |                  |        |                   |  |
|  | Original                  | Net<br>Transfers | Final  |                   |  |
| General Administration (continued):                |                           |                  |        |                   |  |
| Administrative building operation annex            | \$ 835                    | \$ (61)          | \$ 774 | \$ 639            | \$ 135   |
| Contractual services not otherwise classified      | 197                       | 31               | 228    | 167               | 61   |
| Repairs to buildings                               | 691                       | (11)             | 680    | 635               | 45   |
| Repairs to office furniture and equipment          | 116                       | (3)              | 113    | 62                | 51   |
| Computer software maintenance                      | 8                         | 6                | 14     | 10                | 4  |
| Communication equipment maintenance                | 16                        | -                | 16     | 16                | -  |
| Repairs to vehicle equipment                       | 395                       | (6)              | 389    | 344               | 45   |
| Repairs not otherwise classified                   | 5                         | -                | 5      | -                 | 5  |
| Total contractual services                         | 4,539                     | (5)              | 4,534  | 3,705             | 829  |
| Materials and supplies                             |                           |                  |        |                   |  |
| Electrical parts and supplies                      | 10                        | 70               | 80     | 12                | 68   |
| Plumbing accessories and supplies                  | 5                         | 6                | 11     | 10                | 1  |
| Hardware   | 17                        | -                | 17     | 17                | -  |
| Buildings, grounds, paving materials, and supplies | -                         | 1                | 1      | 1                 | -  |
| Office, printing, and photographic supplies        | 203                       | 24               | 227    | 177               | 50   |
| Cleaning Supplies                                  | 3                         | -                | 3      | 1                 | 2  |
| Wearing apparel                                    | 47                        | -                | 47     | 17                | 30   |
| Books, maps, and charts                            | 30                        | -                | 30     | 15                | 15   |
| Computer supplies                                  | -                         | 10               | 10     | -                 | 10   |
| Communications supplies                            | -                         | 1                | 1      | 1                 | -  |
| Materials and supplies not otherwise classified    | 83                        | (4)              | 79     | 51                | 28   |
| Total materials and supplies                       | 398                       | 108              | 506    | 302               | 204  |
| Machinery and equipment                            |                           |                  |        |                   |  |
| Office furniture and equipment                     | -                         | 6                | 6      | -                 | 6  |
| Machinery and equipment not otherwise classified   | 10                        | -                | 10     | 10                | -  |
| Total machinery and equipment                      | 10                        | 6                | 16     | 10                | 6  |
| General Administration total                       | 16,116                    | (70)             | 16,046 | 13,887            | 2,159  |
| Monitoring and Research:                           |                           |                  |        |                   |  |
| Personal services                                  |                           |                  |        |                   |  |
| Salaries of regular employees                      | 22,179                    | -                | 22,179 | 21,387            | 792  |
| Compensation plan adjustments                      | 634                       | -                | 634    | 509               | 125  |
| Salaries of non-budgeted employees                 | 2                         | -                | 2      | -                 | 2  |
| Tuition and training payments                      | 38                        | -                | 38     | 23                | 15   |
| Payment for professional services                  | 466                       | -                | 466    | 122               | 344  |
| Total personal services                            | 23,319                    | -                | 23,319 | 22,041            | 1,278  |
| Contractual services                               |                           |                  |        |                   |  |
| Travel   | 22                        | -                | 22     | 7                 | 15   |
| Meals and lodging                                  | 44                        | -                | 44     | 20                | 24   |

(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, 2012

| Corporate Division (continued)                  | <i>(in thousands of dollars)</i> |                  |               | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|----------------------------------|------------------|---------------|-------------------|--|
|   | Budget Amounts                   |                  |               |                   |  |
|   | Original                         | Net<br>Transfers | Final         |                   |  |
| Monitoring and Research (continued):            |                                  |                  |               |                   |  |
| Postage, freight, and delivery charges          | \$ 11                            | \$ -             | \$ 11         | \$ 6              | \$ 5   |
| Compensation for personally owned autos         | 47                               | -                | 47            | 40                | 7  |
| Motor vehicle operating services                | 4                                | -                | 4             | 1                 | 3  |
| Reprographic services                           | 2                                | -                | 2             | 1                 | 1  |
| Water and water services                        | 2                                | -                | 2             | -                 | 2  |
| Communication services                          | 1                                | -                | 1             | -                 | 1  |
| Rental charges                                  | 8                                | -                | 8             | 1                 | 7  |
| Governmental services charges                   | 17                               | -                | 17            | 17                | -  |
| Contractual services not otherwise classified   | 429                              | 75               | 504           | 307               | 197  |
| Repairs to marine equipment                     | 103                              | -                | 103           | 61                | 42   |
| Computer software maintenance                   | 103                              | -                | 103           | 102               | 1  |
| Communication equipment maintenance             | 1                                | -                | 1             | -                 | 1  |
| Repairs to testing and laboratory equipment     | 583                              | -                | 583           | 445               | 138  |
| Repairs not otherwise classified                | 2                                | -                | 2             | 1                 | 1  |
| Total contractual services                      | <u>1,379</u>                     | <u>75</u>        | <u>1,454</u>  | <u>1,009</u>      | <u>445</u>   |
| Materials and supplies                          |                                  |                  |               |                   |  |
| Office, printing, and photographic supplies     | 39                               | -                | 39            | 28                | 11   |
| Farming supplies                                | 3                                | -                | 3             | 3                 | -  |
| Laboratory testing supplies and small equipment | 420                              | -                | 420           | 383               | 37   |
| Wearing apparel                                 | 31                               | -                | 31            | 19                | 12   |
| Books, maps, and charts                         | 3                                | -                | 3             | 1                 | 2  |
| Computer software                               | 1                                | -                | 1             | -                 | 1  |
| Computer supplies                               | 4                                | -                | 4             | 1                 | 3  |
| Fuel  | 39                               | -                | 39            | 22                | 17   |
| Communications supplies                         | 3                                | -                | 3             | -                 | 3  |
| Materials and supplies not otherwise classified | 94                               | -                | 94            | 67                | 27   |
| Total materials and supplies                    | <u>637</u>                       | <u>-</u>         | <u>637</u>    | <u>524</u>        | <u>113</u>   |
| Machinery and equipment                         |                                  |                  |               |                   |  |
| Testing and laboratory equipment                | 343                              | 23               | 366           | 359               | 7  |
| Total machinery and equipment                   | <u>343</u>                       | <u>23</u>        | <u>366</u>    | <u>359</u>        | <u>7</u>   |
| Monitoring and Research total                   | <u>25,678</u>                    | <u>98</u>        | <u>25,776</u> | <u>23,933</u>     | <u>1,843</u>   |
| Procurement and Materials Management:           |                                  |                  |               |                   |  |
| Personal Services                               |                                  |                  |               |                   |  |
| Salaries of regular employees                   | 4,888                            | -                | 4,888         | 4,615             | 273  |
| Compensation plan adjustments                   | 137                              | -                | 137           | 25                | 112  |
| Tuition and training payments                   | 4                                | -                | 4             | 1                 | 3  |
| Total personal services                         | <u>5,029</u>                     | <u>-</u>         | <u>5,029</u>  | <u>4,641</u>      | <u>388</u>   |

*(continued)*



Metropolitan Water Reclamation District of Greater Chicago

| Corporate Division (continued)                     | Budget Amounts            |                  |       | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|--|---------------------------|------------------|-------|-------------------|--|
|  | (in thousands of dollars) |                  |       |                   |  |
|  | Original                  | Net<br>Transfers | Final |                   |  |
| Procurement and Materials Management (continued):  |                           |                  |       |                   |  |
| Contractual services                               |                           |                  |       |                   |  |
| Travel   | \$ 1                      | \$ -             | \$ 1  | \$ -              | \$ 1   |
| Meals and lodging                                  | 3                         | -                | 3     | -                 | 3  |
| Postage, freight, and delivery charges             | 2                         | -                | 2     | -                 | 2  |
| Compensation for personally owned autos            | 2                         | -                | 2     | 2                 | -  |
| Testing and inspection services                    | 12                        | -                | 12    | -                 | 12   |
| Advertising  | 136                       | (10)             | 126   | 93                | 33   |
| Contractual services not otherwise classified      | 5                         | -                | 5     | -                 | 5  |
| Repairs to buildings                               | 3                         | (1)              | 2     | 1                 | 1  |
| Repairs to office furniture and equipment          | 5                         | -                | 5     | 3                 | 2  |
| Computer software maintenance                      | 7                         | -                | 7     | 3                 | 4  |
| Communication equipment maintenance                | 2                         | -                | 2     | -                 | 2  |
| Repairs to vehicle equipment                       | 13                        | 11               | 24    | 18                | 6  |
| Total contractual services                         | 191                       | -                | 191   | 120               | 71   |
| Materials and supplies                             |                           |                  |       |                   |  |
| Metals   | 140                       | 30               | 170   | 167               | 3  |
| Electrical parts and supplies                      | 326                       | 1                | 327   | 311               | 16   |
| Plumbing accessories and supplies                  | 330                       | (15)             | 315   | 313               | 2  |
| Hardware   | 64                        | -                | 64    | 50                | 14   |
| Buildings, grounds, paving materials, and supplies | 150                       | (65)             | 85    | 85                | -  |
| Fiber, paper and insulation materials              | 41                        | -                | 41    | 40                | 1  |
| Paints, solvents, and related materials            | 37                        | 7                | 44    | 44                | -  |
| Vehicle parts and supplies                         | 10                        | -                | 10    | 8                 | 2  |
| Mechanical and repair parts                        | 140                       | -                | 140   | 120               | 20   |
| Office, printing, and photographic supplies        | 30                        | (4)              | 26    | 15                | 11   |
| Laboratory testing supplies and small equipment    | 531                       | 65               | 596   | 590               | 6  |
| Cleaning supplies                                  | 250                       | -                | 250   | 245               | 5  |
| Tools and supplies                                 | 62                        | 7                | 69    | 68                | 1  |
| Wearing apparel                                    | 119                       | -                | 119   | 118               | 1  |
| Safety and medical supplies                        | 25                        | -                | 25    | 23                | 2  |
| Computer supplies                                  | 224                       | (78)             | 146   | 112               | 34   |
| Fuel   | 342                       | 55               | 397   | 376               | 21   |
| Gas (in containers)                                | 60                        | -                | 60    | 31                | 29   |
| Communications supplies                            | 10                        | 4                | 14    | 13                | 1  |
| Lubricants   | 279                       | -                | 279   | 270               | 9  |
| Materials and supplies not otherwise classified    | 97                        | (7)              | 90    | 78                | 12   |
| Total materials and supplies                       | 3,267                     | -                | 3,267 | 3,077             | 190  |
| Procurement and Materials Management total         | 8,487                     | -                | 8,487 | 7,838             | 649  |

(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, 2012

| Corporate Division (continued)                  | <i>(in thousands of dollars)</i> |                  |          | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|----------------------------------|------------------|----------|-------------------|--|
|   | Budget Amounts                   |                  |          |                   |  |
|   | Original                         | Net<br>Transfers | Final    |                   |  |
| Human Resources:                                |                                  |                  |          |                   |  |
| Personal services                               |                                  |                  |          |                   |  |
| Salaries of regular employees                   | \$ 4,876                         | \$ -             | \$ 4,876 | \$ 4,765          | \$ 111   |
| Compensation plan adjustments                   | 176                              | -                | 176      | 67                | 109  |
| Social security and medicare contributions      | 2,520                            | -                | 2,520    | 2,223             | 297  |
| Employee claims                                 | 110                              | -                | 110      | 56                | 54   |
| Tuition and training payments                   | 378                              | -                | 378      | 245               | 133  |
| Payment for professional services               | 1,230                            | (450)            | 780      | 509               | 271  |
| Health and life insurance premiums              | 55,561                           | 500              | 56,061   | 54,700            | 1,361  |
| Total personal services                         | 64,851                           | 50               | 64,901   | 62,565            | 2,336  |
| Contractual services                            |                                  |                  |          |                   |  |
| Travel  | 1                                | 1                | 2        | 1                 | 1  |
| Meals and lodging                               | 2                                | -                | 2        | 1                 | 1  |
| Postage, freight, and delivery charges          | 11                               | -                | 11       | 8                 | 3  |
| Compensation for personally owned autos         | 10                               | -                | 10       | 8                 | 2  |
| Court reporting services                        | 29                               | (5)              | 24       | 11                | 13   |
| Medical services                                | 154                              | 10               | 164      | 113               | 51   |
| Subscription and membership dues                | 12                               | -                | 12       | 10                | 2  |
| Rental charges                                  | 28                               | (6)              | 22       | 11                | 11   |
| Contractual services not otherwise classified   | 23                               | 20               | 43       | 35                | 8  |
| Safety repairs services                         | 223                              | -                | 223      | 156               | 67   |
| Computer software maintenance                   | 98                               | -                | 98       | 78                | 20   |
| Communication equipment maintenance             | 1                                | -                | 1        | -                 | 1  |
| Total contractual services                      | 592                              | 20               | 612      | 432               | 180  |
| Materials and supplies                          |                                  |                  |          |                   |  |
| Office, printing, and photographic supplies     | 35                               | -                | 35       | 18                | 17   |
| Books, maps, and charts                         | 10                               | -                | 10       | 2                 | 8  |
| Safety medical supplies                         | 167                              | -                | 167      | 53                | 114  |
| Computer software                               | 5                                | -                | 5        | 1                 | 4  |
| Materials and supplies not otherwise classified | 10                               | -                | 10       | 7                 | 3  |
| Total materials and supplies                    | 227                              | -                | 227      | 81                | 146  |
| Human Resources total                           | 65,670                           | 70               | 65,740   | 63,078            | 2,662  |
| Information Technology:                         |                                  |                  |          |                   |  |
| Personal services                               |                                  |                  |          |                   |  |
| Salaries of regular employees                   | 7,254                            | -                | 7,254    | 6,974             | 280  |
| Compensation plan adjustments                   | 165                              | -                | 165      | 152               | 13   |
| Tuition and training payments                   | 83                               | -                | 83       | 3                 | 80   |
| Payment for professional services               | 1,388                            | (350)            | 1,038    | 570               | 468  |
| Total personal services                         | 8,890                            | (350)            | 8,540    | 7,699             | 841  |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

| Corporate Division (continued)                  | Budget Amounts            |                  |        | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|---------------------------|------------------|--------|-------------------|--|
|   | (in thousands of dollars) |                  |        |                   |  |
|   | Original                  | Net<br>Transfers | Final  |                   |  |
| Information Technology (continued):             |                           |                  |        |                   |  |
| Contractual services                            |                           |                  |        |                   |  |
| Travel  | \$ 11                     | \$ (6)           | \$ 5   | \$ 1              | \$ 4   |
| Meals and lodging                               | 13                        | (9)              | 4      | 2                 | 2  |
| Compensation for personally owned autos         | 12                        | -                | 12     | 5                 | 7  |
| Communication services                          | 1,194                     | 325              | 1,519  | 1,364             | 155  |
| Subscription and membership dues                | 6                         | -                | 6      | 5                 | 1  |
| Contractual services not otherwise classified   | 3                         | 1                | 4      | 4                 | -  |
| Repair office furniture equipment               | -                         | 21               | 21     | 18                | 3  |
| Computer equipment maintenance                  | 822                       | 47               | 869    | 581               | 288  |
| Computer software maintenance                   | 2,780                     | 194              | 2,974  | 2,419             | 555  |
| Communication equipment maintenance             | 400                       | (23)             | 377    | 319               | 58   |
| Repairs not otherwise classified                | 1                         | -                | 1      | -                 | 1  |
| Total contractual services                      | 5,242                     | 550              | 5,792  | 4,718             | 1,074  |
| Materials and supplies                          |                           |                  |        |                   |  |
| Office, printing, and photographic supplies     | 36                        | -                | 36     | 29                | 7  |
| Books, maps, and charts                         | 2                         | -                | 2      | -                 | 2  |
| Computer software                               | 667                       | (9)              | 658    | 153               | 505  |
| Computer supplies                               | 1,703                     | (191)            | 1,512  | 388               | 1,124  |
| Communication supplies                          | 190                       | -                | 190    | 40                | 150  |
| Materials and supplies not otherwise classified | 1                         | -                | 1      | -                 | 1  |
| Total materials and supplies                    | 2,599                     | (200)            | 2,399  | 610               | 1,789  |
| Machinery and equipment                         |                           |                  |        |                   |  |
| Office furniture and equipment                  | -                         | 31               | 31     | 19                | 12   |
| Computer equipment                              | 404                       | (21)             | 383    | 54                | 329  |
| Computer software                               | 72                        | (10)             | 62     | 5                 | 57   |
| Communication equipment                         | 150                       | -                | 150    | 100               | 50   |
| Total machinery and equipment                   | 626                       | -                | 626    | 178               | 448  |
| Information Technology total                    | 17,357                    | -                | 17,357 | 13,205            | 4,152  |
| Law:  |                           |                  |        |                   |  |
| Personal Services                               |                           |                  |        |                   |  |
| Salaries of regular employees                   | 4,156                     | (250)            | 3,906  | 3,738             | 168  |
| Compensation plan adjustments                   | 122                       | -                | 122    | 70                | 52   |
| Tuition and training payments                   | 14                        | -                | 14     | 5                 | 9  |
| Payment for professional services               | 1,653                     | 250              | 1,903  | 1,267             | 636  |
| Total personal services                         | 5,945                     | -                | 5,945  | 5,080             | 865  |
| Contractual services                            |                           |                  |        |                   |  |
| Travel  | 5                         | -                | 5      | 5                 | -  |
| Meals and lodging                               | 5                         | -                | 5      | 1                 | 4  |
| Postage, freight, and delivery charges          | 4                         | -                | 4      | 1                 | 3  |

(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, 2012

| Corporate Division (continued)                  | <i>(in thousands of dollars)</i> |                  |              | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|----------------------------------|------------------|--------------|-------------------|--|
|   | Budget Amounts                   |                  |              |                   |  |
|   | Original                         | Net<br>Transfers | Final        |                   |  |
| Law (continued):                                |                                  |                  |              |                   |  |
| Compensation for personally owned autos         | \$ 3                             | \$ -             | \$ 3         | \$ 2              | \$ 1   |
| Reprographic services                           | 50                               | -                | 50           | 4                 | 46   |
| Court reporting services                        | 68                               | -                | 68           | 8                 | 60   |
| Insurance premiums                              | 195                              | -                | 195          | 158               | 37   |
| Contractual services not otherwise classified   | 91                               | -                | 91           | 76                | 15   |
| Communication equipment maintenance             | 3                                | -                | 3            | -                 | 3  |
| Repairs not otherwise classified                | 1                                | -                | 1            | -                 | 1  |
| Total contractual services                      | <u>425</u>                       | <u>-</u>         | <u>425</u>   | <u>255</u>        | <u>170</u>   |
| Materials and supplies                          |                                  |                  |              |                   |  |
| Office, printing, and photographic supplies     | 6                                | -                | 6            | 4                 | 2  |
| Books, maps, and charts                         | 26                               | -                | 26           | 11                | 15   |
| Materials and supplies not otherwise classified | 3                                | -                | 3            | -                 | 3  |
| Total materials and supplies                    | <u>35</u>                        | <u>-</u>         | <u>35</u>    | <u>15</u>         | <u>20</u>  |
| Fixed and other charges                         |                                  |                  |              |                   |  |
| Taxes on real estate                            | 600                              | -                | 600          | 583               | 17   |
| Charges not otherwise classified                | 675                              | -                | 675          | -                 | 675  |
| Total fixed and other charges                   | <u>1,275</u>                     | <u>-</u>         | <u>1,275</u> | <u>583</u>        | <u>692</u>   |
| Law total                                       | <u>7,680</u>                     | <u>-</u>         | <u>7,680</u> | <u>5,933</u>      | <u>1,747</u>   |
| Finance:  |                                  |                  |              |                   |  |
| Personal services                               |                                  |                  |              |                   |  |
| Salaries of regular employees                   | 2,731                            | -                | 2,731        | 2,699             | 32   |
| Compensation plan adjustments                   | 42                               | -                | 42           | 12                | 30   |
| Tuition and training payments                   | 7                                | 6                | 13           | 12                | 1  |
| Payment for professional services               | 420                              | (6)              | 414          | 376               | 38   |
| Total personal services                         | <u>3,200</u>                     | <u>-</u>         | <u>3,200</u> | <u>3,099</u>      | <u>101</u>   |
| Contractual services                            |                                  |                  |              |                   |  |
| Travel  | 3                                | (1)              | 2            | 2                 | -  |
| Meals and lodging                               | 2                                | 1                | 3            | 2                 | 1  |
| Postage, freight, and delivery charges          | 3                                | 1                | 4            | 4                 | -  |
| Reprographic services                           | 3                                | -                | 3            | 2                 | 1  |
| Court reporting services                        | 92                               | -                | 92           | 53                | 39   |
| Contractual services not otherwise classified   | 3                                | (1)              | 2            | 1                 | 1  |
| Repairs to office furniture and equipment       | 9                                | -                | 9            | 5                 | 4  |
| Total contractual services                      | <u>115</u>                       | <u>-</u>         | <u>115</u>   | <u>69</u>         | <u>46</u>  |
| Materials and supplies                          |                                  |                  |              |                   |  |
| Office, printing, and photographic supplies     | 9                                | -                | 9            | 3                 | 6  |
| Books, maps, and charts                         | 1                                | -                | 1            | -                 | 1  |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

| Corporate Division (continued)  | Budget Amounts            |                  |       | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|---------------------------|------------------|-------|-------------------|--|
|   | (in thousands of dollars) |                  |       |                   |  |
|   | Original                  | Net<br>Transfers | Final |                   |  |
| Finance (continued):  |                           |                  |       |                   |  |
| Materials and supplies not otherwise classified                               | \$ 1                      | \$ -             | \$ 1  | \$ -              | \$ 1   |
| Total materials and supplies  | 11                        | -                | 11    | 3                 | 8  |
| Finance total   | 3,326                     | -                | 3,326 | 3,171             | 155  |
| Engineering:  |                           |                  |       |                   |  |
| Personal services   |                           |                  |       |                   |  |
| Salaries of regular employees   | 2,634                     | -                | 2,634 | 2,440             | 194  |
| Compensation plan adjustments   | 254                       | -                | 254   | 22                | 232  |
| Salaries of nonbudgeted employees   | 50                        | -                | 50    | -                 | 50   |
| Tuition and training payments   | 207                       | -                | 207   | 52                | 155  |
| Payments for professional services  | 1,000                     | -                | 1,000 | 345               | 655  |
| Personal service expenditure - preliminary<br>engineering reports and studies | 629                       | (75)             | 554   | -                 | 554  |
| Total personal services   | 4,774                     | (75)             | 4,699 | 2,859             | 1,840  |
| Contractual services  |                           |                  |       |                   |  |
| Travel  | 14                        | -                | 14    | 7                 | 7  |
| Meals and lodging   | 19                        | (3)              | 16    | 12                | 4  |
| Compensation for personally owned autos                                       | 21                        | 6                | 27    | 25                | 2  |
| Motor vehicle operating services  | 2                         | -                | 2     | 1                 | 1  |
| Reprographic services   | 24                        | (21)             | 3     | -                 | 3  |
| Testing and inspection services   | 80                        | -                | 80    | -                 | 80   |
| Rental charges  | 37                        | -                | 37    | 34                | 3  |
| Soil and rock mechanics investigation   | 78                        | (17)             | 61    | 3                 | 58   |
| Contractual services not otherwise classified                                 | 300                       | -                | 300   | 283               | 17   |
| Repairs to collection facilities  | 111                       | (11)             | 100   | -                 | 100  |
| Repairs to waterway facilities  | 602                       | -                | 602   | 349               | 253  |
| Repairs to process facilities   | 211                       | (11)             | 200   | 13                | 187  |
| Repairs to buildings  | 239                       | (24)             | 215   | -                 | 215  |
| Computer software maintenance   | -                         | 78               | 78    | 76                | 2  |
| Communications equipment maintenance  | 2                         | -                | 2     | -                 | 2  |
| Repairs to testing and laboratory equipment                                   | 1                         | -                | 1     | -                 | 1  |
| Repairs not otherwise classified  | -                         | 3                | 3     | 3                 | -  |
| Total contractual services  | 1,741                     | -                | 1,741 | 806               | 935  |
| Materials and supplies  |                           |                  |       |                   |  |
| Office, printing, and photographic supplies                                   | 4                         | -                | 4     | 4                 | -  |
| Wearing apparel   | 6                         | -                | 6     | 4                 | 2  |
| Books, maps, and charts   | 1                         | -                | 1     | -                 | 1  |
| Materials and supplies not otherwise classified                               | 2                         | -                | 2     | 1                 | 1  |
| Total materials and supplies  | 13                        | -                | 13    | 9                 | 4  |

(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, 2012

| Corporate Division (continued)                   | <i>(in thousands of dollars)</i> |                  |        | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|--|----------------------------------|------------------|--------|-------------------|--|
|  | Budget Amounts                   |                  |        |                   |  |
|  | Original                         | Net<br>Transfers | Final  |                   |  |
| Engineering (continued):                         |                                  |                  |        |                   |  |
| Machinery and equipment                          |                                  |                  |        |                   |  |
| Equipment for collection facilities              | \$ 50                            | \$ (42)          | \$ 8   | \$ -              | \$ 8   |
| Machinery and equipment not otherwise classified | -                                | 42               | 42     | 32                | 10   |
| Total machinery and equipment                    | 50                               | -                | 50     | 32                | 18   |
| Land   | 177                              | -                | 177    | -                 | 177  |
| Engineering total                                | 6,755                            | (75)             | 6,680  | 3,706             | 2,974  |
| Maintenance and Operations:                      |                                  |                  |        |                   |  |
| Personal services                                |                                  |                  |        |                   |  |
| Salaries of regular employees                    | 80,669                           | (720)            | 79,949 | 77,880            | 2,069  |
| Compensation plan adjustments                    | 3,440                            | 690              | 4,130  | 3,897             | 233  |
| Salaries of non-budgeted employees               | 100                              | (1)              | 99     | 22                | 77   |
| Tuition and training payments                    | 74                               | 14               | 88     | 46                | 42   |
| Payment for professional services                | 725                              | (30)             | 695    | 503               | 192  |
| Total personal services                          | 85,008                           | (47)             | 84,961 | 82,348            | 2,613  |
| Contractual services                             |                                  |                  |        |                   |  |
| Travel   | 8                                | 1                | 9      | 6                 | 3  |
| Meals and lodging                                | 32                               | 26               | 58     | 43                | 15   |
| Compensation for personally owned autos          | 238                              | 13               | 251    | 185               | 66   |
| Motor vehicle operating services                 | 5                                | 1                | 6      | 2                 | 4  |
| Electrical energy                                | 40,543                           | (2,817)          | 37,726 | 29,262            | 8,464  |
| Natural gas                                      | 2,149                            | (150)            | 1,999  | 1,382             | 617  |
| Water and water services                         | 955                              | 107              | 1,062  | 898               | 164  |
| Communications services                          | 569                              | 95               | 664    | 628               | 36   |
| Testing and inspection services                  | 228                              | 1                | 229    | 166               | 63   |
| Rental charges                                   | 220                              | 10               | 230    | 186               | 44   |
| Governmental service charges                     | 2,768                            | (12)             | 2,756  | 2,705             | 51   |
| Maintenance of grounds and pavements             | 2,010                            | (98)             | 1,912  | 1,654             | 258  |
| Contractual services not otherwise classified    | 680                              | (9)              | 671    | 570               | 101  |
| Waste material disposal charges                  | 13,008                           | 48               | 13,056 | 12,220            | 836  |
| Farming services                                 | 20                               | -                | 20     | 20                | -  |
| Sludge disposal                                  | 5,600                            | -                | 5,600  | 3,030             | 2,570  |
| Repairs to collection facilities                 | 4,289                            | 733              | 5,022  | 3,276             | 1,746  |
| Repairs to waterway facilities                   | 120                              | (23)             | 97     | 89                | 8  |
| Repairs to process facilities                    | 5,428                            | 1,828            | 7,256  | 5,004             | 2,252  |
| Repairs to railroads                             | 400                              | -                | 400    | 275               | 125  |
| Repairs to buildings                             | 2,408                            | (2)              | 2,406  | 1,708             | 698  |
| Repairs to material handling and farm equipment  | 353                              | -                | 353    | 286               | 67   |
| Safety repairs and services                      | 179                              | -                | 179    | 161               | 18   |
| Repairs to marine equipment                      | 80                               | 17               | 97     | 84                | 13   |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

| Corporate Division (continued)                     | Budget Amounts            |                  |                | Actual<br>Amounts | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|--|---------------------------|------------------|----------------|-------------------|--|
|  | (in thousands of dollars) |                  |                |                   |  |
|  | Original                  | Net<br>Transfers | Final          |                   |  |
| Maintenance and Operations (continued):            |                           |                  |                |                   |  |
| Computer software maintenance                      | \$ 64                     | \$ -             | \$ 64          | \$ 58             | \$ 6   |
| Communication equipment maintenance                | 105                       | -                | 105            | 40                | 65   |
| Repairs to vehicle equipment                       | 128                       | -                | 128            | 76                | 52   |
| Repairs to testing and laboratory equipment        | 3                         | -                | 3              | -                 | 3  |
| Repairs not otherwise classified                   | 53                        | -                | 53             | 10                | 43   |
| Total contractual services                         | <u>82,643</u>             | <u>(231)</u>     | <u>82,412</u>  | <u>64,024</u>     | <u>18,388</u>  |
| Materials and supplies                             |                           |                  |                |                   |  |
| Metals   | 59                        | -                | 59             | 38                | 21   |
| Electrical parts and supplies                      | 1,567                     | 13               | 1,580          | 1,131             | 449  |
| Plumbing accessories and supplies                  | 889                       | 18               | 907            | 681               | 226  |
| Hardware   | 48                        | -                | 48             | 25                | 23   |
| Buildings, grounds, paving materials, and supplies | 286                       | (16)             | 270            | 131               | 139  |
| Fiber, paper and insulation materials              | 5                         | -                | 5              | -                 | 5  |
| Paints, solvents, and related materials            | 7                         | 1                | 8              | 2                 | 6  |
| Vehicle parts and supplies                         | 260                       | 1                | 261            | 161               | 100  |
| Mechanical repair parts                            | 4,266                     | 144              | 4,410          | 2,814             | 1,596  |
| Manhole materials                                  | 65                        | -                | 65             | 10                | 55   |
| Office, printing, and photographic supplies        | 72                        | (4)              | 68             | 46                | 22   |
| Farming supplies                                   | 5                         | -                | 5              | 5                 | -  |
| Processing chemicals                               | 7,461                     | 37               | 7,498          | 6,724             | 774  |
| Laboratory testing supplies and small equipment    | 24                        | (1)              | 23             | 17                | 6  |
| Cleaning supplies                                  | 14                        | -                | 14             | 2                 | 12   |
| Tools and supplies                                 | 245                       | 7                | 252            | 176               | 76   |
| Wearing apparel                                    | 5                         | (1)              | 4              | -                 | 4  |
| Books, maps, and charts                            | 4                         | -                | 4              | 1                 | 3  |
| Safety and medical supplies                        | 236                       | 6                | 242            | 139               | 103  |
| Computer software                                  | 15                        | -                | 15             | 10                | 5  |
| Computer supplies                                  | 72                        | (4)              | 68             | 19                | 49   |
| Fuel   | 504                       | -                | 504            | 399               | 105  |
| Gas (in containers)                                | 12                        | 4                | 16             | 4                 | 12   |
| Communication supplies                             | 76                        | -                | 76             | 43                | 33   |
| Lubricants   | 28                        | 4                | 32             | 29                | 3  |
| Materials and supplies not otherwise classified    | 124                       | 2                | 126            | 46                | 80   |
| Total materials and supplies                       | <u>16,349</u>             | <u>211</u>       | <u>16,560</u>  | <u>12,653</u>     | <u>3,907</u>   |
| Machinery and equipment                            |                           |                  |                |                   |  |
| Equipment for collection facilities                | 34                        | (1)              | 33             | -                 | 33   |
| Equipment for process facilities                   | 398                       | 47               | 445            | 353               | 92   |
| Vehicle equipment                                  | 240                       | (2)              | 238            | 81                | 157  |
| Machinery and equipment not otherwise classified   | 15                        | -                | 15             | -                 | 15   |
| Total machinery and equipment                      | <u>687</u>                | <u>44</u>        | <u>731</u>     | <u>434</u>        | <u>297</u>   |
| Maintenance and Operations total                   | <u>184,687</u>            | <u>(23)</u>      | <u>184,664</u> | <u>159,459</u>    | <u>25,205</u>  |

(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, 2012*

| Corporate Division (continued)  | <i>(in thousands of dollars)</i> |                  |                   | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |                  |
|---|----------------------------------|------------------|-------------------|--|------------------|
|   | Budget Amounts                   |                  |                   |  |                  |
|   | Original                         | Net<br>Transfers | Final             |  |                  |
| <b>Corporate Division Total</b>   |                                  |                  |                   |  |                  |
| Total all departments:  |                                  |                  |                   |  |                  |
| Personal services   | \$ 215,827                       | \$ (601)         | \$ 215,226        | \$ 203,624   | \$ 11,602        |
| Contractual services  | 96,909                           | 409              | 97,318            | 75,177   | 22,141           |
| Materials and supplies  | 23,541                           | 119              | 23,660            | 17,276   | 6,384            |
| Machinery and equipment   | 1,716                            | 73               | 1,789             | 1,013  | 776              |
| Land  | 177                              | -                | 177               | -  | 177              |
| Fixed and other charges   | 1,275                            | -                | 1,275             | 583  | 692              |
| Total Corporate Division  | <u>339,445</u>                   | <u>-</u>         | <u>339,445</u>    | <u>297,673</u>   | <u>41,772</u>    |
| <b>Reserve Claim Division</b>   |                                  |                  |                   |  |                  |
| Employee claims   | 10,000                           | -                | 10,000            | 4,688  | 5,312            |
| General claims and emergency repair and<br>replacement cost over \$10,000 | 51,000                           | -                | 51,000            | 1,310  | 49,690           |
| Total Reserve Claim Division  | <u>61,000</u>                    | <u>-</u>         | <u>61,000</u>     | <u>5,998</u>   | <u>55,002</u>    |
| <b>Total General Corporate Fund</b>                                       | <u>\$ 400,445</u>                | <u>\$ -</u>      | <u>\$ 400,445</u> | <u>\$ 303,671</u>  | <u>\$ 96,774</u> |



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

Year ended December 31, 2012

(with comparative amounts for prior year)

|  | <i>(in thousands of dollars)</i> |                |                                |  |                                      |
|--|----------------------------------|----------------|--------------------------------|--|--------------------------------------|
|  | <u>2012</u>                      | <u>2011</u>    | <u>Increase<br/>(Decrease)</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> | <u>Percent of<br/>Total<br/>2012</u> |
| Personal services:                                 |                                  |                |                                |  |                                      |
| Salaries and wages                                 | \$ 141,567                       | \$ 145,862     | \$ (4,295)                     | (3)%                                       | 47 %                                 |
| Employee health and life insurance premiums        | 54,700                           | 38,780         | 15,920                         | 41   | 18                                   |
| Payment for professional services                  | 4,675                            | 7,099          | (2,424)                        | (34)                                       | 2                                    |
| Social security and medicare contributions         | 2,223                            | 2,250          | (27)                           | (1)  | 1                                    |
| Tuition and training payments                      | 404                              | 407            | (3)                            | (1)  | 0                                    |
| Other  | 56                               | 62             | (6)                            | (10)                                       | 0                                    |
| Total personal services                            | <u>203,625</u>                   | <u>194,460</u> | <u>9,165</u>                   | <u>5</u>                                   | <u>68</u>                            |
| Contractual services:                              |                                  |                |                                |  |                                      |
| Electrical energy                                  | 29,584                           | 45,409         | (15,825)                       | (35)                                       | 10                                   |
| Natural gas  | 1,401                            | 1,583          | (182)                          | (11)                                       | 0                                    |
| Postage, freight, and delivery charges             | 126                              | 144            | (18)                           | (13)                                       | 0                                    |
| Waste material disposal charges                    | 12,220                           | 9,082          | 3,138                          | 35   | 4                                    |
| Administration building operation                  | 1,538                            | 1,465          | 73                             | 5  | 1                                    |
| Communication services                             | 1,966                            | 1,800          | 166                            | 9  | 1                                    |
| Farming services                                   | 20                               | 3              | 17                             | 100  | 0                                    |
| Court reporting services                           | 73                               | 144            | (71)                           | (49)                                       | 0                                    |
| Water and water services                           | 903                              | 909            | (6)                            | (1)  | 0                                    |
| Motor vehicle operating services                   | 74                               | 79             | (5)                            | (6)  | 0                                    |
| Employee travel and transportation                 | 403                              | 354            | 49                             | 14   | 0                                    |
| Medical services                                   | 113                              | 101            | 12                             | 12   | 0                                    |
| Rental charges                                     | 238                              | 309            | (71)                           | (23)                                       | 0                                    |
| Maintenance of grounds and pavements               | 1,654                            | 1,281          | 373                            | 29   | 1                                    |
| Governmental service charges                       | 2,722                            | 2,910          | (188)                          | (6)  | 1                                    |
| Repairs to process facilities                      | 5,018                            | 5,541          | (523)                          | (9)  | 2                                    |
| Other repairs                                      | 11,748                           | 10,437         | 1,311                          | 13   | 4                                    |
| Other contractual services                         | 5,329                            | 6,185          | (856)                          | (14)                                       | 2                                    |
| Total contractual services                         | <u>75,130</u>                    | <u>87,736</u>  | <u>(12,606)</u>                | <u>(14)</u>                                | <u>26</u>                            |
| Materials and supplies:                            |                                  |                |                                |  |                                      |
| Processing chemicals                               | 6,725                            | 6,067          | 658                            | 11   | 2                                    |
| Laboratory testing supplies                        | 947                              | 961            | (14)                           | (1)  | 0                                    |
| Mechanical repair parts                            | 2,530                            | 4,087          | (1,557)                        | (38)                                       | 1                                    |
| Fuels and lubricants                               | 1,066                            | 1,137          | (71)                           | (6)  | 0                                    |
| Electrical parts and supplies                      | 1,504                            | 993            | 511                            | 51   | 0                                    |
| Plumbing accessories and supplies                  | 757                              | 835            | (78)                           | (9)  | 0                                    |
| Office, printing, and photographic supplies        | 311                              | 212            | 99                             | 47   | 0                                    |
| Buildings, grounds, paving materials, and supplies | 221                              | 253            | (32)                           | (13)                                       | 0                                    |
| Cleaning supplies                                  | 210                              | 227            | (17)                           | (7)  | 0                                    |
| Metals   | 217                              | 149            | 68                             | 46   | 0                                    |
| Computer supplies                                  | 463                              | 721            | (258)                          | (36)                                       | 0                                    |
| Other materials and supplies                       | 1,966                            | 3,090          | (1,124)                        | (36)                                       | 1                                    |
| Total materials and supplies                       | <u>16,917</u>                    | <u>18,732</u>  | <u>(1,815)</u>                 | <u>(10)</u>                                | <u>4</u>                             |

*(continued)*

*Metropolitan Water Reclamation District of Greater Chicago*

|   | <i>(in thousands of dollars)</i> |                   |                                |  |                                      |
|---|----------------------------------|-------------------|--------------------------------|--|--------------------------------------|
|   | <u>2012</u>                      | <u>2011</u>       | <u>Increase<br/>(Decrease)</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> | <u>Percent of<br/>Total<br/>2012</u> |
| Machinery and equipment:                |                                  |                   |                                |  |                                      |
| Material handling and farming equipment | \$ -                             | \$ 96             | \$ (96)                        | (100) %                                    | 0 %                                  |
| Vehicle equipment                       | 81                               | 152               | (71)                           | (47)                                       | 0                                    |
| Office furniture and equipment          | 19                               | 10                | 9                              | 90   | 0                                    |
| Testing and laboratory equipment        | 359                              | 282               | 77                             | 27   | 0                                    |
| Computer software                       | 5                                | 10                | (5)                            | (50)                                       | 0                                    |
| Communication equipment                 | 100                              | 140               | (40)                           | (29)                                       | 0                                    |
| Other machinery and equipment           | <u>517</u>                       | <u>90</u>         | <u>427</u>                     | 100  | <u>0</u>                             |
| Total machinery and equipment           | <u>1,081</u>                     | <u>780</u>        | <u>301</u>                     | 39   | <u>0</u>                             |
| Fixed other charges:                    |                                  |                   |                                |  |                                      |
| Taxes on real estate                    | <u>583</u>                       | <u>545</u>        | <u>38</u>                      | 7  | <u>0</u>                             |
| Total fixed other charges               | <u>583</u>                       | <u>545</u>        | <u>38</u>                      | 7  | <u>0</u>                             |
| Claims and judgments                    | <u>5,998</u>                     | <u>6,923</u>      | <u>(925)</u>                   | (13)                                       | <u>2</u>                             |
| Total expenditures                      | <u>\$ 303,334</u>                | <u>\$ 309,176</u> | <u>\$ (5,842)</u>              | (2) %                                      | <u>100 %</u>                         |

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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 restricted or committed 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, 2012*

*(in thousands of dollars)*

|   | <b>Final<br/>Budget</b> | <b>Actual on<br/>Budgetary<br/>Basis</b> | <b>Actual<br/>Variance<br/>with Final<br/>Budget -<br/>Positive<br/>(Negative)</b> |
|---|-------------------------|--|--|
| <b>Retirement Fund</b>                      |                         |  |  |
| Revenues:                                   |                         |  |  |
| Property taxes                              | \$ 27,177               | \$ 27,513                                | \$ 336   |
| Personal property replacement tax           | 7,185                   | 7,185                                    | -  |
| Equity Transfer from Bond and Interest Fund | 30,000                  | 30,000                                   | -  |
| Total tax revenue                           | <u>64,362</u>           | <u>64,698</u>                            | <u>336</u>   |
| Operating expenditures:                     |                         |  |  |
| Pension costs                               | <u>64,362</u>           | <u>64,698</u>                            | <u>(336)</u>   |
| Total expenditures                          | <u>64,362</u>           | <u>64,698</u>                            | <u>(336)</u>   |
| Revenues over (under) expenditures          | -                       | -  | -  |
| Fund balances at beginning of the year      | -                       | -  | -  |
| Fund balances at end of the year            | <u>\$ -</u>             | <u>\$ -</u>                              | <u>\$ -</u>  |

## **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, 2012**(in thousands of dollars)*

|  | <b>Final<br/>Budget</b> | <b>Actual on<br/>Budgetary<br/>Basis</b> | <b>Actual<br/>Variance<br/>with Final<br/>Budget -<br/>Positive<br/>(Negative)</b> |
|--|-------------------------|--|--|
| Revenues:  |                         |  |  |
| Property taxes   | \$ 180,279              | \$ 165,788                               | \$ (14,491)  |
| Total tax revenue  | <u>180,279</u>          | <u>165,788</u>                           | <u>(14,491)</u>  |
| Interest on investments  | 200                     | 788                                      | 588  |
| Miscellaneous  | -                       | 9  | 9  |
| Total revenues   | <u>180,479</u>          | <u>166,585</u>                           | <u>(13,894)</u>  |
| Expenditures:  |                         |  |  |
| Debt service   | <u>185,863</u>          | <u>185,863</u>                           | -  |
| Revenues over (under) expenditures                                       | (5,384)                 | (19,278)                                 | (13,894)   |
| Other financing sources (uses):  |                         |  |  |
| Transfer from CIB, Stormwater, or Corporate Fund                         | -                       | 28,000                                   | 28,000   |
| Grant Revenue  | 12,012                  | 12,012                                   | -  |
| Transfers to Retirement Fund   | <u>(30,000)</u>         | <u>(30,000)</u>                          | -  |
| Total other financing sources (uses)                                     | <u>(17,988)</u>         | <u>10,012</u>                            | <u>28,000</u>  |
| Revenues and other financing sources (uses)<br>over (under) expenditures | (23,372)                | (9,266)                                  | 14,106   |
| Fund balances at beginning of year                                       | <u>103,309</u>          | <u>113,837</u>                           | <u>10,528</u>  |
| Fund balances at end of the year   | <u>\$ 79,937</u>        | <u>\$ 104,571</u>                        | <u>\$ 24,634</u>   |



## **CAPITAL PROJECTS FUNDS**

### **Construction Fund**

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

### **Stormwater Management Fund**

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

### **Capital Improvements Bond Fund**

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

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

Year ended December 31, 2012

|   | <i>(in thousands of dollars)</i> |                          |              |                           | <b>Actual<br/>Variance<br/>with Final<br/>Budget -<br/>Positive<br/>(Negative)</b> |
|---|----------------------------------|--------------------------|--------------|---------------------------|--|
|   | <b>Budget Amounts</b>            |                          |              | <b>Actual<br/>Amounts</b> |  |
|   | <b>Original</b>                  | <b>Net<br/>Transfers</b> | <b>Final</b> |                           |  |
| <b>Construction Fund:</b>                                 |                                  |                          |              |                           |  |
| Personal services   |                                  |                          |              |                           |  |
| Salaries of regular employees                             | \$ 2,031                         | \$ -                     | \$ 2,031     | \$ 1,990                  | \$ 41  |
| Compensation plan adjustments                             | 78                               | 50                       | 128          | 127                       | 1  |
| Salaries of non-budgeted employees                        | 20                               | -                        | 20           | -                         | 20   |
| Payment for professional services                         | 3,105                            | 450                      | 3,555        | 617                       | 2,938  |
| Health and life insurance                                 | 875                              | -                        | 875          | 657                       | 218  |
| Preliminary engineering reports and studies               | 672                              | -                        | 672          | 3                         | 669  |
| Construction drawings, specifications, and cost estimates | 159                              | -                        | 159          | 16                        | 143  |
| Aerial surveys and post construction awards               | 17                               | -                        | 17           | -                         | 17   |
| Post-award engineering for construction projects          | 1,783                            | -                        | 1,783        | 115                       | 1,668  |
| Total personal services                                   | <u>8,740</u>                     | <u>500</u>               | <u>9,240</u> | <u>3,525</u>              | <u>5,715</u>   |
| Contractual services                                      |                                  |                          |              |                           |  |
| Meals and lodging   | 2                                | -                        | 2            | -                         | 2  |
| Postage and delivery charges                              | 2                                | -                        | 2            | -                         | 2  |
| Compensation for personally owned autos                   | 9                                | -                        | 9            | 1                         | 8  |
| Motor vehicle operating services                          | 2                                | -                        | 2            | -                         | 2  |
| Reprographic services                                     | 74                               | (51)                     | 23           | 1                         | 22   |
| Water and water services                                  | 4                                | -                        | 4            | 3                         | 1  |
| Communication services                                    | 1                                | -                        | 1            | -                         | 1  |
| Testing and inspection services                           | 90                               | -                        | 90           | -                         | 90   |
| Court reporting services                                  | 9                                | -                        | 9            | 1                         | 8  |
| Rental charges  | 1                                | -                        | 1            | -                         | 1  |
| Soil and rock mechanics investigation                     | 30                               | -                        | 30           | 11                        | 19   |
| Contractual services not otherwise classified             | 14                               | -                        | 14           | -                         | 14   |
| Other contractual services                                | 148                              | 9                        | 157          | 36                        | 121  |
| Total contractual services                                | <u>386</u>                       | <u>(42)</u>              | <u>344</u>   | <u>53</u>                 | <u>291</u>   |
| Materials and supplies                                    |                                  |                          |              |                           |  |
| Office, printing and photo supplies                       | 74                               | -                        | 74           | 53                        | 21   |
| Books, maps, and charts                                   | 9                                | -                        | 9            | 6                         | 3  |
| Computer software   | 10                               | -                        | 10           | 4                         | 6  |
| Materials and supplies not otherwise classified           | 16                               | -                        | 16           | 3                         | 13   |
| Total materials and supplies                              | <u>109</u>                       | <u>-</u>                 | <u>109</u>   | <u>66</u>                 | <u>43</u>  |
| Machinery and equipment                                   |                                  |                          |              |                           |  |
| Machinery for process facilities                          | 1,317                            | (250)                    | 1,067        | 79                        | 988  |
| Material handling and farming equipment                   | -                                | 1,000                    | 1,000        | 976                       | 24   |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

|   | (in thousands of dollars) |                  |               |                   | Actual<br>Variance<br>with Final<br>Budget -<br>Positive<br>(Negative) |
|---|---------------------------|------------------|---------------|-------------------|--|
|   | Budget Amounts            |                  |               | Actual<br>Amounts |  |
|   | Original                  | Net<br>Transfers | Final         |                   |  |
| <b>Construction Fund (continued):</b>                     |                           |                  |               |                   |  |
| Machinery and equipment                                   |                           |                  |               |                   |  |
| Vehicle equipment   | \$ 250                    | \$ (250)         | \$ -          | \$ -              | \$ -   |
| Machinery and equipment not otherwise classified          | 250                       | (250)            | -             | -                 | -  |
| Total machinery and equipment                             | <u>1,817</u>              | <u>250</u>       | <u>2,067</u>  | <u>1,055</u>      | <u>1,012</u>   |
| Capital Projects  |                           |                  |               |                   |  |
| Collection facilities structures                          | 1,080                     | 400              | 1,480         | 1,030             | 450  |
| Waterways facilities structures                           | 100                       | -                | 100           | -                 | 100  |
| Process facility structures                               | 5,205                     | (708)            | 4,497         | 914               | 3,583  |
| Buildings   | 4,599                     | (400)            | 4,199         | 565               | 3,634  |
| Preservation of collection facility structures            | 2,700                     | 1,154            | 3,854         | 1,647             | 2,207  |
| Preservation of waterway facility structures              | 1,940                     | (800)            | 1,140         | -                 | 1,140  |
| Preservation of process facility structures               | 4,907                     | (354)            | 4,553         | 982               | 3,571  |
| Preservation of buildings                                 | 2,191                     | -                | 2,191         | 102               | 2,089  |
| Total capital projects                                    | <u>22,722</u>             | <u>(708)</u>     | <u>22,014</u> | <u>5,240</u>      | <u>16,774</u>  |
| <b>Construction Fund Summary:</b>                         |                           |                  |               |                   |  |
| Personal services   | 8,740                     | 500              | 9,240         | 3,525             | 5,715  |
| Contractual services                                      | 386                       | (42)             | 344           | 53                | 291  |
| Materials and supplies                                    | 109                       | -                | 109           | 66                | 43   |
| Machinery and equipment                                   | 1,817                     | 250              | 2,067         | 1,055             | 1,012  |
| Capital projects  | 22,722                    | (708)            | 22,014        | 5,240             | 16,774   |
| Construction Fund total                                   | <u>33,774</u>             | <u>-</u>         | <u>33,774</u> | <u>9,939</u>      | <u>23,835</u>  |
| <b>Stormwater Management Fund:</b>                        |                           |                  |               |                   |  |
| Personal services   |                           |                  |               |                   |  |
| Salaries of regular employees                             | 4,011                     | -                | 4,011         | 3,876             | 135  |
| Compensation plan adjustments                             | 110                       | -                | 110           | 91                | 19   |
| Salaries of non-budgeted employees                        | 20                        | -                | 20            | -                 | 20   |
| Tuition and training payments                             | 10                        | -                | 10            | 3                 | 7  |
| Payment for professional services                         | 182                       | -                | 182           | 38                | 144  |
| Health and life insurance                                 | 583                       | -                | 583           | 438               | 145  |
| Preliminary engineering reports and studies               | 6,075                     | -                | 6,075         | 2,194             | 3,881  |
| Construction drawings, specifications, and cost estimates | 4,932                     | (420)            | 4,512         | 2,871             | 1,641  |
| Post-award engineering for construction projects          | 400                       | 420              | 820           | 316               | 504  |
| Total personal services                                   | <u>16,323</u>             | <u>-</u>         | <u>16,323</u> | <u>9,827</u>      | <u>6,496</u>   |
| Contractual services                                      |                           |                  |               |                   |  |
| Travel  | 2                         | -                | 2             | -                 | 2  |
| Meals and lodging   | 4                         | -                | 4             | 2                 | 2  |

(continued)

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

Year ended December 31, 2012

|   | <i>(in thousands of dollars)</i> |                          |               |                           | <b>Actual<br/>Variance<br/>with Final<br/>Budget -<br/>Positive<br/>(Negative)</b> |
|---|----------------------------------|--------------------------|---------------|---------------------------|--|
|   | <b>Budget Amounts</b>            |                          |               | <b>Actual<br/>Amounts</b> |  |
|   | <b>Original</b>                  | <b>Net<br/>Transfers</b> | <b>Final</b>  |                           |  |
| <b>Stormwater Management Fund (continued):</b>  |                                  |                          |               |                           |  |
| Contractual services                            |                                  |                          |               |                           |  |
| Postage and delivery charges                    | \$ 1                             | \$ -                     | \$ 1          | \$ 1                      | \$ -   |
| Compensation for personally owned autos         | 38                               | -                        | 38            | 23                        | 15   |
| Motor vehicle operating services                | 1                                | -                        | 1             | -                         | 1  |
| Reprographic services                           | 60                               | -                        | 60            | -                         | 60   |
| Testing and inspection services                 | -                                | 10                       | 10            | -                         | 10   |
| Court reporting services                        | 22                               | -                        | 22            | 9                         | 13   |
| Rental charges                                  | 1                                | -                        | 1             | -                         | 1  |
| Advertising                                     | 80                               | -                        | 80            | -                         | 80   |
| Contractual services not otherwise classified   | 956                              | (10)                     | 946           | 173                       | 773  |
| Waste material disposal charges                 | 50                               | 1                        | 51            | 51                        | -  |
| Repairs to collection facilities                | 260                              | -                        | 260           | 184                       | 76   |
| Repairs to waterways facilities                 | 2,500                            | (1)                      | 2,499         | 1,856                     | 643  |
| Repairs to vehicle equipment                    | 10                               | -                        | 10            | -                         | 10   |
| Repairs not otherwise classified                | 12                               | -                        | 12            | 5                         | 7  |
| Total contractual services                      | <u>3,997</u>                     | <u>-</u>                 | <u>3,997</u>  | <u>2,304</u>              | <u>1,693</u>   |
| Materials and supplies                          |                                  |                          |               |                           |  |
| Office, printing, and photo supplies            | 3                                | -                        | 3             | 2                         | 1  |
| Tools and supplies                              | 9                                | -                        | 9             | 5                         | 4  |
| Wearing apparel                                 | 9                                | -                        | 9             | 3                         | 6  |
| Computer supplies                               | 15                               | -                        | 15            | -                         | 15   |
| Communication supplies                          | 1                                | -                        | 1             | -                         | 1  |
| Materials and supplies not otherwise classified | 205                              | -                        | 205           | 6                         | 199  |
| Total materials and supplies                    | <u>242</u>                       | <u>-</u>                 | <u>242</u>    | <u>16</u>                 | <u>226</u>   |
| Machinery and equipment                         |                                  |                          |               |                           |  |
| Computer equipment                              | 12                               | -                        | 12            | -                         | 12   |
| Total machinery and equipment                   | <u>12</u>                        | <u>-</u>                 | <u>12</u>     | <u>-</u>                  | <u>12</u>  |
| Capital Projects                                |                                  |                          |               |                           |  |
| Waterways facilities structure                  | 24,176                           | -                        | 24,176        | 4,546                     | 19,630   |
| Capital projects not otherwise classified       | 2,250                            | -                        | 2,250         | -                         | 2,250  |
| Total capital projects                          | <u>26,426</u>                    | <u>-</u>                 | <u>26,426</u> | <u>4,546</u>              | <u>21,880</u>  |
| Land  | 2,000                            | -                        | 2,000         | 89                        | 1,911  |

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

|  | Budget Amounts |           |            | Actual     | Actual   |
|--|----------------|-----------|------------|------------|--|
|  | Net            |           |            | Amounts    | Variance   |
|  | Original       | Transfers | Final      |            | with Final<br>Budget -<br>Positive<br>(Negative) |
| <b>Stormwater Management Fund (continued):</b> |                |           |            |            |  |
| Fixed and other charges                        |                |           |            |            |  |
| Payments for easements                         | \$ 2,000       | \$ -      | \$ 2,000   | \$ -       | \$ 2,000   |
| Total fixed and other charges                  | 2,000          | -         | 2,000      | -          | 2,000  |
| <b>Stormwater Management Fund Summary:</b>     |                |           |            |            |  |
| Personal services                              | 16,323         | -         | 16,323     | 9,827      | 6,496  |
| Contractual services                           | 3,997          | -         | 3,997      | 2,304      | 1,693  |
| Material and supplies                          | 242            | -         | 242        | 16         | 226  |
| Machinery and equipment                        | 12             | -         | 12         | -          | 12   |
| Capital projects                               | 26,426         | -         | 26,426     | 4,546      | 21,880   |
| Land   | 2,000          | -         | 2,000      | 89         | 1,911  |
| Fixed and other charges                        | 2,000          | -         | 2,000      | -          | 2,000  |
| Stormwater Management Fund total               | 51,000         | -         | 51,000     | 16,782     | 34,218   |
| <b>Capital Improvements Bond Fund Summary:</b> |                |           |            |            |  |
| Personal services                              | 75,994         | (20)      | 75,974     | 34,445     | 41,529   |
| Contractual services                           | 1,156          | -         | 1,156      | (637)      | 1,793  |
| Machinery and equipment                        | 425            | 20        | 445        | -          | 445  |
| Capital projects                               | 227,380        | (78,734)  | 148,646    | (25,153)   | 173,799  |
| Land   | 300            | -         | 300        | -          | 300  |
| Fixed and other charges                        | 250            | 78,734    | 78,984     | 78,932     | 52   |
| Capital Improvements Bond Fund total *         | 305,505        | -         | 305,505    | 87,587     | 217,918  |
| Capital Projects Funds total                   | \$ 390,279     | \$ -      | \$ 390,279 | \$ 114,308 | \$ 275,971                                       |

\* 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.

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## **TRUST FUNDS**

### **PENSION TRUST FUND**

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

### **OPEB TRUST FUND**

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

**Exhibit G-1**  
**Pension and Other Post Employment Trust Funds**  
**Combining Statements of Fiduciary Net Position**

December 31, 2012

(with comparative amounts for prior year)

(in thousands of dollars)

|  | Retirement Fund     |                     | OPEB Trust Fund  |                  | Total Fiduciary Funds |                     |
|--|---------------------|---------------------|------------------|------------------|-----------------------|---------------------|
|  | 2012                | 2011                | 2012             | 2011             | 2012                  | 2011                |
| <b>Assets</b>  |                     |                     |                  |                  |                       |                     |
| Cash   | \$ 124              | \$ 125              | \$ 2,150         | \$ 1,380         | \$ 2,274              | \$ 1,505            |
| Receivables  |                     |                     |                  |                  |                       |                     |
| Employer contributions-taxes<br>(net of allowance for uncollectible<br>\$4,402 in 2012; \$4,568 in 2011) | 34,761              | 34,362              | -                | -                | 34,761                | 34,362              |
| Securities sold  | 5,264               | 9,411               | -                | -                | 5,264                 | 9,411               |
| Forward foreign exchange contracts   | 20,077              | 15,095              | -                | -                | 20,077                | 15,095              |
| Accrued interest and dividends   | 2,189               | 1,246               | 116              | 22               | 2,305                 | 1,268               |
| Accounts receivable  | 49                  | 34                  | -                | -                | 49                    | 34                  |
| Total receivables  | <u>62,340</u>       | <u>60,148</u>       | <u>116</u>       | <u>22</u>        | <u>62,456</u>         | <u>60,170</u>       |
| Investments at fair value  |                     |                     |                  |                  |                       |                     |
| Corporate bonds and notes  | 167,027             | -                   | -                | -                | 167,027               | -                   |
| Illinois funds investment pool   | -                   | -                   | 10,095           | 67               | 10,095                | 67                  |
| Pooled funds - fixed income  | 204,128             | 321,665             | 24,081           | 21,582           | 228,209               | 343,247             |
| Pooled funds - equities  | -                   | -                   | 49,674           | 31,956           | 49,674                | 31,956              |
| Common and preferred stocks  | 663,897             | 639,574             | -                | -                | 663,897               | 639,574             |
| Short-term investments   | 29,535              | 17,848              | -                | -                | 29,535                | 17,848              |
| Total investments  | <u>1,064,587</u>    | <u>979,087</u>      | <u>83,850</u>    | <u>53,605</u>    | <u>1,148,437</u>      | <u>1,032,692</u>    |
| Securities lending capital   | 49,637              | 25,340              | -                | -                | 49,637                | 25,340              |
| Total assets   | <u>1,176,688</u>    | <u>1,064,700</u>    | <u>86,116</u>    | <u>55,007</u>    | <u>1,262,804</u>      | <u>1,119,707</u>    |
| <b>Liabilities</b>   |                     |                     |                  |                  |                       |                     |
| Accounts payable   | 1,354               | 1,717               | 14               | 11               | 1,368                 | 1,728               |
| Securities lending collateral  | 49,637              | 25,340              | -                | -                | 49,637                | 25,340              |
| Forward foreign exchange contracts   | 20,077              | 15,094              | -                | -                | 20,077                | 15,094              |
| Securities purchased   | 13,218              | 1,078               | -                | -                | 13,218                | 1,078               |
| Total liabilities  | <u>84,286</u>       | <u>43,229</u>       | <u>14</u>        | <u>11</u>        | <u>84,300</u>         | <u>43,240</u>       |
| Net position held in trust for pension<br>and OPEB benefits  | <u>\$ 1,092,402</u> | <u>\$ 1,021,471</u> | <u>\$ 86,102</u> | <u>\$ 54,996</u> | <u>\$ 1,178,504</u>   | <u>\$ 1,076,467</u> |



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

Year ended December 31, 2012

(with comparative amounts for prior year)

(in thousands of dollars)

|  | Retirement Fund |              | OPEB Trust Fund |           | Total Fiduciary Funds |              |
|--|-----------------|--------------|-----------------|-----------|-----------------------|--------------|
|  | 2012            | 2011         | 2012            | 2011      | 2012                  | 2011         |
| Additions:   |                 |              |                 |           |                       |              |
| Contributions:   |                 |              |                 |           |                       |              |
| Employer contributions                                       | \$ 65,098       | \$ 37,379    | \$ 35,426       | \$ 18,020 | \$ 100,524            | \$ 55,399    |
| Employee contributions                                       | 14,714          | 15,032       | -               | -         | 14,714                | 15,032       |
| Retiree contributions  | -               | -            | 5,821           | 5,577     | 5,821                 | 5,577        |
| Total contributions  | 79,812          | 52,411       | 41,247          | 23,597    | 121,059               | 76,008       |
| Investment income:   |                 |              |                 |           |                       |              |
| Net appreciation (depreciation) in fair value of investments | 103,332         | (9,431)      | 7,200           | (1,465)   | 110,532               | (10,896)     |
| Interest on short-term investments                           | 3,074           | 8            | 1,587           | 1,383     | 4,661                 | 1,391        |
| Dividend income  | 13,886          | 12,103       | -               | -         | 13,886                | 12,103       |
| Total investment income (loss)                               | 120,292         | 2,680        | 8,787           | (82)      | 129,079               | 2,598        |
| Less investment expenses                                     | (4,755)         | (4,389)      | (45)            | (45)      | (4,800)               | (4,434)      |
| Investment income (loss) net of expenses                     | 115,537         | (1,709)      | 8,742           | (127)     | 124,279               | (1,836)      |
| Security lending activities:                                 |                 |              |                 |           |                       |              |
| Security lending income                                      | 131             | 93           | -               | -         | 131                   | 93           |
| Borrower rebates   | 852             | 275          | -               | -         | 852                   | 275          |
| Bank fees  | (234)           | (77)         | -               | -         | (234)                 | (77)         |
| Net income from securities lending activities                | 749             | 291          | -               | -         | 749                   | 291          |
| Other  | 40              | 42           | -               | -         | 40                    | 42           |
| Total additions  | 196,138         | 51,035       | 49,989          | 23,470    | 246,127               | 74,505       |
| Deductions:  |                 |              |                 |           |                       |              |
| Annuities and benefits                                       |                 |              |                 |           |                       |              |
| Employee annuitants  | 103,044         | 99,601       | -               | -         | 103,044               | 99,601       |
| Retiree health care benefits                                 | -               | -            | 18,847          | 20,597    | 18,847                | 20,597       |
| Surviving spouse annuitants                                  | 18,674          | 17,523       | -               | -         | 18,674                | 17,523       |
| Child annuitants   | 114             | 112          | -               | -         | 114                   | 112          |
| Ordinary disability benefits                                 | 678             | 650          | -               | -         | 678                   | 650          |
| Duty disability benefits                                     | 204             | 216          | -               | -         | 204                   | 216          |
| Total annuities and benefits                                 | 122,714         | 118,102      | 18,847          | 20,597    | 141,561               | 138,699      |
| Refunds of employee contributions                            | 1,196           | 2,711        | -               | -         | 1,196                 | 2,711        |
| Administrative expenses                                      | 1,297           | 1,399        | 36              | 30        | 1,333                 | 1,429        |
| Total deductions   | 125,207         | 122,212      | 18,883          | 20,627    | 144,090               | 142,839      |
| Net increase (decrease)                                      | 70,931          | (71,177)     | 31,106          | 2,843     | 102,037               | (68,334)     |
| Net position held in trust for pension and OPEB benefits     |                 |              |                 |           |                       |              |
| Beginning of year  | 1,021,471       | 1,092,648    | 54,996          | 52,153    | 1,076,467             | 1,144,801    |
| End of year  | \$ 1,092,402    | \$ 1,021,471 | \$ 86,102       | \$ 54,996 | \$ 1,178,504          | \$ 1,076,467 |

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## **OTHER FINANCIAL INFORMATION**

## Exhibit H-1

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

Levy Years 2012-2007

(in thousands of dollars)

|   | Cumulative as of  |             | 2012              |              | 2011           |              |
|---|-------------------|-------------|-------------------|--------------|----------------|--------------|
|   | December 31, 2012 |             | Amount            | %            | Amount         | %            |
|   | Amount            | %           |                   |              |                |              |
| <b>Gross property tax levy</b>  |                   |             |                   |              |                |              |
| General Corporate Fund:   |                   |             |                   |              |                |              |
| Corporate   | \$ 1,438,259      | 52.7        | \$ 237,192        | 47.6         | 249,828        | 52.4         |
| Reserve Claim   | 29,336            | 1.1         | 7,200             | 1.4          | 3,400          | 0.7          |
| Total General Corporate Funds   | <u>1,467,595</u>  | <u>53.8</u> | <u>244,392</u>    | <u>49.0</u>  | <u>253,228</u> | <u>53.1</u>  |
| Other Governmental Fund:  |                   |             |                   |              |                |              |
| Storm Water Management  | 96,132            | 3.5         | 20,000            | 4.0          | 24,100         | 5.0          |
| Retirement Fund   | 160,389           | 5.9         | 28,489            | 5.7          | 28,163         | 5.9          |
| Debt Service Fund   | 956,085           | 35.1        | 184,955           | 37.2         | 169,645        | 35.6         |
| Construction Fund   | 46,578            | 1.7         | 20,418            | 4.1          | 1,819          | 0.4          |
| Total Other Governmental Funds  | <u>1,259,184</u>  | <u>46.2</u> | <u>253,862</u>    | <u>51.0</u>  | <u>223,727</u> | <u>46.9</u>  |
| Total Gross Levy - All Funds  | 2,726,779         | 100.0       | 498,254           | 100.0        | 476,955        | 100.0        |
| Less allowance for uncollectible taxes at December 31, 2012                                 | 75,115            | 2.8         | 17,438            | 3.5          | 16,337         | 3.4          |
| Estimated property taxes to be collected  | <u>2,651,664</u>  | <u>97.2</u> | <u>480,816</u>    | <u>96.5</u>  | <u>460,618</u> | <u>96.6</u>  |
| Collections by year (percent shown is percent of estimated property taxes to be collected): |                   |             |                   |              |                |              |
| First year  | 2,069,727         | 78.1        | -                 | -            | 460,618        | 100.0        |
| Second year   | 119,364           | 4.5         | -                 | -            | -              | -            |
| Third year  | (8,807)           | (0.3)       | -                 | -            | -              | -            |
| Fourth year   | (5,249)           | (0.2)       | -                 | -            | -              | -            |
| Fifth year  | (4,187)           | (0.2)       | -                 | -            | -              | -            |
| Total collections through December 31, 2012   | <u>2,170,848</u>  | <u>81.9</u> | <u>-</u>          | <u>-</u>     | <u>460,618</u> | <u>100.0</u> |
| Property taxes receivable, net  | <u>\$ 480,816</u> | <u>18.1</u> | <u>\$ 480,816</u> | <u>100.0</u> | <u>\$ -</u>    | <u>-</u>     |
| <b>Property taxes receivable, net - by fund</b>   |                   |             |                   |              |                |              |
| General Corporate Fund:   |                   |             |                   |              |                |              |
| Corporate   | 228,891           |             | 228,891           |              |                |              |
| Reserve Claim   | 6,948             |             | 6,948             |              |                |              |
| Total General Corporate Fund  | <u>235,839</u>    |             | <u>235,839</u>    |              |                |              |
| Other Governmental Funds:   |                   |             |                   |              |                |              |
| Storm Water Management  | 19,300            |             | 19,300            |              |                |              |
| Retirement Fund   | 27,492            |             | 27,492            |              |                |              |
| Debt Service Fund   | 178,482           |             | 178,482           |              |                |              |
| Construction Fund   | 19,703            |             | 19,703            |              |                |              |
| Property taxes receivable, net  | <u>\$ 480,816</u> |             | <u>\$ 480,816</u> |              |                |              |

*Metropolitan Water Reclamation District of Greater Chicago*

| <b>Levy Years</b> |              |                |              |                |              |                |              |
|-------------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| <b>2010</b>       |              | <b>2009</b>    |              | <b>2008</b>    |              | <b>2007</b>    |              |
| <b>Amount</b>     | <b>%</b>     | <b>Amount</b>  | <b>%</b>     | <b>Amount</b>  | <b>%</b>     | <b>Amount</b>  | <b>%</b>     |
| \$ 240,059        | 52.5         | \$ 237,116     | 52.1         | \$ 240,082     | 56.0         | \$ 233,982     | 57.0         |
| 1,951             | 0.4          | 3,182          | 0.7          | 7,073          | 1.7          | 6,530          | 1.6          |
| <u>242,010</u>    | <u>52.9</u>  | <u>240,298</u> | <u>52.8</u>  | <u>247,155</u> | <u>57.7</u>  | <u>240,512</u> | <u>58.6</u>  |
| 24,029            | 5.3          | 8,849          | 1.9          | 15,212         | 3.5          | 3,942          | 1.0          |
| 26,478            | 5.8          | 26,752         | 5.9          | 25,664         | 6.0          | 24,843         | 6.1          |
| 156,090           | 34.1         | 169,051        | 37.1         | 140,614        | 32.8         | 135,730        | 33.1         |
| 8,749             | 1.9          | 10,411         | 2.3          | -              | -            | 5,181          | 1.3          |
| <u>215,346</u>    | <u>47.1</u>  | <u>215,063</u> | <u>47.2</u>  | <u>181,490</u> | <u>42.3</u>  | <u>169,696</u> | <u>41.4</u>  |
| 457,356           | 100.0        | 455,361        | 100.0        | 428,645        | 100.0        | 410,208        | 100.0        |
| 6,025             | 1.3          | 10,020         | 2.2          | 10,919         | 2.5          | 14,376         | 3.5          |
| <u>451,331</u>    | <u>98.7</u>  | <u>445,341</u> | <u>97.8</u>  | <u>417,726</u> | <u>97.5</u>  | <u>395,832</u> | <u>96.6</u>  |
| 435,009           | 96.4         | 383,612        | 86.1         | 400,048        | 95.8         | 390,440        | 98.6         |
| 16,322            | 3.6          | 65,262         | 14.7         | 23,091         | 5.5          | 14,689         | 3.7          |
| -                 | -            | (3,533)        | (0.8)        | (2,507)        | (0.6)        | (2,767)        | (0.7)        |
| -                 | -            | -              | -            | (2,906)        | (0.7)        | (2,343)        | (0.6)        |
| -                 | -            | -              | -            | -              | -            | (4,187)        | (1.1)        |
| <u>451,331</u>    | <u>100.0</u> | <u>445,341</u> | <u>100.0</u> | <u>417,726</u> | <u>100.0</u> | <u>395,832</u> | <u>100.0</u> |
| <u>\$ -</u>       | <u>-</u>     | <u>\$ -</u>    | <u>-</u>     | <u>\$ -</u>    | <u>-</u>     | <u>\$ -</u>    | <u>-</u>     |

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# III. STATISTICAL AND DEMOGRAPHICS SECTION



*Icy flow of Mill Creek in McClaughry Springs Woods where it empties into the Cal-Sag Channel, near Palos Park and Orland Park. MWRD Small Streams Maintenance Program (SSMP) crews were busy in the area in 2012, beginning the year with a project which resulted in the removal of 120 cubic yards of debris.*

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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.

## **Contents**

### **Financial Trends**

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**

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**

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**

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**

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.*

## **Exhibits**

### **I-1 through I-4**

### **I-5 through I-9**

### **I-10 through I-12**

### **I-13 and I-14**

### **I-15 through I-17**

## Exhibit I-1 Net Position by Component

Last Ten Fiscal Years

(accrual basis of accounting)

(in thousands of dollars)

|  | <u>2012</u>         | <u>2011</u>         | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
| Net investment in capital assets         | \$ 4,514,633        | \$ 4,506,544        | \$ 4,492,811        | \$ 4,559,884        |
| Restricted                               |                     |                     |                     |                     |
| Restricted for corporate working cash    | 277,006             | 277,270             | 277,249             | 275,459             |
| Restricted for reserve claim             | 4,524               | 6,211               | 22,521              | 25,073              |
| Restricted for debt service              | 268,760             | 257,418             | 227,320             | 232,815             |
| Restricted for capital projects          | 18,828              | 29,908              | 38,018              | -                   |
| Restricted for construction working cash | 21,649              | 21,611              | 27,377              | 27,286              |
| Restricted for stormwater working cash   | 37,737              | 39,573              | 39,554              | 38,953              |
| Restricted for pension                   | -                   | -                   | -                   | -                   |
| Unrestricted (Deficit)                   | <u>(1,006)</u>      | <u>(53,477)</u>     | <u>(96,934)</u>     | <u>(49,191)</u>     |
| Total net position                       | <u>\$ 5,142,131</u> | <u>\$ 5,085,058</u> | <u>\$ 5,027,916</u> | <u>\$ 5,110,279</u> |

*Metropolitan Water Reclamation District of Greater Chicago*

| <u>2008</u>         | <u>2007</u>         | <u>2006</u>         | <u>2005</u>         | <u>2004</u>         | <u>2003</u>         |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 4,575,974        | \$ 4,580,604        | \$ 4,541,778        | \$ 3,728,581        | \$ 1,921,730        | \$ 1,373,683        |
| 272,120             | 267,848             | 263,229             | 244,319             | 236,294             | 236,068             |
| 35,817              | 31,295              | -                   | -                   | -                   | -                   |
| 212,353             | 203,656             | 220,306             | 278,218             | 297,800             | 290,794             |
| 13,412              | 18,656              | 1,044               | 12,287              | 16,268              | 53,931              |
| 27,005              | 26,313              | 25,750              | 25,642              | 50,132              | 49,880              |
| 37,902              | 35,275              | 32,064              | 25,227              | -                   | -                   |
| -                   | -                   | -                   | 28,602              | 44,590              | 52,572              |
| 47,316              | 70,431              | 95,357              | 27,594              | 8,862               | 27,441              |
| <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> | <u>\$ 5,179,528</u> | <u>\$ 4,370,470</u> | <u>\$ 2,575,676</u> | <u>\$ 2,084,369</u> |

## Exhibit I-2 Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(in thousands of dollars)

|  | 2012             | 2011             | 2010               | 2009                |
|--|------------------|------------------|--------------------|---------------------|
| <b>Revenues</b>                          |                  |                  |                    |                     |
| General Revenues:                        |                  |                  |                    |                     |
| Property taxes                           | \$ 486,316       | \$ 506,888       | \$ 409,550         | \$ 429,968          |
| Personal property replacement tax        | 35,605           | 36,849           | 39,352             | 37,477              |
| Interest on investments                  | 11,123           | 13,156           | 9,119              | 7,632               |
| Tax increment financing distributions    | 6,239            | 12,715           | 6,818              | 1,359               |
| Claims and damage settlements            | 1,472            | 1,298            | 285                | 695                 |
| Miscellaneous                            | 5,822            | 4,859            | 5,181              | 6,642               |
| Gain on sale of capital assets           | -                | 676              | 2,736              | -                   |
| Adjustments for non-financial assets (1) | -                | -                | -                  | -                   |
| Total general revenues                   | <u>546,577</u>   | <u>576,441</u>   | <u>473,041</u>     | <u>483,773</u>      |
| Program Revenues:                        |                  |                  |                    |                     |
| Charges for services                     |                  |                  |                    |                     |
| User charges                             | 69,322           | 57,469           | 49,433             | 47,886              |
| Land rentals                             | 12,081           | 12,161           | 10,040             | 9,660               |
| Fees, forfeits and penalties             | 3,353            | 3,279            | 2,731              | 4,305               |
| Capital grants and contributions         |                  |                  |                    |                     |
| Federal grants                           | 22,164           | 17,218           | 17,156             | 5,518               |
| Total program revenues                   | <u>106,920</u>   | <u>90,127</u>    | <u>79,360</u>      | <u>67,369</u>       |
| Total revenues                           | <u>653,497</u>   | <u>666,568</u>   | <u>552,401</u>     | <u>551,142</u>      |
| <b>Expenses</b>                          |                  |                  |                    |                     |
| Board of Commissioners                   | 3,471            | 3,348            | 3,627              | 3,680               |
| General Administration                   | 14,296           | 14,844           | 15,767             | 19,046              |
| Monitoring and Research                  | 24,689           | 25,221           | 28,450             | 29,252              |
| Procurement and Materials Management     | 5,694            | 6,928            | 6,447              | 6,196               |
| Human Resources                          | 63,103           | 47,683           | 46,882             | 43,670              |
| Information Technology                   | 13,714           | 14,423           | 16,127             | 20,611              |
| Law                                      | 5,942            | 7,151            | 8,132              | 7,491               |
| Finance                                  | 3,175            | 2,962            | 3,189              | 3,233               |
| Engineering                              | 4,332            | 4,028            | 6,245              | 9,284               |
| Maintenance and Operations               | 161,919          | 178,438          | 191,090            | 209,488             |
| Pension costs                            | 78,360           | 70,331           | 62,996             | 54,804              |
| OPEB Trust Fund costs (3)                | (7,155)          | 10,251           | 24,540             | 25,464              |
| Claims and judgments (2)                 | 25,738           | 25,488           | 9,134              | 17,536              |
| Construction costs                       | 75,496           | 84,240           | 104,947            | 131,095             |
| Loss on sale of capital assets           | 147              | 95               | 381                | 436                 |
| Depreciation (unallocated)               | 12,459           | 12,235           | 11,428             | 9,227               |
| Interest on bonds                        | 111,044          | 101,760          | 95,382             | 72,249              |
| Total expenses                           | <u>596,424</u>   | <u>609,426</u>   | <u>634,764</u>     | <u>662,762</u>      |
| Change in Net Position                   | <u>\$ 57,073</u> | <u>\$ 57,142</u> | <u>\$ (82,363)</u> | <u>\$ (111,620)</u> |

(1) Adjustment for non-financial assets.

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

(3) The 2012 decrease resulted from a reduction in the liability estimate for OPEB.

*Metropolitan Water Reclamation District of Greater Chicago*

|    | <u>2008</u>     | <u>2007</u>    | <u>2006</u>    | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|----|-----------------|----------------|----------------|----------------|----------------|----------------|
| \$ | 432,412         | \$ 370,777     | \$ 392,775     | \$ 405,423     | \$ 395,108     | \$ 373,811     |
|    | 42,527          | 45,935         | 37,743         | 36,031         | 25,961         | 23,461         |
|    | 27,112          | 48,750         | 43,659         | 19,693         | 9,943          | 13,163         |
|    | 797             | 644            | 1,167          | 1,634          | 604            | 1,097          |
|    | 606             | 64             | 614            | 77             | 450            | 113            |
|    | 5,450           | 3,434          | 2,584          | 2,300          | 1,716          | 777            |
|    | -               | 21             | -              | 93             | 2,677          | 233            |
|    | -               | -              | -              | -              | 35,865         | -              |
|    | <u>508,904</u>  | <u>469,625</u> | <u>478,542</u> | <u>465,251</u> | <u>472,324</u> | <u>412,655</u> |
|    | 49,439          | 54,612         | 53,986         | 46,576         | 46,981         | 48,038         |
|    | 9,572           | 9,243          | 7,972          | 6,310          | 6,166          | 5,023          |
|    | 4,357           | 3,383          | 4,693          | 4,748          | 3,800          | 3,892          |
|    | 896             | 253            | -              | 867            | 774            | 4,460          |
|    | <u>64,264</u>   | <u>67,491</u>  | <u>66,651</u>  | <u>58,501</u>  | <u>57,721</u>  | <u>61,413</u>  |
|    | <u>573,168</u>  | <u>537,116</u> | <u>545,193</u> | <u>523,752</u> | <u>530,045</u> | <u>474,068</u> |
|    | 3,748           | 3,513          | 3,422          | 3,341          | 3,578          | 3,333          |
|    | 18,438          | 16,875         | 17,293         | 17,807         | 15,969         | 15,183         |
|    | 27,612          | 26,178         | 25,317         | 25,230         | 24,599         | 24,669         |
|    | 5,398           | 6,631          | 5,480          | 5,170          | 6,095          | 4,659          |
|    | 61,465          | 61,878         | 35,216         | 32,941         | 35,931         | 30,947         |
|    | 20,767          | 16,475         | 11,312         | 11,111         | 10,885         | 11,626         |
|    | 7,274           | 6,147          | 5,748          | 6,199          | 5,064          | 4,667          |
|    | 3,238           | 3,109          | 3,218          | 3,124          | 3,065          | 3,047          |
|    | 8,144           | 4,483          | 4,519          | 10,160         | 6,169          | 2,986          |
|    | 196,612         | 179,938        | 156,984        | 158,802        | 161,903        | 160,309        |
|    | 45,343          | 49,891         | 42,320         | 47,549         | 35,354         | 29,511         |
|    | 8,920           | 7,405          | -              | -              | -              | -              |
|    | 9,174           | 17,606         | 876            | 4,466          | 12,175         | (1,340)        |
|    | 93,421          | 56,914         | 70,594         | 51,145         | 38,057         | 34,794         |
|    | 750             | 273            | 4,430          | 676            | 172            | 440            |
|    | 9,224           | 9,216          | 9,216          | 7,596          | 7,596          | 7,596          |
|    | 65,819          | 64,584         | 81,876         | 61,872         | 65,398         | 67,958         |
|    | <u>585,347</u>  | <u>531,116</u> | <u>477,821</u> | <u>447,189</u> | <u>432,010</u> | <u>400,385</u> |
| \$ | <u>(12,179)</u> | <u>6,000</u>   | <u>67,372</u>  | <u>76,563</u>  | <u>98,035</u>  | <u>73,683</u>  |

**Exhibit I-3**  
**Fund Balances: Governmental Funds**

*Last Ten Fiscal Years*

*(modified accrual basis of accounting)*

*(in thousands of dollars)*

|                              | <u>2012</u>       | <u>2011</u>         | <u>2010</u>       | <u>2009</u>       | <u>2008</u>       |
|------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| General Corporate Fund       |                   |                     |                   |                   |                   |
| Nonspendable                 | \$ 39,467         | \$ 38,922           | \$ 38,924         | \$ 38,761         | \$ 38,067         |
| Restricted                   | 344,186           | 342,398             | 341,381           | 338,602           | 333,650           |
| Unassigned (Deficit)         | <u>(19,151)</u>   | <u>(96,225)</u>     | <u>(175,521)</u>  | <u>(166,687)</u>  | <u>(142,300)</u>  |
| Total General Corporate Fund | <u>364,502</u>    | <u>285,095</u>      | <u>204,784</u>    | <u>210,676</u>    | <u>229,417</u>    |
| All Other Governmental Funds |                   |                     |                   |                   |                   |
| Restricted                   | <u>575,796</u>    | <u>763,064</u>      | <u>519,456</u>    | <u>773,035</u>    | <u>464,633</u>    |
| Total governmental funds     | <u>\$ 940,298</u> | <u>\$ 1,048,159</u> | <u>\$ 724,240</u> | <u>\$ 983,711</u> | <u>\$ 694,050</u> |

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Metropolitan Water Reclamation District of Greater Chicago

| <u>2007</u>       | <u>2006</u>       | <u>2005</u>       | <u>2004</u>       | <u>2003</u>       |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 35,787         | \$ 36,326         | \$ 35,907         | \$ 34,914         | \$ 35,728         |
| 323,238           | 306,705           | 283,767           | 272,096           | 266,414           |
| <u>(124,515)</u>  | <u>(98,053)</u>   | <u>(120,465)</u>  | <u>(138,999)</u>  | <u>(115,226)</u>  |
| <u>234,510</u>    | <u>244,978</u>    | <u>199,209</u>    | <u>168,011</u>    | <u>186,916</u>    |
| <br>              |                   |                   |                   |                   |
| <u>631,736</u>    | <u>750,189</u>    | <u>517,320</u>    | <u>599,658</u>    | <u>652,058</u>    |
| <br>              |                   |                   |                   |                   |
| <u>\$ 866,246</u> | <u>\$ 995,167</u> | <u>\$ 716,529</u> | <u>\$ 767,669</u> | <u>\$ 838,974</u> |

## Exhibit I-4 Changes in Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(in thousands of dollars)

|  | 2012                | 2011              | 2010                | 2009              | 2008                |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| <b>Revenues</b>  |                     |                   |                     |                   |                     |
| General Revenues:  |                     |                   |                     |                   |                     |
| Property taxes   | \$ 489,168          | \$ 492,751        | \$ 410,663          | \$ 418,077        | \$ 399,917          |
| Personal property replacement tax                        | 35,605              | 36,849            | 39,352              | 37,477            | 42,527              |
| Interest on investments                                  | 11,123              | 13,156            | 9,119               | 7,632             | 27,112              |
| Land sales   | -                   | 2,326             | 3,045               | 6                 | 6                   |
| Tax increment financing distributions                    | 6,239               | 12,715            | 6,818               | 1,359             | 797                 |
| Claims and damage settlements                            | 1,472               | 1,298             | 285                 | 695               | 606                 |
| Miscellaneous  | 5,822               | 4,859             | 5,181               | 6,642             | 5,450               |
| Program Revenues:  |                     |                   |                     |                   |                     |
| Charges for services                                     |                     |                   |                     |                   |                     |
| User charges   | 69,322              | 57,469            | 49,433              | 47,886            | 49,439              |
| Land rentals   | 12,081              | 12,161            | 10,040              | 9,660             | 9,572               |
| Fees, forfeits and penalties                             | 3,353               | 2,534             | 2,731               | 4,305             | 4,357               |
| Capital grants and contributions                         |                     |                   |                     |                   |                     |
| Government grants  | 22,164              | 17,218            | 20,233              | 1,440             | 896                 |
| Total revenues   | <u>656,349</u>      | <u>653,336</u>    | <u>556,900</u>      | <u>535,179</u>    | <u>540,679</u>      |
| <b>Expenditures</b>                                      |                     |                   |                     |                   |                     |
| Operations:  |                     |                   |                     |                   |                     |
| Board of Commissioners                                   | 3,463               | 3,344             | 3,628               | 3,659             | 3,721               |
| General Administration                                   | 13,877              | 14,332            | 15,411              | 18,555            | 17,958              |
| Monitoring and Research                                  | 24,495              | 25,084            | 28,445              | 28,891            | 27,146              |
| Procurement and Materials Management                     | 5,698               | 6,949             | 6,493               | 6,156             | 5,341               |
| Human Resources  | 63,105              | 47,710            | 46,944              | 43,603            | 61,385              |
| Information Technology                                   | 13,167              | 13,820            | 15,823              | 20,200            | 19,328              |
| Law  | 5,942               | 7,166             | 8,164               | 7,446             | 7,211               |
| Finance  | 3,172               | 2,965             | 3,203               | 3,208             | 3,205               |
| Engineering  | 3,229               | 2,975             | 5,367               | 7,951             | 6,703               |
| Maintenance and Operations                               | 161,188             | 177,908           | 191,165             | 208,123           | 194,916             |
| Pension costs  | 66,191              | 36,635            | 30,099              | 31,744            | 28,937              |
| Claims and judgments                                     | 5,998               | 6,923             | 6,728               | 9,464             | 7,626               |
| Construction costs                                       | 259,315             | 337,051           | 496,885             | 397,265           | 191,415             |
| Debt service:  |                     |                   |                     |                   |                     |
| Redemption of bonds                                      | 71,400              | 64,112            | 60,602              | 73,105            | 112,577             |
| Interest on bonds  | 118,854             | 98,015            | 104,414             | 67,148            | 66,591              |
| Total expenditures                                       | <u>819,094</u>      | <u>844,989</u>    | <u>1,023,371</u>    | <u>926,518</u>    | <u>754,060</u>      |
| Revenues over (under) expenditures                       | <u>(162,745)</u>    | <u>(191,653)</u>  | <u>(466,471)</u>    | <u>(391,339)</u>  | <u>(213,381)</u>    |
| Other Financing Sources (Uses)                           |                     |                   |                     |                   |                     |
| Payment to escrow agent                                  | -                   | (253)             | -                   | -                 | -                   |
| State revolving fund loan proceeds                       | 54,884              | 78,481            | 152,465             | 81,000            | 41,185              |
| Sale of refunding bonds                                  | -                   | -                 | -                   | -                 | -                   |
| Proceeds from sale of bonds                              | -                   | 400,000           | -                   | 600,000           | -                   |
| Premium on sale of bonds                                 | -                   | 37,344            | -                   | -                 | -                   |
| Proceeds from capital lease                              | -                   | -                 | 54,535              | -                 | -                   |
| Total other financing sources (uses)                     | <u>54,884</u>       | <u>515,572</u>    | <u>207,000</u>      | <u>681,000</u>    | <u>41,185</u>       |
| Net change in fund balance                               | <u>\$ (107,861)</u> | <u>\$ 323,919</u> | <u>\$ (259,471)</u> | <u>\$ 289,661</u> | <u>\$ (172,196)</u> |
| Debt service as a percentage of non-capital expenditures | 29.5%               | 27.4%             | 24.1%               | 22.8%             | 28.2%               |



*Metropolitan Water Reclamation District of Greater Chicago*

|    | <u>2007</u>      | <u>2006</u>       | <u>2005</u>        | <u>2004</u>        | <u>2003</u>       |
|----|------------------|-------------------|--------------------|--------------------|-------------------|
| \$ | 376,757          | \$ 380,675        | \$ 423,941         | \$ 360,326         | \$ 397,751        |
|    | 45,935           | 37,743            | 36,031             | 25,961             | 24,048            |
|    | 48,750           | 43,659            | 19,693             | 9,943              | 13,163            |
|    | 28               | 516               | 100                | 3,608              | 239               |
|    | 644              | 1,167             | 1,634              | 604                | 1,097             |
|    | 64               | 614               | 77                 | 450                | 113               |
|    | 3,495            | 2,729             | 2,573              | 1,872              | 1,003             |
|    | 54,117           | 52,504            | 45,983             | 47,757             | 50,222            |
|    | 9,243            | 7,972             | 6,310              | 6,160              | 5,023             |
|    | 3,383            | 4,693             | 4,748              | 3,800              | 3,892             |
|    | 253              | -                 | 867                | 1                  | 4,836             |
|    | <u>542,669</u>   | <u>532,272</u>    | <u>541,957</u>     | <u>460,482</u>     | <u>501,387</u>    |
|    | 3,496            | 3,401             | 3,323              | 3,552              | 3,315             |
|    | 16,491           | 16,974            | 17,259             | 15,538             | 14,987            |
|    | 25,892           | 24,985            | 24,787             | 24,030             | 24,172            |
|    | 6,556            | 5,352             | 5,023              | 5,932              | 4,510             |
|    | 61,841           | 35,162            | 32,900             | 35,877             | 30,916            |
|    | 16,125           | 11,034            | 10,811             | 10,574             | 11,417            |
|    | 6,121            | 5,709             | 6,168              | 5,018              | 4,646             |
|    | 3,093            | 3,197             | 3,102              | 3,033              | 3,025             |
|    | 4,331            | 4,318             | 9,538              | 6,273              | 4,095             |
|    | 179,012          | 155,899           | 157,612            | 160,299            | 159,079           |
|    | 31,115           | 30,071            | 31,561             | 27,372             | 29,511            |
|    | 9,353            | 4,954             | 4,368              | 3,829              | 2,972             |
|    | 194,151          | 164,157           | 133,599            | 127,155            | 164,865           |
|    | 90,466           | 83,692            | 107,767            | 92,560             | 91,198            |
|    | 68,148           | 88,177            | 61,252             | 63,465             | 67,428            |
|    | <u>716,191</u>   | <u>637,082</u>    | <u>609,070</u>     | <u>584,507</u>     | <u>616,136</u>    |
|    | <u>(173,522)</u> | <u>(104,810)</u>  | <u>(67,113)</u>    | <u>(124,025)</u>   | <u>(114,749)</u>  |
|    | (437,621)        | (416,000)         | -                  | -                  | -                 |
|    | 47,104           | 27,464            | 15,973             | 52,720             | 77,613            |
|    | 382,020          | 397,390           | -                  | -                  | -                 |
|    | -                | 350,000           | -                  | -                  | 146,000           |
|    | 53,098           | 24,594            | -                  | -                  | -                 |
|    | -                | -                 | -                  | -                  | -                 |
|    | <u>44,601</u>    | <u>383,448</u>    | <u>15,973</u>      | <u>52,720</u>      | <u>223,613</u>    |
| \$ | <u>(128,921)</u> | <u>\$ 278,638</u> | <u>\$ (51,140)</u> | <u>\$ (71,305)</u> | <u>\$ 108,864</u> |
|    | 27.4%            | 33.4%             | 32.2%              | 33.4%              | 32.9%             |

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

Last Ten Fiscal Years

(in thousands of dollars, except tax rates)

| Fiscal Year Ended December 31, | Chicago Equalized Assessed Value | Suburbs Equalized Assessed Value | Total Equalized Assessed Value | Total Direct Tax Rate (1) | Estimated Full Taxable Value | Equalized Assessed Value as a Percentage of Full Value |
|--------------------------------|----------------------------------|----------------------------------|--------------------------------|---------------------------|------------------------------|--|
| 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                     | 581,371,295                  | 22.5   |
| 2006                           | 69,511,192                       | 71,957,450                       | 141,468,642                    | 0.284                     | 666,223,062                  | 21.2   |
| 2007                           | 73,645,316                       | 82,327,478                       | 155,972,794                    | 0.263                     | 656,474,744                  | 23.8   |
| 2008                           | 80,977,543                       | 89,119,839                       | 170,097,382                    | 0.252                     | 616,163,594                  | 27.6   |
| 2009                           | 84,586,808                       | 89,880,835                       | 174,467,643                    | 0.261                     | 550,135,370                  | 31.7   |
| 2010                           | 82,087,170                       | 84,830,896                       | 166,918,066                    | 0.274                     | 449,811,540                  | 37.1   |
| 2011                           | 75,122,914                       | 73,925,579                       | 149,048,493                    | 0.320                     | 449,811,540 (2)              | 33.1   |

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

Last Ten Fiscal Years

(rates per \$100 of assessed value)

|                              | 2012 (1)        | 2011            | 2010            | 2009            | 2008            | 2007            | 2006            | 2005            | 2004            | 2003            |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>District direct rates</b> |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Corporate                    | \$ 0.159        | \$ 0.168        | \$ 0.144        | \$ 0.135        | \$ 0.141        | \$ 0.150        | \$ 0.151        | \$ 0.158        | \$ 0.167        | \$ 0.163        |
| Corporate Working Cash       | -               | -               | -               | -               | -               | -               | -               | -               | -               | 0.004           |
| Reserve Claim                | 0.005           | 0.002           | 0.001           | 0.002           | 0.004           | 0.004           | 0.004           | 0.004           | 0.004           | 0.004           |
| Retirement                   | 0.019           | 0.019           | 0.016           | 0.016           | 0.015           | 0.016           | 0.018           | 0.018           | 0.024           | 0.024           |
| Debt Service                 | 0.124           | 0.114           | 0.094           | 0.097           | 0.083           | 0.087           | 0.087           | 0.113           | 0.139           | 0.143           |
| Construction                 | 0.014           | 0.001           | 0.005           | 0.006           | -               | 0.003           | 0.013           | 0.014           | 0.013           | 0.023           |
| Stormwater Management (2)    | 0.013           | 0.016           | 0.014           | 0.005           | 0.009           | 0.003           | 0.011           | 0.008           | -               | -               |
| <b>Total direct rate</b>     | <b>\$ 0.334</b> | <b>\$ 0.320</b> | <b>\$ 0.274</b> | <b>\$ 0.261</b> | <b>\$ 0.252</b> | <b>\$ 0.263</b> | <b>\$ 0.284</b> | <b>\$ 0.315</b> | <b>\$ 0.347</b> | <b>\$ 0.361</b> |

### Major local governments' tax rates (3)

|                                   |      |          |          |          |          |          |          |          |          |          |
|-----------------------------------|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| City of Chicago                   | \$ - | \$ 0.999 | \$ 0.914 | \$ 0.887 | \$ 0.928 | \$ 1.004 | \$ 1.012 | \$ 1.153 | \$ 1.188 | \$ 1.262 |
| Chicago Board of Education        | -    | 2.875    | 2.581    | 2.366    | 2.472    | 2.583    | 2.697    | 3.026    | 3.104    | 3.142    |
| Chicago Park District             | -    | 0.346    | 0.319    | 0.309    | 0.323    | 0.355    | 0.379    | 0.443    | 0.431    | 0.439    |
| Cook County                       | -    | 0.462    | 0.423    | 0.394    | 0.415    | 0.446    | 0.500    | 0.533    | 0.593    | 0.630    |
| Cook County Forest Preserve Dist. | -    | 0.058    | 0.051    | 0.049    | 0.051    | 0.053    | 0.057    | 0.060    | 0.060    | 0.059    |
| Community College Dist. #508 (4)  | -    | 0.165    | 0.151    | 0.150    | 0.156    | 0.159    | 0.205    | 0.234    | 0.242    | 0.246    |
| Chicago School Finance Authority  | -    | -        | -        | -        | -        | 0.091    | 0.118    | 0.127    | 0.177    | 0.151    |
| City of Chicago Library Fund      | -    | 0.111    | 0.102    | 0.099    | 0.102    | 0.040    | 0.050    | 0.090    | 0.114    | 0.118    |
| City of Chgo School Bldg/Imprvmt  | -    | 0.119    | 0.116    | 0.112    | 0.117    | -        | -        | -        | -        | -        |

### District's tax levies by fund (in thousands)

|                           |                |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|---------------------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Corporate                 | \$237,193      | \$249,828        | \$240,059        | \$237,117        | \$240,082        | \$233,982        | \$213,860        | \$206,565        | \$198,676        | \$180,310        |
| Stormwater Management (2) | 20,000         | 24,100           | 24,029           | 8,849            | 15,212           | 3,942            | 15,508           | 10,451           | -                | -                |
| Corporate Working Cash    | -              | -                | -                | -                | -                | -                | -                | -                | -                | 4,645            |
| Reserve Claim             | 7,200          | 3,400            | 1,951            | 3,182            | 7,073            | 6,530            | 5,957            | 5,513            | 5,142            | 4,645            |
| Retirement                | 28,489         | 28,163           | 26,478           | 26,751           | 25,664           | 24,843           | 25,072           | 23,598           | 28,247           | 25,958           |
| Debt Service              | 184,955        | 169,645          | 156,090          | 169,051          | 140,614          | 135,730          | 123,608          | 147,281          | 166,152          | 157,334          |
| Construction              | 20,418         | 1,819            | 8,749            | 10,441           | -                | 5,181            | 17,766           | 17,940           | 14,847           | 25,170           |
| <b>Total tax levies</b>   | <b>498,255</b> | <b>\$476,955</b> | <b>\$457,356</b> | <b>\$455,361</b> | <b>\$428,645</b> | <b>\$410,208</b> | <b>\$401,771</b> | <b>\$411,348</b> | <b>\$413,064</b> | <b>\$398,062</b> |

Source: Cook County Clerk

- (1) District's tax rates are estimated based on 2011 equalized assessed valuation of \$149 billion.
- (2) The Stormwater Management Fund was established in 2005.
- (3) Major local governments' rates for 2012 are not yet available.
- (4) Formerly Chicago City Colleges.

## Exhibit I-7 Principal Property Taxpayers

2011 and Nine Years Ago

|                                |                     | <i>(in thousands of dollars)</i> |      |  |                          |      |  |
|--------------------------------|---------------------|----------------------------------|------|--|--------------------------|------|--|
|                                |                     | 2011 (1)                         |      |  | 2002                     |      |  |
| Taxpayer                       | Type of Business    | Equalized Assessed Value (7)     | Rank | Percentage of Total Equalized Assessed Value | Equalized Assessed Value | Rank | Percentage of Total Equalized Assessed Value |
| Willis Tower (2)               | Retail & Office     | \$ 445,590                       | 1    | 0.30%  | \$ 417,723               | 1    | 0.41%  |
| Aon Center (3)                 | Insurance           | 302,125                          | 2    | 0.20   | 283,923                  | 2    | 0.28   |
| One Prudential Plaza           | Financial Services  | 272,345                          | 3    | 0.18   | 230,947                  | 4    | 0.22   |
| Northwestern Memorial Hospital | Health Care         | 243,610                          | 4    | 0.16   | -                        | -    | -  |
| One North Wacker Dr. (4)       | Office              | 230,207                          | 5    | 0.15   | -                        | -    | -  |
| Equity Office (5)              | Property Management | 214,023                          | 6    | 0.14   | 260,304                  | 3    | 0.25   |
| Water Tower Place              | Retail & Office     | 207,942                          | 7    | 0.14   | -                        | -    | -  |
| Blue Cross Blue Shield Tower   | Office              | 206,344                          | 8    | 0.14   | -                        | -    | -  |
| Chase Tower (6)                | Banking             | 204,229                          | 9    | 0.14   | 230,071                  | 5    | 0.22   |
| AT&T Corporate Center          | Communications      | 197,943                          | 10   | 0.13   | 196,455                  | 6    | 0.19   |
| Lakeside Tech Court            | Communications      | -                                | -    | -  | 160,564                  | 7    | 0.16   |
| Citicorp Center                | Banking             | -                                | -    | -  | 155,795                  | 8    | 0.15   |
| Three First National Plaza     | Retail & Office     | -                                | -    | -  | 150,438                  | 9    | 0.15   |
| Leo Burnett Building           | Advertising         | -                                | -    | -  | 148,240                  | 10   | 0.14   |
|                                |                     | <u>\$ 2,524,358</u>              |      | <u>1.68%</u>                                 | <u>\$ 2,234,460</u>      |      | <u>2.17%</u>                                 |

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

(1) 2012 information is unavailable.

(2) Formerly known as the Sears Tower.

(3) Formerly known as the Amoco Oil Building.

(4) Formerly known as the UBS Building.

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

(6) Formerly known as Bank One Plaza.

(7) The Equalized Assessed Valuation for 2011 is \$149,048,493,249

## Exhibit I-8 Property Tax Levies and Collections

Last Ten Fiscal Years

(in thousands of dollars)

| Fiscal<br>Year<br>Ended<br>December 31 | Taxes Levied<br>for the<br>Fiscal Year | Collected within the First Year |                       |                   | Collections<br>in Subsequent<br>Years | Total Collections to Date |                       |
|--|--|---------------------------------|-----------------------|-------------------|---------------------------------------|---------------------------|-----------------------|
|  |  | Amount                          | Percentage<br>of Levy | Final<br>Due Date |                                       | Amount                    | Percentage<br>of Levy |
| 2003                                   | \$ 398,062                             | \$ 375,549                      | 94.3%                 | 11/15/04          | \$ 12,361                             | \$ 387,910                | 97.4%                 |
| 2004                                   | 413,064                                | 399,017                         | 96.6                  | 11/01/05          | 2,738                                 | 401,755                   | 97.3                  |
| 2005                                   | 411,348                                | 398,343                         | 96.8                  | 09/01/06          | 446                                   | 398,789                   | 96.9                  |
| 2006                                   | 401,771                                | 353,566                         | 88.0                  | 12/03/07          | 34,881                                | 388,447                   | 96.7                  |
| 2007                                   | 410,208                                | 390,440                         | 95.2                  | 11/03/08          | 5,393                                 | 395,833                   | 96.5                  |
| 2008                                   | 428,645                                | 400,048                         | 93.3                  | 12/01/09          | 17,677                                | 417,725                   | 97.5                  |
| 2009                                   | 455,361                                | 383,612                         | 84.2                  | 12/13/10          | 61,729                                | 445,341                   | 97.8                  |
| 2010                                   | 457,356                                | 435,009                         | 95.1                  | 10/01/11          | 16,322                                | 451,331                   | 98.7                  |
| 2011                                   | 476,955                                | 460,618                         | 96.6                  | 08/01/12          | -                                     | 460,618                   | 96.6                  |
| 2012                                   | 498,255                                | -                               | -                     | 08/01/13          | -                                     | -                         | -                     |

## Exhibit I-9 User Charge Rates

Last Ten Fiscal Years

|   | <u>2012 (1)</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-----------------|-------------|-------------|-------------|-------------|
| <b>Large Commercial/Industrial User Rates (2)</b> |                 |             |             |             |             |
| Flow per million gallons                          | \$ 256.48       | \$ 243.99   | \$ 262.44   | \$ 229.37   | \$ 223.72   |
| 5-day BOD per 1,000 lbs. (5)                      | 259.22          | 247.48      | 270.68      | 231.90      | 229.23      |
| SS per 1,000 lbs. (6)                             | 195.95          | 194.18      | 200.33      | 174.25      | 178.11      |
| <b>Tax-Exempt User Rates (3)</b>                  |                 |             |             |             |             |
| Flow per million gallons                          | \$ 263.48       | \$ 250.31   | \$ 269.25   | \$ 235.96   | \$ 230.29   |
| 5-day BOD per 1,000 lbs. (5)                      | 266.27          | 253.89      | 277.70      | 238.56      | 235.98      |
| SS per 1,000 lbs. (6)                             | 201.24          | 199.21      | 205.53      | 179.25      | 183.35      |
| <b>OM&amp;R Rate (4)</b>                          | 0.4860          | 0.4730      | 0.5570      | 0.5040      | 0.4990      |

- (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 User Charge rates have increased in 2012 as compared to 2011 which is attributable to an increase to the District's OM&R cost. This, combined with an increase in volume and BOD loading for both Large Commercial-Industrial and Tax-Exempt Users caused the increase in rates for those parameters.
- (2) Large Commercial-Industrial users are non-governmental, non-residential users engaged in significant commercial or industrial activities.
- (3) Tax-Exempt users are exempt from payment of property taxes.
- (4) This rate represents the OM&R costs as a percentage of the District's total tax levy and it is applied to Commercial-Industrial users' real estate tax credits for determining their final user charge.
- (5) BOD = Biological Oxygen Demand
- (6) SS = Suspended Solids

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*Metropolitan Water Reclamation District of Greater Chicago*

| <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|-------------|-------------|-------------|-------------|-------------|
| \$ 224.87   | \$ 225.80   | \$ 210.91   | \$ 202.39   | \$ 217.74   |
| 228.39      | 239.79      | 226.64      | 215.86      | 227.39      |
| 173.01      | 183.41      | 174.33      | 168.16      | 182.75      |
| \$ 231.07   | \$ 235.40   | \$ 219.30   | \$ 209.31   | \$ 223.29   |
| 234.69      | 249.99      | 235.65      | 223.25      | 233.19      |
| 177.77      | 191.20      | 181.26      | 173.92      | 187.41      |
| 0.5040      | 0.5680      | 0.5680      | 0.5690      | 0.6240      |

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

Last Ten Fiscal Years

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

| Fiscal Year | General Obligation Bonds | Bond Anticipation Notes and Interest | Capital Lease Payable (4) | Total Debt   | Resources Available for Repayment of Debt (2) | Net Debt     | Total Debt as a % Personal Income (3) | Total Debt Per Capita (3) | Net Debt as a % of Estimated Full Taxable Value (3) | Net Debt Per Capita (3) |
|-------------|--------------------------|--------------------------------------|---------------------------|--------------|---|--------------|---------------------------------------|---------------------------|---|-------------------------|
|             |                          |                                      |                           |              |   |              |                                       |                           |   |                         |
| 2003        | \$ 1,363,739             | \$ 94,245                            | \$ -                      | \$ 1,457,984 | \$ 174,249                                    | \$ 1,283,735 | 1.03%                                 | \$ 268.75                 | 0.27%   | \$ 236.63               |
| 2004        | 1,329,123                | 90,473                               | -                         | 1,419,596    | 164,185                                       | 1,255,411    | 1.03                                  | 264.65                    | 0.23  | 234.04                  |
| 2005        | 1,280,569                | 48,238                               | -                         | 1,328,807    | 168,920                                       | 1,159,887    | 0.95                                  | 248.98                    | 0.20  | 217.33                  |
| 2006        | 1,579,401                | 25,261                               | -                         | 1,604,662    | 124,540                                       | 1,480,122    | 1.15                                  | 302.37                    | 0.22  | 278.90                  |
| 2007        | 1,465,854                | 63,131                               | -                         | 1,528,985    | 97,492  | 1,431,493    | 1.10                                  | 289.69                    | 0.22  | 271.22                  |
| 2008        | 1,392,699                | 64,894                               | -                         | 1,457,593    | 101,053                                       | 1,356,540    | 1.05                                  | 277.00                    | 0.22  | 257.80                  |
| 2009        | 1,979,203                | 86,286                               | -                         | 2,065,489    | 106,279                                       | 1,959,210    | 1.46                                  | 392.01                    | 0.36  | 371.84                  |
| 2010        | 1,961,974                | 196,225                              | 53,688                    | 2,211,887    | 111,055                                       | 2,100,832    | 1.44                                  | 422.12                    | 0.47  | 400.92                  |
| 2011        | 2,466,464                | 108,008                              | 51,784                    | 2,626,256    | 137,217                                       | 2,489,039    | 1.87                                  | 503.50                    | 0.55  | 477.19                  |
| 2012        | 2,515,376                | 44,527                               | 49,837                    | 2,604,803    | 142,060                                       | 2,462,743    | 1.79                                  | 505.79                    | 0.55  | 478.20                  |

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

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

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

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



## Exhibit I-11 Estimate of Direct and Overlapping Debt

As of December 31, 2012

(In thousands of dollars)

|                         |  |              |
|-------------------------|--|--------------|
| Direct debt             |  |              |
| Bonds and notes payable |  | \$ 2,621,209 |
| Capital lease           |  | 49,837       |

| Overlapping bonded debt of major local governments (1) | Net Debt (2)     | % Applicable (3) | Applicable           |
|--|------------------|------------------|----------------------|
|  |                  |                  | Amount               |
| City of Chicago  | \$ 7,784,610     | 100.00%          | \$ 7,784,610         |
| Chicago Board of Education                             | 6,355,763 (4)(5) | 100.00           | 6,355,763 (4)        |
| Chicago Park District                                  | 874,710 (4)      | 100.00           | 874,710 (4)          |
| City Colleges  | -                | 100.00           | -                    |
| Cook County  | 3,616,435        | 97.95            | 3,542,443            |
| Cook County Forest Preserve District                   | 187,950          | 97.95            | 184,105              |
|  |                  |                  | <u>18,741,631</u>    |
| Total overlapping debt (6)                             |                  |                  | <u>18,741,631</u>    |
| Total direct and overlapping debt                      |                  |                  | <u>\$ 21,412,677</u> |

(1) Excludes outstanding tax anticipation notes and warrants.

(2) Source: Each of the respective taxing districts.

(3) Based on 2011 EVAs; the most recent available. For 2011, the EVA from the portion of the District within the City of Chicago was \$75,122,913,910.

(4) Includes approximately \$6 billion and \$427 million 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) Includes leases securing Public Building Commission Bonds (\$287 million).

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

## Exhibit I-12 Computation of Statutory Debt Margin

Last Ten Fiscal Years

(in thousands of dollars)

|  | 2012 (1)       | 2011           | 2010           | 2009           | 2008           |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Equalized assessed valuation</b>                                      | \$ 149,048,493 | \$ 149,048,493 | \$ 166,918,066 | \$ 174,467,643 | \$ 170,097,382 |
| <b>Statutory debt limit (5.75% of equalized assessed valuation)</b>      | 8,570,288      | 8,570,288      | 9,597,789      | 10,031,889     | 9,780,599      |
| <b>Total debt applicable to debt limit:</b>                              |                |                |                |                |                |
| General obligation bonds outstanding                                     | 2,515,376      | 2,466,464      | 1,961,974      | 1,979,203      | 1,392,699      |
| Bond anticipation notes outstanding                                      | 44,527         | 108,008        | 196,225        | 86,286         | 64,894         |
| Capital lease outstanding  | 49,837         | 51,784         | 53,688         | -              | -              |
| Liabilities of tax financed funds:                                       |                |                |                |                |                |
| Corporate  | 30,076         | 35,347         | 45,381         | 45,260         | 42,374         |
| Stormwater   | 2,496          | 1,956          | 2,496          | 1,101          | 1,470          |
| Debt service   | -              | -              | -              | -              | -              |
| Reserve claim  | 1,110          | 1,381          | 410            | 327            | 1,036          |
| Construction   | 4,062          | 1,542          | 1,732          | 4,236          | 2,855          |
| Total applicable debt  | 2,647,484      | 2,666,482      | 2,261,906      | 2,116,413      | 1,505,328      |
| Less applicable assets:  |                |                |                |                |                |
| Debt service funds unrestricted cash and investments                     | 105,285        | 114,344        | 88,710         | 88,849         | 89,397         |
| Interest payable in the next twelve months                               | (109,300)      | (116,410)      | (92,619)       | (59,873)       | (73,103)       |
| Total applicable assets  | (4,015)        | (2,066)        | (3,909)        | 28,976         | 16,294         |
| <b>Total net debt applicable to debt limit</b>                           | 2,651,499      | 2,668,548      | 2,265,815      | 2,087,437      | 1,489,034      |
| <b>Statutory debt margin</b>   | \$ 5,918,790   | \$ 5,901,740   | \$ 7,331,974   | \$ 7,944,452   | \$ 8,291,565   |
| <b>Total applicable net debt as a percentage of statutory debt limit</b> | 30.9%          | 31.1%          | 23.6%          | 20.8%          | 15.2%          |

(1) Debt limit calculation based on 2011 equalized assessed valuation since 2012 value is not yet available.

*Metropolitan Water Reclamation District of Greater Chicago*

| <u>2007</u>    | <u>2006</u>    | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|----------------|----------------|----------------|----------------|----------------|
| \$ 155,972,794 | \$ 141,468,642 | \$ 130,586,921 | \$ 119,038,560 | \$ 110,266,628 |
| 8,968,436      | 8,134,447      | 7,508,748      | 6,844,717      | 6,340,331      |
| 1,465,854      | 1,579,401      | 1,280,569      | 1,329,123      | 1,363,739      |
| 63,131         | 25,261         | 48,238         | 90,473         | 94,245         |
| -              | -              | -              | -              | -              |
| 38,699         | 27,233         | 25,394         | 29,112         | 29,661         |
| 1,179          | 340            | 72             | -              | -              |
| -              | 56             | 154            | 212            | 212            |
| 1,243          | 1,495          | 124            | 276            | 472            |
| 2,662          | 2,810          | 3,949          | 6,333          | 4,953          |
| 1,572,768      | 1,636,596      | 1,358,500      | 1,455,529      | 1,493,282      |
| 77,599         | 108,814        | 127,860        | 125,441        | 129,600        |
| (68,877)       | (69,111)       | (55,119)       | (60,902)       | (63,488)       |
| 8,722          | 39,703         | 72,741         | 64,539         | 66,112         |
| 1,564,046      | 1,596,893      | 1,285,759      | 1,390,990      | 1,427,170      |
| \$ 7,404,390   | \$ 6,537,554   | \$ 6,222,989   | \$ 5,453,727   | \$ 4,913,161   |
| 17.4%          | 19.6%          | 17.1%          | 20.3%          | 22.5%          |

## Exhibit I-13 Demographic and Economic Statistics

Last Ten Fiscal Years

(population and dollars in thousands)

| Year | Population | Personal<br>Income | Per<br>Capita<br>Personal<br>Income | Median<br>Household<br>Income | Unemployment<br>Rate |
|------|------------|--------------------|-------------------------------------|-------------------------------|----------------------|
| 2012 | 5,150      | \$ 145,456,281     | \$ 28,246                           | \$ 53,852                     | 8.8%                 |
| 2011 | 5,216      | 140,483,393        | 26,933                              | 54,036                        | 9.8                  |
| 2010 | 5,240      | 153,959,010        | 29,381                              | 59,201                        | 10.4                 |
| 2009 | 5,269      | 141,675,329        | 26,888                              | 53,709                        | 10.1                 |
| 2008 | 5,262      | 139,190,968        | 26,452                              | 52,664                        | 6.2                  |
| 2007 | 5,278      | 138,936,974        | 26,324                              | 52,477                        | 4.9                  |
| 2006 | 5,307      | 139,547,983        | 26,295                              | 52,408                        | 4.5                  |
| 2005 | 5,337      | 139,159,977        | 26,075                              | 51,635                        | 6.0                  |
| 2004 | 5,364      | 137,820,341        | 25,694                              | 50,093                        | 6.3                  |
| 2003 | 5,425      | 140,930,862        | 25,978                              | 51,585                        | 6.9                  |

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

## Exhibit I-14 Principal Employers

2012 and Nine Years Ago

| Employer                              | 2012           |      |                                | 2003           |      |                                |
|---------------------------------------|----------------|------|--------------------------------|----------------|------|--------------------------------|
|                                       | Employees      | Rank | Percentage of Total Employment | Employees      | Rank | Percentage of Total Employment |
| U.S. Government                       | 52,144         | 1    | 1.01%                          | 88,000         | 1    | 1.62%                          |
| Chicago Public Schools                | 40,145         | 2    | 0.78                           | 46,184         | 2    | 0.85                           |
| City of Chicago                       | 30,197         | 3    | 0.59                           | 39,275         | 3    | 0.72                           |
| Cook County                           | 21,057         | 4    | 0.41                           | 26,082         | 5    | 0.48                           |
| Advocate Health Care                  | 16,710         | 5    | 0.32                           | 25,293         | 6    | 0.47                           |
| State of Illinois                     | 15,400         | 6    | 0.30                           | 17,049         | 10   | 0.31                           |
| J.P. Morgan Chase & Co. (1)           | 15,103         | 7    | 0.29                           | -              | -    | -                              |
| University of Chicago                 | 15,029         | 8    | 0.29                           | -              | -    | -                              |
| Walgreen Co.                          | 14,528         | 9    | 0.28                           | 17,567         | 9    | 0.32                           |
| AT&T Inc. (2)                         | 14,000         | 10   | 0.27                           | 21,000         | 7    | 0.39                           |
| Jewel-Osco                            | -              | -    | -                              | 39,220         | 4    | 0.72                           |
| United Parcel Service of America Inc. | -              | -    | -                              | 19,063         | 8    | 0.35                           |
| Total                                 | <u>234,313</u> |      | <u>4.54%</u>                   | <u>338,733</u> |      | <u>6.23%</u>                   |

(1) Formerly Bank One

(2) Previous to 2002 takeover by SBC Communications, this was Ameritech

Source: Reprinted with permission, *Crain's Chicago Business* [January 21, 2013] © Crain Communications, Inc.

## Exhibit I-15 Budgeted Positions by Fund/Department

Last Ten Fiscal Years

| Fund/Department                                      | Budgeted Positions |       |       |       |       |       |       |       |       |       |
|--|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | 2012               | 2011  | 2010  | 2009  | 2008  | 2007  | 2006  | 2005  | 2004  | 2003  |
| <b>General Corporate Fund</b>                        |                    |       |       |       |       |       |       |       |       |       |
| Board of Commissioners                               | 37                 | 40    | 45    | 45    | 45    | 45    | 45    | 46    | 46    | 45    |
| General Administration                               | 114                | 125   | 124   | 146   | 138   | 144   | 145   | 146   | 147   | 140   |
| Monitoring and Research<br>Procurement and Materials | 280                | 303   | 308   | 308   | 309   | 311   | 317   | 321   | 326   | 337   |
| Management   | 62                 | 69    | 70    | 70    | 70    | 70    | 70    | 71    | 75    | 71    |
| Human Resources                                      | 57                 | 59    | 60    | 54    | 54    | 53    | 53    | 56    | 56    | 52    |
| Information Technology                               | 69                 | 71    | 71    | 72    | 72    | 66    | 63    | 64    | 64    | 64    |
| Law  | 37                 | 38    | 40    | 40    | 40    | 40    | 41    | 41    | 41    | 40    |
| Finance  | 29                 | 31    | 31    | 31    | 33    | 34    | 35    | 35    | 37    | 37    |
| Engineering (Corporate Fund)                         | 29                 | 32    | 34    | 34    | 34    | 33    | 33    | 33    | 32    | 32    |
| Maintenance & Operations                             | 943                | 1,029 | 1,047 | 1,046 | 1,045 | 1,044 | 1,071 | 1,124 | 1,137 | 1,163 |
| Total General Corporate Fund                         | 1,657              | 1,797 | 1,830 | 1,846 | 1,840 | 1,840 | 1,873 | 1,937 | 1,961 | 1,981 |
| Engineering (Construction Fund)                      | 21                 | 28    | 45    | 45    | 45    | 49    | 63    | 63    | 117   | 120   |
| Engineering (Stormwater<br>Management)               | 48                 | 44    | 50    | 49    | 47    | 48    | 38    | 9     | -     | -     |
| Engineering (Capital Improvements<br>Bond Fund)      | 196                | 202   | 191   | 191   | 177   | 157   | 133   | 134   | 83    | 85    |
| Grand Total  | 1,922              | 2,071 | 2,116 | 2,131 | 2,109 | 2,094 | 2,107 | 2,143 | 2,161 | 2,186 |

## Exhibit I-16 Operating Indicators

*Last Ten Fiscal Years*

|      | Area<br>Served (1) | Communities<br>Served (2) | Number of<br>People<br>Served(3) | Commercial and<br>Industrial<br>Population<br>Equivalent Served | Number of<br>Local Sewer<br>Connections to<br>Intercepting<br>Sewers | Gallons of<br>Pumping Station<br>Maximum<br>Capacity (4) | Gallons of<br>Sewerage Wastes<br>Processed<br>per Day (4) | Daily<br>Sewerage<br>Treatment<br>Capacity (4) |
|------|--------------------|---------------------------|----------------------------------|---|--|--|---|--|
| 2012 | 884                | 126                       | 5,149,578                        | 4,500,000   | 10,000   | 4,000,000  | 1,379,300   | 2,000,000                                      |
| 2011 | 884                | 126                       | 5,215,968                        | 4,500,000   | 10,000   | 4,000,000  | 1,342,800   | 2,000,000                                      |
| 2010 | 884                | 126                       | 5,239,879                        | 4,500,000   | 10,000   | 4,000,000  | 1,245,200   | 2,000,000                                      |
| 2009 | 884                | 126                       | 5,269,000                        | 4,500,000   | 10,000   | 4,000,000  | 1,366,700   | 2,000,000                                      |
| 2008 | 884                | 126                       | 5,262,000                        | 4,500,000   | 10,000   | 4,000,000  | 1,284,600   | 2,000,000                                      |
| 2007 | 876                | 126                       | 5,278,157                        | 4,500,000   | 10,000   | 4,000,000  | 1,310,000   | 2,000,000                                      |
| 2006 | 876                | 126                       | 5,306,935                        | 4,500,000   | 10,000   | 4,000,000  | 1,329,000   | 2,000,000                                      |
| 2005 | 876                | 126                       | 5,377,000                        | 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                                      |

(1) In square miles

(2) Including the City of Chicago

(3) Claritas Data Service

(4) In thousands of gallons

## Exhibit I-17 Capital Asset Statistics

*Last Ten Fiscal Years*

|   | 2012    | 2011    | 2010    | 2009    | 2008    | 2007    | 2006    | 2005    | 2004    | 2003    |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Miles of intercepting sewers and force mains operated             | 559     | 559     | 559     | 559     | 559     | 559     | 559     | 559     | 559     | 559     |
| Miles of waterway water levels controlled                         | 76      | 76      | 76      | 76      | 76      | 76      | 76      | 76      | 76      | 76      |
| Acres of strip-mined land utilized for solids processing          | 13,796+ | 13,796+ | 13,796+ | 13,796+ | 13,796+ | 13,000+ | 13,000+ | 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  | 22      | 22      | 22      | 22      | 22      | 23      | 23      | 23      | 23      | 23      |
| Miles of TARP tunnels constructed for pollution and flood control | 109.4   | 109.4   | 109.4   | 109.4   | 109.4   | 109.4   | 109.4   | 101.5   | 101.5   | 101.5   |
| Miles of TARP tunnels under construction                          | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 7.9     | 7.9     | 7.9     |
| Number of TARP reservoirs constructed                             | 1       | 1       | 1       | 1       | 1       | 1       | 1       | 1       | 1       | 1       |
| Number of TARP reservoirs under construction                      | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       |
| Number of flood control reservoirs                                | 31      | 31      | 31      | 31      | 32      | 32      | 32      | 32      | 32      | 32      |
| 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 MWRD renamed its Skokie facility, formerly known as the North Side Water Reclamation Plant, in honor of outgoing Board of Commissioners President Terrence J. O'Brien. O'Brien is seen with the commemorative plaque which highlights his 24 years of elected service to the MWRD and the people of Cook County.*

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*

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 6, 2013. Our report includes a reference to other auditors who audited the financial statements of the District's Pension Trust Fund as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***Internal Control Over Financial Reporting***

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. This significant deficiency is item 12-01.

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

### ***Compliance and Other Matters***

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

### ***Management's Response to Findings***

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*Baker Tilly Virchow Krause LLP*

Madison, Wisconsin  
May 6, 2013

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying Schedule of Expenditures of Federal Awards (Schedule) of the Metropolitan Water Reclamation District of Greater Chicago (District), for the year ended December 31, 2012 and the related notes to the Schedule.

#### *Management's Responsibility for the Schedule of Expenditures of Federal Awards*

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

#### *Auditors' Responsibility*

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (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 the Schedule is free of material misstatement.

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

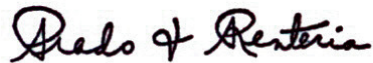
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the Schedule referred to above presents fairly, in all material respects, the respective expenditures of federal awards of the District for the year ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

***Report on Other Legal and Regulatory Requirements***

In accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, we have also issued a report dated May 6, 2013 on our consideration of the District's compliance with requirements that could have a direct and material effect on the major program and on internal control over compliance in accordance with 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.



Chicago, Illinois  
May 6, 2013



## INDEPENDENT AUDITORS' REPORT

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

### Report on Compliance for the Major Federal Program

We have audited the Metropolitan Water Reclamation District of Greater Chicago's (District) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended December 31, 2012. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *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 on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

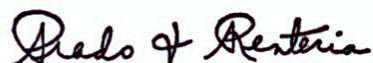
### **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chicago, Illinois  
May 6, 2013

## Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

| Federal<br>CFDA<br>Number(A)  | Grant/<br>Identifying<br>Number(B) | Award<br>Date(C) | Project Description(D)                                    | Total 2012<br>Federal<br>Expenditures<br>(E) |
|---|------------------------------------|------------------|---|--|
| <b>Major Programs:</b>  |                                    |                  |   |  |
| <b>Federal Grantor: U.S. Environmental Protection Agency</b><br>(passed through Illinois Environmental Protection Agency) |                                    |                  |   |  |
| <u>Capitalization Grants for Clean Water State Revolving Funds</u>  |                                    |                  |   |  |
| 66.458  | L172625                            | September, 2007  | Hydraulic Improvements at Calumet Water Reclamation Plant | \$ 145,744                                   |
| 66.458  | L173064                            | October, 2009    | Harms Road 2 Sewer Rehab North Side Area                  | 258,740                                      |
| 66.458  | L173075                            | January, 2011    | 39th Street Conduit Rehabilitation,<br>Phase 1 Bypass     | 3,061,544                                    |
| 66.458  | L174558                            | May, 2012        | Stickney Sludge Thickening Project                        | <u>10,887,564</u>                            |
| Total U.S. Environmental Protection Agency<br>Funding of Capitalization Grants for Clean<br>Water State Revolving Funds   |                                    |                  |   | <u>\$ 14,353,592</u>                         |
| <b>Non-Major Programs:</b>  |                                    |                  |   |  |
| <b>Federal Grantor: U. S. Department of Homeland Security</b> (passed through<br>Illinois Emergency Management Agency)    |                                    |                  |   |  |
| <u>Buffer Zone Protection Program</u>   |                                    |                  |   |  |
| 97.078  | 2008 BZPP                          | July, 2009       | Buffer Zone Protection Program                            | <u>\$ 59,691</u>                             |
| Total Federal Expenditures<br>under Non-Major Programs  |                                    |                  |   | <u>\$ 59,691</u>                             |
| <b>Total Federal Expenditures</b>   |                                    |                  |   | <b><u>\$ 14,413,283</u></b>                  |

See Accompanying Notes to Schedule of Expenditures of Federal Awards.



## **Notes to Schedule of Expenditures of Federal Awards**

*Year ended December 31, 2012*

### **Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Metropolitan Water Reclamation District of Greater Chicago (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.

### **Note 2 – Heading and Column Explanations**

- (A) Catalog of Federal Domestic Assistance Number (CFDA), if determinable.
- (B) Grant Number assigned by pass-through entity.
- (C) Date of original award.
- (D) Description of project receiving federal funds.
- (E) Total expenditures representing eligible costs claimed by the District.

### **Note 3 – Program Descriptions**

Descriptions of federal programs, funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2012.

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

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

#### CFDA # 97.078 – Buffer Zone Protection Program (BZPP)

The fiscal year 2012 Buffer Zone Protection Program (BZPP) provides funds to increase the preparedness capabilities of jurisdictions responsible for the safety and security of communities surrounding high-priority Critical Infrastructure and Key Resource (CIKR) assets through planning and equipment acquisition.

## Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2012

### Note 4 – Grant Project Descriptions

#### State Revolving Fund Loans

**Loan #L172625** was awarded to the District on September 11, 2007, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Hydraulic Improvement at the Calumet Water Reclamation Plant, Project 93-232-2M. The maximum loan amount is \$43,000,000 of which \$3,349,398 remains at December 31, 2012. The maximum pass through federal funding is \$35,831,900. A total of \$145,744 in federal funds was disbursed by the Illinois Environmental Protection Agency (IEPA) during fiscal year 2012. As of December 31, 2012, \$990,722 was unconverted and is reflected as a bond anticipation note in the District's financial statements.

**ARRA-Loan #L173064** was awarded to the District on October 27, 2009, under the Procedures for Providing Financial Assistance from the Water Pollution Control Loan Program under the American Recovery and Reinvestment Act of 2009. The loan provides for the Harms Road 2 Sewer Rehabilitation North Side Area, Project 07-028-3S. The maximum loan amount is \$10,381,885 of which \$358,930 remains at December 31, 2012. ARRA funds of \$5,190,942 were exhausted in 2010. A total of \$258,740 in federal funds was disbursed by the IEPA during fiscal year 2012. As of December 31, 2012, \$310,400 was unconverted and is reflected as a bond anticipation note in the District's financial statements.

**Loan #L173075** was awarded to the District on January 27, 2011, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for the 39th Street Conduit Rehabilitation, Phase 1 Bypass, Project 01-103-2S. The maximum loan amount is \$33,696,083 of which \$12,273,483 remains at December 31, 2012. The maximum pass through federal funding is \$28,078,945. A total of \$3,061,544 in federal funds was disbursed by the Illinois Environmental Protection Agency (IEPA) during fiscal year 2012. As of December 31, 2012, \$24,624,043 was unconverted and is reflected as a bond anticipation note in the District's financial statements.

**Loan #L174558** was awarded to the District on May 12, 2012, under Public Law 95-217 (Federal Water Pollution Control Act). The loan provides for Sludge Thickening Facilities at the Stickney Water Reclamation Plant, Project 09-176-3P. The maximum loan amount is \$40,000,000 of which \$24,069,520 remains at December 31, 2012. The maximum pass through federal funding is \$33,332,000. A total of \$10,887,564 in federal funds was disbursed by the IEPA during fiscal year 2012. As of December 31, 2012, \$15,967,256 was unconverted and is reflected as a bond anticipation note in the District's financial statements.

#### Buffer Zone Protection Program (BZPP)

**Grant BZPP** was awarded to the District from the U.S. Department of Homeland Security, Fiscal Year 2008 Homeland Security Grant Program, Buffer Zone Protection Program (BZPP), CFDA #97.078. The maximum pass through federal funding amount awarded is \$162,972. For fiscal year 2012, the District received \$59,691 in federal funding for amounts spent.

### Note 5 – Noncash Assistance

Of the federal expenditures presented in the schedule, the District did not receive any noncash assistance during the year.

### Note 6 – Federal Insurance

The District had no federal insurance for the year ended December 31, 2012.

## Schedule of Findings and Questioned Costs

Year ended December 31, 2012

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

#### *Financial Statements*

Type of auditor’s report issued: **Unmodified**

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

Significant deficiencies identified that are not considered to be material weakness(es)?  
 Yes  None reported

Noncompliance material to financial statements noted?  
 Yes  No

#### *Federal Awards*

Internal control over major programs:

Material weaknesses identified?  Yes  No

Significant deficiencies identified not considered to be material weaknesses?  
 Yes  None reported

Type of auditor’s report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?  
 Yes  No

Identification of major programs:

#### **U.S. Environmental Protection Agency**

| <u>CFDA Number</u> | <u>Name of Federal Program</u>                              |
|--------------------|---|
| 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?  Yes  No

## **Schedule of Findings and Questioned Costs**

*Year ended December 31, 2012*

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

#### **Item 2012-01 - Health Care Payment Process**

**Criteria:** Statement on Auditing Standards (SAS) 115 requires auditors to communicate circumstances that were evaluated to be significant deficiencies in the District's structure of internal control.

**Condition:** The District does not have a process in place to gather the information to evaluate payment adjustments to verify that healthcare costs are properly recorded and expenses are recognized in the proper period.

**Cause:** The District relies on departmental representatives to approve invoices, which is an appropriate process for a government of this size; however these individuals do not always have an understanding of accrual accounting principles.

**Effect:** During 2011 an additional \$2.16 million of health care costs for active employees and retirees was recognized as the result of an overpayment. The District received a credit on the 2012 invoice resulting in the 2012 expenses being understated by this amount.

**Recommendation:** We recommend management establish a formal protocol so that going forward if an invoice with a credit balance over an established threshold is received or if a department has knowledge of a vendor credit or other information that may impact prior year costs, finance is notified. Finance would then be able to review the reason for the credit or the other information and determine the proper accounting for the transaction.

**Management's Response to Significant Deficiency:** Management agrees with the Auditor's recommendation. The health care payment process changed in 2011 from paying estimated cost to paying actual cost; this change mitigates the potential for future overpayment. In addition, effective May 2013, the Human Resources Department will provide monthly settlement statements from the third party health care administrator and include as support to the related health care payment. This information will be electronically stored within the District's SAP ERP system and be accessible to view by management. An annual review will be performed to validate the retiree health care costs to documentation provided by the third party health care administrator.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

### **SECTION IV – SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

None

