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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, 2004**

**Finance Department**

**JACQUELINE TORRES, Director of Finance/Clerk**

**Incorporated May 29, 1889**

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# I. INTRODUCTORY SECTION



*The Thornton Transitional Reservoir provided significant relief to the South Suburban area in 2004, eliminating millions of dollars in flood damages to area homes and businesses.*

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

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

### **Board of Commissioners:**

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

### **Officers:**

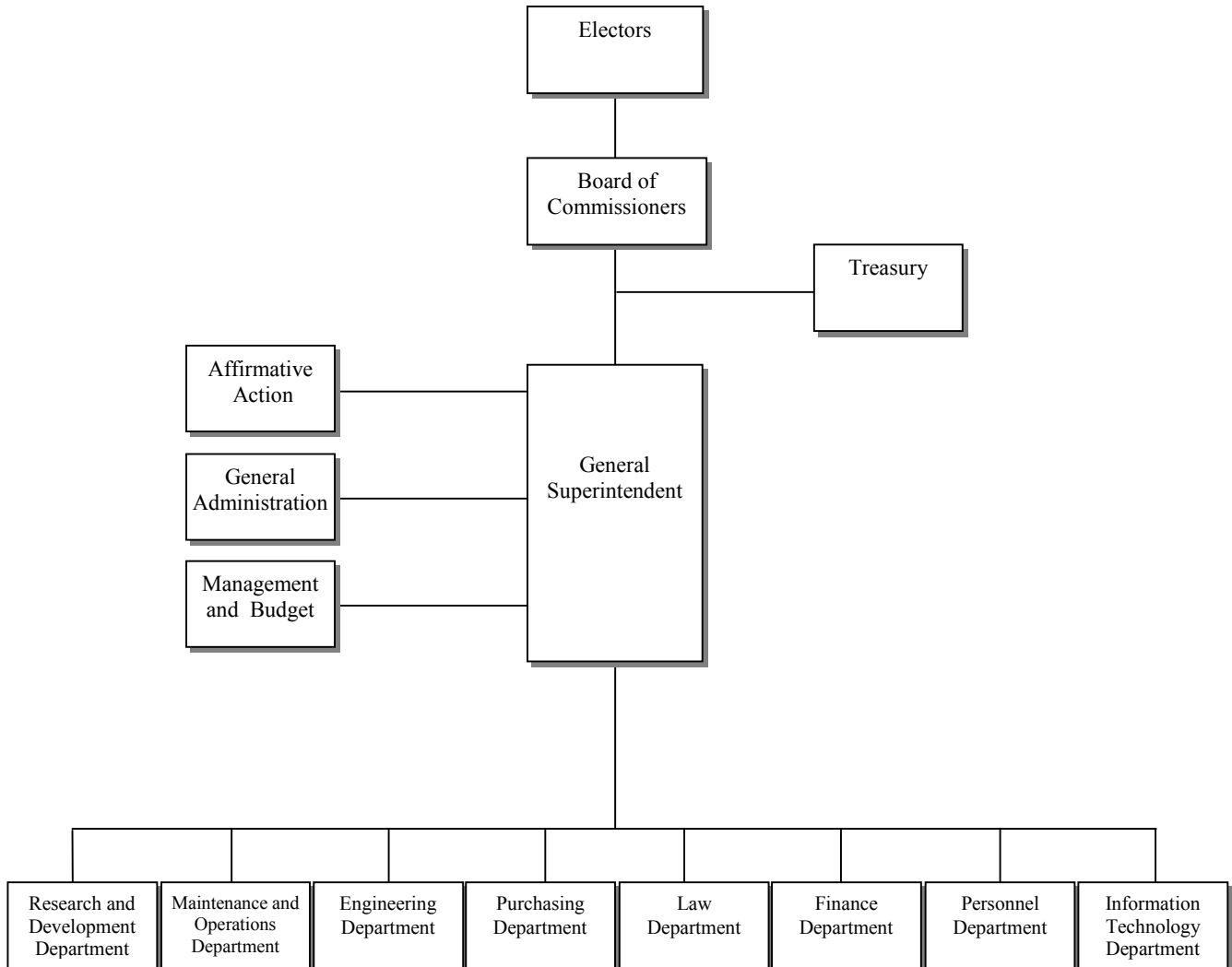
John C. Farnan, General Superintendent  
Harold G. Downs, Treasurer  
Patrick J. Foley, Director of Personnel  
Richard Lanyon, Director of Research and Development  
Darlene A. LoCascio, Purchasing Agent  
Thomas K. O'Connor, Chief of Maintenance and Operations  
Michael G. Rosenberg, Attorney  
Keith D. Smith, Director of Information Technology  
Joseph P. Sobanski, Chief Engineer  
Jacqueline Torres, Director of Finance/Clerk

### **Main Office:**

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

# Metropolitan Water Reclamation District of Greater Chicago

## Organization Chart



2,161 Budgeted Positions  
as of December 31, 2004



## Protecting Our Water Environment

### BOARD OF COMMISSIONERS

Terrence J. O'Brien  
*President*  
Kathleen Therese Meany  
*Vice President*  
Gloria Aiitto Majewski  
*Chairman Of Finance*  
Frank Avila  
James C. Harris  
Barbara J. McGowan  
Cynthia M. Santos  
Patricia Young  
Harry "Bus" Yourell

### Metropolitan Water Reclamation District of Greater Chicago

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

Terrence J. O'Brien  
*President*

312/751-5700 FAX 312/751-5760

May 5, 2005

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

This letter transmits the Comprehensive Annual Financial Report (CAFR) of the Metropolitan Water Reclamation District of Greater Chicago for the year ended December 31, 2004. This report clearly demonstrates the District's sustained excellent financial condition.

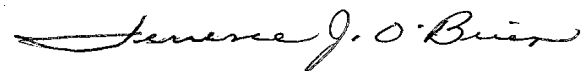
The Board of Commissioners' highest priority is to deliver a vital environmental service at the lowest possible cost to the taxpayers. With this in mind, the Board has authorized an Infrastructure and Process Needs Feasibility Study for the three largest plants, Stickney, Calumet and North Side. The major capital improvements resulting from the Study are expected to reduce future operating, maintenance and energy costs. Additionally, our Maintenance and Operations personnel have controlled gas and electric energy costs through a combination of off-peak pumping, increased use of methane gas and the rehabilitation of the hydro-electric turbines at the Lockport Powerhouse. New issues may lie ahead in the face of deregulation, however, we will continue to pursue and utilize the most reliable and efficient energy services.

For over 30 years the District has provided updates on the District's Tunnel and Reservoir Plan (TARP). At this time I am pleased to report that all 109.4 miles of the TARP tunneling work have been completed and finishing work is expected in 2006. In 2004 the Board of Commissioners committed to funding the Thornton Composite Reservoir to keep TARP's Phase II Reservoir work on schedule and directed the District to work with the U.S. Army Corps of Engineers for funding and construction of the McCook Reservoir. The development of TARP has seen a remarkable improvement in the District's water quality which has led to an expanding fish population and an increase in the recreational use of the entire inland waterway system.

The District's sound financial condition is reflected in its AAA bond ratings and the continuing awards from the Government Finance Officers Association (GFOA). For the 29<sup>th</sup> consecutive year, the District earned the GFOA's Award for Excellence in Financial Reporting and for the 20<sup>th</sup> consecutive year the District received GFOA's Distinguished Budget Award.

In November 2004 the Illinois General Assembly granted the District authority for Regional Stormwater Management within Cook County. This authority brings new challenges and responsibilities to the Board and the District's staff. I look forward to working with my colleagues on Board of Commissioners and the outstanding, professional staff of the District to address these challenges and responsibilities.

Respectfully submitted,



Terrence J. O'Brien  
President

**Metropolitan Water Reclamation District of Greater Chicago**

**Multi-Year Awards**

**1975-2003**

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

**1985-2004**

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

**1993-2003**

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*

**2000 & 2003-2004**

Illinois Safety Council and Greater Safety Council  
*Outstanding Safety Performance Award*

**Individual Year Awards (partial listing)**

**1999**

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

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

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

**2000**

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

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

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

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

**Individual Year Awards (continued)**

**2001**

*National Environmental Achievement Award for Excellence in Research and Technology*

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

**2002**

Chicago Women-In-Trade Council  
*Award for District's Women-in-trade Program*

Illinois Safety Council  
*2001 Transportation Award for Outstanding Safety Performance*

**2003**

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

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

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

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

United States Environmental Protection Agency  
*Certificate of Recognition as a Clean Water Partner for the 21<sup>st</sup> century*

**2004**

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

# 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, 2003

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.



*Nancy L. Zielke*

President

*Jeffrey R. Emer*

Executive Director

# Protecting Our Water Environment



## Metropolitan Water Reclamation District of Greater Chicago

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

### BOARD OF COMMISSIONERS

Terrence J. O'Brien  
*President*  
Kathleen Therese Meany  
*Vice President*  
Gloria Alitto Majewski  
*Chairman Of Finance*  
Frank Avila  
James C. Harris  
Barbara J. McGowan  
Cynthia M. Santos  
Patricia Young  
Harry "Bus" Yourell

Jacqueline Torres  
*Director of Finance/Clerk*  
312/751-6500 Fax 312/751-5965 312/894-1104

May 5, 2005

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

Dear Commissioners:

The Comprehensive Annual Financial Report (CAFR), of which this transmittal letter is a component, has been prepared in accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.13 for the fiscal year ended December 31, 2004. The Statutes require that the Director of Finance/Clerk prepare and publish the financial statements and any other data necessary to reflect the true financial condition and operations of the Metropolitan Water Reclamation District of Greater Chicago the "District" within six months of the close of each fiscal year. Full responsibility for the completeness and reliability of all the information presented in this report rest with the District's management. The CAFR's basic financial statements have been prepared in conformance with generally accepted accounting standards (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and audited by a licensed certified public accounting firm.

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 auditors' report.

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. The report is divided into four sections as follows:

**Introductory Section** – In addition to this transmittal letter, the Introductory Section includes a listing of principal officers, the District's organization chart, a letter from the President of the District, recognition of awards and a Statement of Responsibility for the financial statements.

**Financial Section** – This section displays the independent auditors' unqualified opinion on the basic financial statements including note disclosures, the MD&A, required supplementary information (RSI) and other supplemental information.

**Statistical and Demographics Section** – Located in this section are selected financial indicators, generally presented on a multi-year basis, and the vital statistics referencing the economic conditions and economic stability of the area served by the District. The District has early-implemented the Statistical Section revisions from GASB Statement No. 44 to provide more useful comparative information.

**Single Audit Section** - This section reflects our conformity with the provisions of the Single Audit Act of 1984; the Single Audit Act amendments of 1996; and U.S. OMB Circular A-133 - Audits of States, Local Governments, and Non-Profit Organizations. Information related to the single audit, including the Schedule of Expenditures of Federal Awards and the auditors' reports on the internal control structure and compliance with general and specific laws and regulations, are included in this section.

## MISSION STATEMENT

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

## BACKGROUND

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

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

## REPORTING ENTITY



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

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

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

## MAJOR INITIATIVES

### Intercepting Sewers

In order to collect wastewater from local sewer systems for conveyance to its water reclamation plants, the District has constructed approximately 559 miles of intercepting sewers and force mains. These intercepting sewers range in size from 12 inches to 27 feet in diameter. Additionally, approximately 9.3 miles of sewers, with an approximate value of \$32 million, are planned or under construction to provide relief to existing sewers. A continuing inspection program and lining of deteriorated sewers ensure a high service level on existing sewers.

### Water Reclamation Plant (WRP) Expansions and Improvements

The District has a total secondary treatment capacity of approximately 2 billion gallons per day. The Capital Improvement Program (Program) includes plans for the improvement of all the District's major treatment plants. Award of projects with a construction cost of approximately \$413 million is anticipated.

### Biosolids Management

The District collects biosolids from wastewater treatment. The effective dewatering and drying of these biosolids is a major District undertaking.

As discussed in the Notes to Basic Financial Statements (Note 9), in December 2000, 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 Stickney Water Reclamation Plant.

### Tunnel and Reservoir Plan

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



*This Sidestream Elevated Pool Aeration Station (SEPA) has improved the quality of the water in the Calumet-River by introducing oxygen during the warm months of each year.*



*The Metropolitan Water Reclamation District operates seven wastewater plants in Cook County. More than one billion gallons of wastewater flow into the plants on an average day, and the treatment process removes 95% of the organic pollutants. This photo shows a final settling tank after the wastewater has undergone primary and secondary treatment. The effluent is released back into a receiving stream at the end of the process. The biosolids that were removed are disposed of in an environmentally safe manner. All seven plants consistently meet the limits of their operating permits.*



*An aerial view shows a **construction drop shaft** on the District's Deep Tunnel Project. Workers enter the construction area hundreds of feet below ground through this drop shaft and are now finishing the last portion of the project that prevents combined sewer overflows from entering the local waterways. The entire 109.4 mile system will be complete in 2006.*

**Phase I—Pollution Control.** In 1975, the United States Environmental Protection Agency (USEPA) determined that the pollution control portion of TARP, designated Phase 1, was eligible for 75% financial support under the Water Pollution Control Act (Public Law 92-500). This phase of TARP will eliminate about 85% of the pollution load attributable to the combined sewer overflows. This phase was designed to capture and store the most polluted fractions of combined sewer overflows until they can be treated in the District's treatment plants.

As of February 2005, design and construction contracts for 109.4 miles of tunnels, having a value of approximately \$2.39 billion, have been awarded. Approximately 101.5 miles are completed and in operation. The final Phase 1 tunnel, the 7.9 mile Little Calumet Leg, is currently under construction and scheduled for completion in 2006.

When completed, Phase I of TARP will have 109.4 miles of deep, large diameter tunnels, over 200 drop shafts, three large pumping stations and numerous near-surface connecting structures. Phase I consists of four systems: Mainstream, Calumet, Des Plaines and O'Hare (Upper Des Plaines), each serving a different geographical area of the combined sewer area within Cook County.

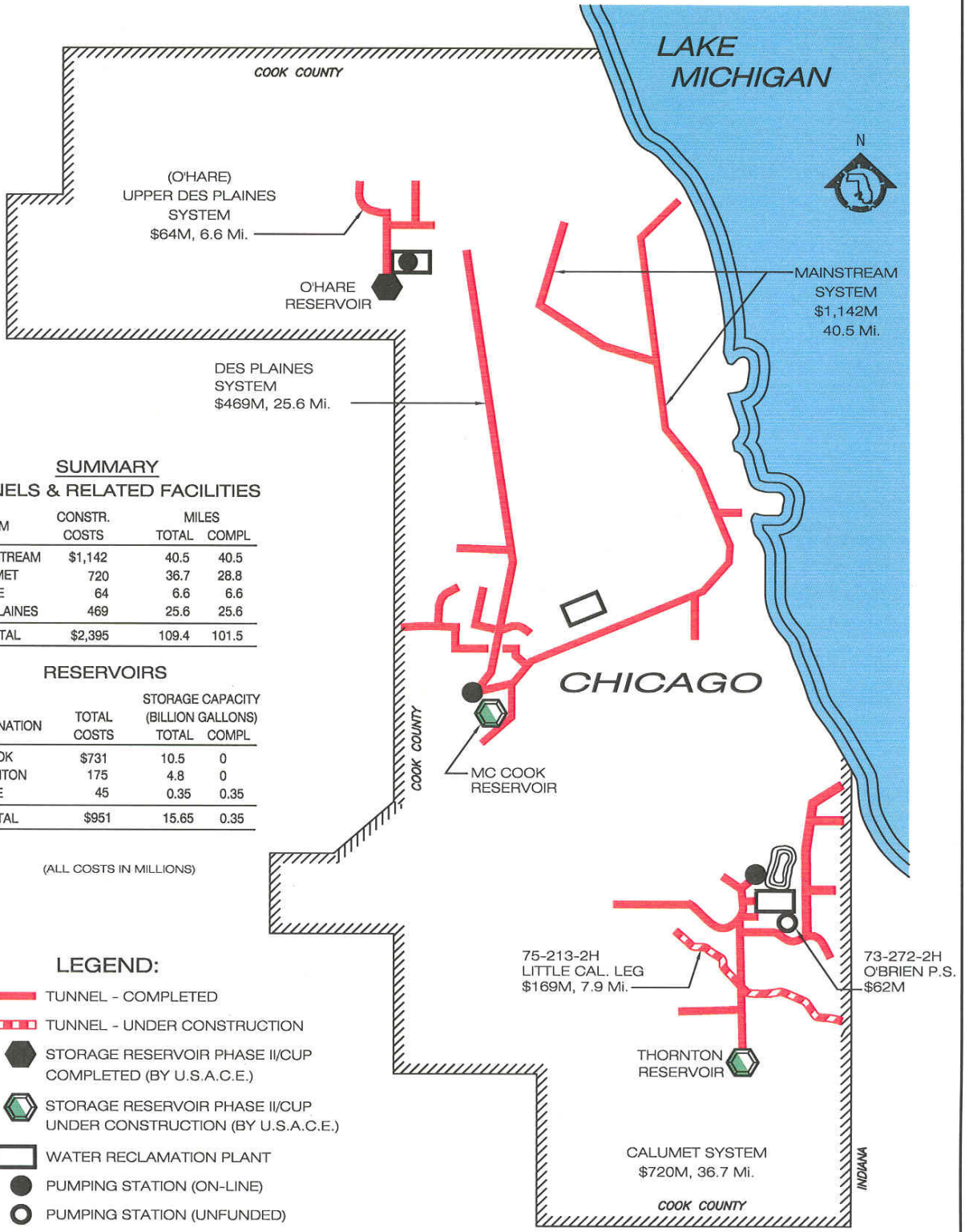
TARP - by providing an outlet for floodwater and rainfall runoff and by capturing wastewater before it enters streams and rivers - is having a remarkable impact on the water quality in the Chicago rivers, as well as on the quality of life for residents and visitors of the Chicagoland area. Marked visible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



**Phase II—Flood Control.** The flood control segment of TARP consists of three storage reservoirs to serve as outlets for run-off waters. In 1976, the Army Corps of Engineers (Corps) was directed by Congress to examine the original Phase II Plan. As a result, the Corps recommended and approved financial participation in the Chicagoland Underflow Plan (CUP).

*Construction continues on the District's Tunnel and Reservoir Plan (TARP). At this construction site, workers descend more than 200 feet below ground where deep rock tunnels are lined with concrete. The combined sewer overflow captured in the tunnels will flow by gravity to a pumping station. From there, the overflow will go to a water reclamation plant for treatment. Eventually, all tunnels will flow into large reservoirs that will greatly increase the capacity of TARP.*





**SUMMARY**

**TUNNELS & RELATED FACILITIES**

SYSTEM	CONSTR. COSTS	MILES	
		TOTAL	COMPL
MAINSTREAM	\$1,142	40.5	40.5
CALUMET	720	36.7	28.8
O'HARE	64	6.6	6.6
DES PLAINES	469	25.6	25.6
<b>TOTAL</b>	<b>\$2,395</b>	<b>109.4</b>	<b>101.5</b>

**RESERVOIRS**

DESIGNATION	TOTAL COSTS	STORAGE CAPACITY (BILLION GALLONS)	
		TOTAL	COMPL
McCOOK	\$731	10.5	0
THORNTON	175	4.8	0
O'HARE	45	0.35	0.35
<b>TOTAL</b>	<b>\$951</b>	<b>15.65</b>	<b>0.35</b>

(ALL COSTS IN MILLIONS)

**LEGEND:**

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

**TUNNEL AND RESERVOIR PLAN  
PROJECT STATUS**

METROPOLITAN WATER RECLAMATION  
DISTRICT OF GREATER CHICAGO  
ENGINEERING DEPARTMENT  
12-04 TARP WSS:JJK

The three CUP reservoirs – O’Hare, Thornton and McCook – will provide 15.7 billion gallons of storage of combined sewage that otherwise would spill into local waterways, degrading the water quality and causing flooding. The District has executed Project Cooperation Agreements (PCA) with the Corps to construct all three reservoirs. However, the District has assumed responsibility for the design and construction of the Thornton Composite Reservoir from the Corps, and is seeking reimbursement of the federal costs sharing portion of the reservoir. The combined construction and land rights cost for all three reservoirs is estimated to be \$951 million, with the Corps and the District providing approximately \$421 million and \$530 million, respectively. The O’Hare Reservoir, the smallest of the three, was completed in 1998 at a cost of \$44 million. Engineering design and construction for McCook and Thornton reservoirs are currently underway. Three construction contracts for the McCook Reservoir have been completed and another four are currently under construction. Land rights for the Thornton Reservoir have been acquired and mining of the reservoir is ongoing. A Transitional Reservoir has been constructed and will be used until the Thornton Composite Reservoir comes on line.

**Current Status of TARP:** The accompanying exhibit shown on page 17 shows the status and components of both phases of TARP as of December 2004.

### **Flood Control**

Legislation passed in 2004 gives the District responsibility for stormwater management for all of Cook County. A separate Stormwater Management Fund has been established in 2005 to account for activities associated with stormwater management. An initial appropriation of \$10,085,000 has been approved for 2005 to begin preliminary work required to implement the legislation including the development of a countywide stormwater management plan.

### **Replacement of Facilities**

Many of the District’s plants and interceptors were placed in service over 50 years ago. In order to maintain continuous operations, physically deteriorating facilities must be replaced through rehabilitation, alteration or expansion. The cost for this portion of the Program is estimated to average approximately \$60 million per year. The expected construction cost for the remainder of this program is \$453 million.

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

### **Means of Financing**

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

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

The following table summarizes the expected means of financing the ongoing Program (in millions of dollars):

<u>Capital Improvement Program</u>	<b>District Bonds and Construction Fund</b>
Intercepting Sewers	\$ 32
Water Reclamation Plant Expansions and Improvements	413
Biosolids Management	54
Tunnel and Reservoir Plan:	
Phase I	185
CUP (District Portion)	170
Replacement of Facilities	<u>453</u>
<b>Total</b>	<u><u>\$ 1,307</u></u>

### **Upgrade to the Enterprise System and Implementation of the Treasury Module**

In 2004 the District completed a technical upgrade to the Personnel, Purchasing, Finance and Budgeting modules of the Enterprise System. In addition, the Treasury module was implemented in 2004 in an effort to replace unsupported legacy applications, reduce exposure risk and integrate and enhance transaction processing for the investment and debt portfolios.

## **ECONOMIC BASE OUTLOOK**

The District's service area is sizeable, encompassing 98% of the assessed valuation of Cook County. The equalized assessed valuation for the District has experienced a 5.41% average growth rate over the last ten years. Higher employment and a robust pace of new construction including the residential market are positive indicators that the local economy will remain strong. A strong fund balance along with an emphasis on controlling expenditures should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels.

## **FINANCIAL INFORMATION**

The financial statements include all governmental and fiduciary funds of the District as well as the government-wide financials. District policy mandates that the financial statements comply with GAAP. The District's accounting system is comprised of a computerized financial management system organized and operated on a fund basis. Each fund is a separate and distinct operating entity. At the end of the year, entries are prepared to convert the fund financials to government-wide financials. Note 1 to the basic financial statements describes the reporting entity and fund types.

## **MANAGEMENT RESPONSIBILITY AND INTERNAL CONTROL**

The District management has established a comprehensive internal control structure designed to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not out-weigh their benefits, the District's comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that financial statements will be free from material misstatement. This internal control structure also provides assurance that District resources are safeguarded against waste, loss and misuse. Additionally, as a recipient of federal and state financial assistance, the District must have in place an adequate internal control structure to ensure compliance with general and specific laws and regulations related to those federal programs. District management and its Internal Audit staff periodically evaluate the internal control structure. In addition, the annual independent audit of the District's basic financial statements disclosed no material weakness in the internal control structure.

## BUDGET PROCESS

The Board of Commissioners are required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the Metropolitan Water Reclamation District's financial planning and control. The budget is prepared by fund, programs, and organizational units.

The District utilizes an on-line real-time computer system to provide budget control. 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 expenses are released.

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, 2004. 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 20 consecutive years.

## CASH MANAGEMENT

Safety of principal, liquidity, and yield are the Districts primary objectives. The District is statutorily limited to purchasing the following investments: (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 saving 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 Illinois State Treasurers' *Illinois Funds and Illinois Prime Funds*; and (8) money market mutual funds and certain other instruments. The District has invested funds in categories (1) through (8) over time, depending on their competitive market rate structure.

All purchased certificates of deposit or time deposits must be collateralized with securities of the U.S. Government, or letters of credit with the Federal Home Loan Bank, in an amount equal to 110% (at market) for securities and 102% (at market) for letters of credit of the funds on deposit. A computerized inventory of collateral securities is maintained and evaluated at current market value for each bank holding investments. The relationship of total collateral market value to the total amount of investment at each bank is continually monitored and additional collateral is requested as necessary.

Funds received are deposited within 24 hours of receipt and invested as soon as they become available funds. A lock box is used to expedite the credit and collection of user charge receipts most of which become available for use the same day or the following day. All funds are invested for periods of time varying from one day to three years, based upon cash flow needs and interest rate projections. The District's Treasury Department has real-time access to execute trades and fund transfers electronically, and obtain account balances and reports, through on-line technology with various banks.

## RISK MANAGEMENT

The District is primarily self-insured. As described in the notes to the financial statements, the District's General Corporate Fund includes the accounts of the "Reserve Claim Fund," a fund established to maintain a reserve for the payment of claims, awards, losses, judgments or liabilities which might be imposed against the District under the Workers' Compensation Act or the Workers' Occupational Diseases Act, and any claim in tort, including but not limited to any claim imposed against the District under the Local Governmental and Governmental Employees Tort Immunity Act. This fund is also used for the emergency repair or replacement, where the cost thereof exceeds \$10,000, of any property damaged by fire, flood, explosion, vandalism or any other peril.

The District currently authorizes a Reserve Claim Fund annual property tax levy on all District taxable property, as equalized and determined for state and local taxes, at a tax rate not exceeding .005% of the assessed valuation. The aggregate amount, which may accumulate in the Reserve Claim Fund, cannot exceed .05% of the equalized assessed valuation. As of December 31, 2004, the fund balance of the accounts of the Reserve Claim Fund was \$35,764,000. This amount is presented in the Reserve Claim Fund as a designation for payment of future claims liabilities at December 31, 2004.

The District also maintains various types of insurance coverage. The types of policies and uninsured risk retentions related to them are listed as follows:

<u>Policy Type</u>	<u>Uninsured Risk Retention</u>
Automobiles, trucks, and trailers.....	\$1,000,000
Employees' dishonesty, and faithful performance.....	\$100,000
Marine liability.....	\$10,000
Owner's, landlord's, tenant's liability.....	\$500
Depositors' forgery.....	\$500

## OTHER INFORMATION

### Independent Audit

In accordance with Chapter 70, ILCS 2605/5.12, of the Illinois Compiled Statutes, the District's accounts for the period January 1 to December 31, 2004, have been subject to an audit by independent accountants. The unqualified opinion of KPMG LLP, Certified Public Accountants, has been included in the Financial Section of this report.

### Certificate of Achievement

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, 2003. This was the 29<sup>th</sup> 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.

## ACKNOWLEDGMENTS

Preparation of this report reflects the combined efforts of the dedicated professional and support personnel of the Finance Department. Their expertise, enthusiasm and unswerving focus on excellence are gratefully acknowledged. The Board of Commissioners and the general citizenry, in our opinion, may fully rely on the 2004 Comprehensive Annual Financial Report as a fair and accurate presentation, in all material aspects, of the financial position and operational results of the Metropolitan Water Reclamation District of Greater Chicago.

Respectfully submitted,



Jacqueline Torres  
Director of Finance/Clerk



Matthew Glavas  
Comptroller

# Protecting Our Water Environment

## BOARD OF COMMISSIONERS

Terrence J. O'Brien  
*President*  
Kathleen Therese Meany  
*Vice President*  
Gloria Alitto Majewski  
*Chairman Of Finance*  
Frank Avila  
James C. Harris  
Barbara J. McGowan  
Cynthia M. Santos  
Patricia Young  
Harry "Bus" Yourell

## Metropolitan Water Reclamation District of Greater Chicago

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

May 5, 2005

### STATEMENT OF RESPONSIBILITY

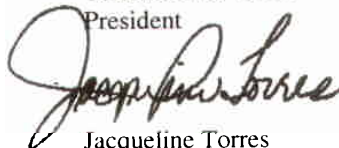
To the Citizens of the Metropolitan Water Reclamation District of Greater Chicago and to the Financial Community:

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 conformance with generally accepted accounting principles. To this end, the undersigned hereby state and attest, having reviewed these financial statements, that to the best of their knowledge:

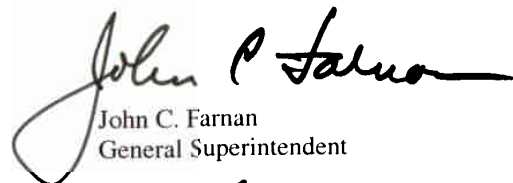
- The statements fairly present the results of operations and the financial position of the Metropolitan Water Reclamation District of Greater Chicago, and its component unit, for the fiscal year ended December 31, 2004, in conformity with generally accepted accounting principles;
- The statements contain no untrue statement of material facts; and



Terrence J. O'Brien  
President



Jacqueline Torres  
Director of Finance/Clerk



John C. Farnan  
General Superintendent



Matthew Glavas  
Comptroller

## II. FINANCIAL SECTION



*The SEPA station in Worth, Illinois is a popular walking area and a frequent backdrop for wedding photos.*

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**KPMG LLP**  
303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report**

The Board of Commissioners  
Metropolitan Water Reclamation  
District of Greater Chicago

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (the District) as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's pension trust fund, which represents 97% of the total assets and 84% of total revenues (additions) of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, as it relates to the amounts included for the aggregate remaining fund information is based solely on the report of the other auditors. The prior year summarized comparative information has been derived from the District's 2003 basic financial statements audited by other auditors whose report thereon dated April 30, 2004 expressed unqualified opinions on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago as of December 31, 2004, and the respective changes in financial position and budgetary comparison for the general corporate fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As discussed in Note 1k to the basic financial statements, Government Accounting Standards Board Statement No. 34 requires that existing infrastructure assets accounted for under the modified approach be reported in the government-wide financial statements when an initial condition assessment is completed for the assets' network. The District has until December 31, 2006 to complete the initial condition assessments of its networks and report all existing assets in the government-wide financial statements. During the year ended December 31, 2004, the District completed the condition assessments for the Northside and Egan networks. Accordingly, capital assets and net assets as of January 1, 2004 were restated to include these networks.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2005 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information on pages 27 through 41 and 86 through 89, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, statistical and demographic sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

May 4, 2005

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

Year ended December 31, 2004

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 results with the prior year. A budgetary analysis of the District's General Corporate Fund is provided as well as an analysis of capital assets and debt activity. Furthermore, the MD&A concludes with a discussion of issues that are expected to be significant to the District's finances including the 2005 budget.

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

## 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 Other Supplemental Information.

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

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

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

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

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

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

Year ended December 31, 2004

the General Corporate Fund that compares the original and final budget amounts to actual results. This statement is provided to demonstrate compliance with the budget.

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

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

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

### ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

A condensed comparison of the Statements of Net Assets for December 31, 2004 and 2003 is presented in the following schedule (in thousands of dollars):

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Current and other assets	\$ 1,250,624	\$ 1,269,828	\$ (19,204)	(1.5) %
Capital assets	<u>2,956,663</u>	<u>2,433,051</u>	<u>523,612</u>	21.5
Total assets	<u>4,207,287</u>	<u>3,702,879</u>	<u>504,408</u>	13.6
Current liabilities	112,076	121,803	(9,727)	(8.0)
Long-term liabilities	<u>1,519,535</u>	<u>1,549,279</u>	<u>(29,744)</u>	(1.9)
Total liabilities	<u>1,631,611</u>	<u>1,671,082</u>	<u>(39,471)</u>	(2.4)
Invested in capital assets, net of related debt	1,921,730	1,373,683	548,047	39.9
Restricted net assets	645,084	630,673	14,411	2.3
Unrestricted net assets	<u>8,862</u>	<u>27,441</u>	<u>(18,579)</u>	(67.7)
Total net assets	<u>\$2,575,676</u>	<u>\$2,031,797</u>	<u>\$ 543,879</u>	26.8 %

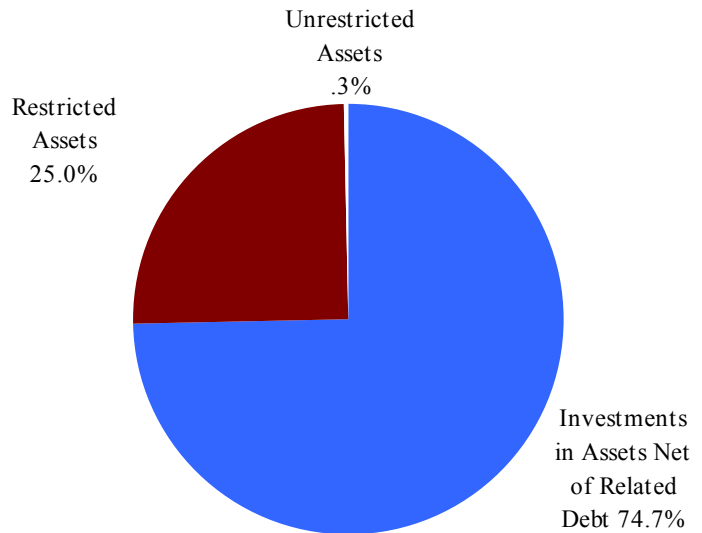
The above schedule reports that the District's net assets totaled \$2,575,676,000 at December 31, 2004, which represents the amount the District's assets exceed its liabilities. The largest portion of the net assets, \$1,921,730,000, is made up of capital assets, net of related debt. This amount represents the cost of the District's capital assets used to provide services to taxpayers, net of the debt related to these assets. These assets include land, buildings, equipment and infrastructure and they are not available for the District's future spending needs. Restricted net assets total \$645,084,000 and represent resources that are subject to external or legal restrictions as to how they may be spent such as federal grants or state loans, capital bond proceeds, or tax levies for working cash, debt service or pension contributions. Included in this total are net assets that are restricted for the future payment of debt, claims, capital projects, pension and net assets restricted for interfund (working cash) borrowings. The remaining balance of net assets of \$8,862,000 is unrestricted and may be used to pay the District's day-to-day operations.

The chart on the right reports the percentage of net assets by the three categories as of December 31, 2004:

Net assets invested in capital assets, net of related debt, increased by \$548,047,000 in 2004 as a result of the following:

- Capital assets increased by \$523,612,000 in 2004. This increase consisted of a 2004 opening net asset restatement of \$445,844,000 for the Egan and North Side WRP infrastructure assets added following their initial condition assessments, \$107,272,000 in additions made during the year and \$29,504,000 in reductions caused by transfers from construction in progress, retirements and depreciation.
- Bonded debt related to capital assets decreased by \$24,435,000 in 2004.

### 2004 Net Assets by Components



The increase in restricted net assets of \$14,411,000 resulted from the following:

- Net assets restricted for debt service and working cash increased by \$7,006,000 and \$478,000, respectively.
- Net assets restricted for pension increased by \$44,590,000.
- Net assets restricted for capital projects decreased by \$37,663,000.

The decrease in unrestricted net assets of \$18,579,000 resulted from a \$14,384,000 adjustment for non-financial assets relating to personal property replacement tax and \$4,195,000 excess of expenses over revenues in the General Corporate Fund.

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

Year ended December 31, 2004

A comparison of the changes in net assets resulting from the District's operations for the years ended December 31, 2004 and 2003 is presented in the following schedule (in thousands of dollars):

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
<b>Revenues</b>				
General Revenues:				
Taxes	\$ 421,069	\$ 397,272	\$ 23,797	6.0 %
Interest	9,943	13,163	(3,220)	(24.5)
Other	5,447	2,220	3,227	145.4
Adjustments for non-financial assets	35,865	-	35,865	-
Program Revenues:				
User charges	46,981	48,038	(1,057)	(2.2)
Land Rentals	6,166	5,023	1,143	22.8
Fees, forfeits and penalties	3,800	3,892	(92)	(2.4)
Capital grants	774	4,460	(3,686)	(82.6)
<b>Total revenues</b>	<b>530,045</b>	<b>474,068</b>	<b>55,977</b>	<b>11.8</b>
<b>Expenses</b>				
Board of Commissioners	3,578	3,333	245	7.4
General Administration	15,969	15,183	786	5.2
Research and Development	24,599	24,669	(70)	(0.3)
Purchasing	6,095	4,659	1,436	30.8
Personnel	35,931	30,947	4,984	16.1
Information Technology	10,885	11,626	(741)	(6.4)
Law	5,064	4,667	397	8.5
Finance	3,065	3,047	18	0.6
Engineering	6,169	2,986	3,183	106.6
Maintenance and Operations	161,903	160,309	1,594	1.0
Pension costs	35,354	29,511	5,843	19.8
Claims and judgments	12,175	(1,340)	13,515	1,008.6
Construction costs	38,057	34,794	3,263	9.4
Loss on sale	172	440	(268)	(60.9)
Interest	65,398	67,958	(2,560)	(3.8)
Unallocated depreciation	7,596	7,596	-	0.0
<b>Total expenses</b>	<b>432,010</b>	<b>400,385</b>	<b>31,625</b>	<b>7.9</b>
Increase in net assets	98,035	73,683	24,352	33.0
Total net assets, beginning of year as restated	2,477,641	1,958,114	519,527	26.5
<b>Total net assets, end of year</b>	<b>\$2,575,676</b>	<b>\$2,031,797</b>	<b>\$ 543,879</b>	<b>26.8 %</b>

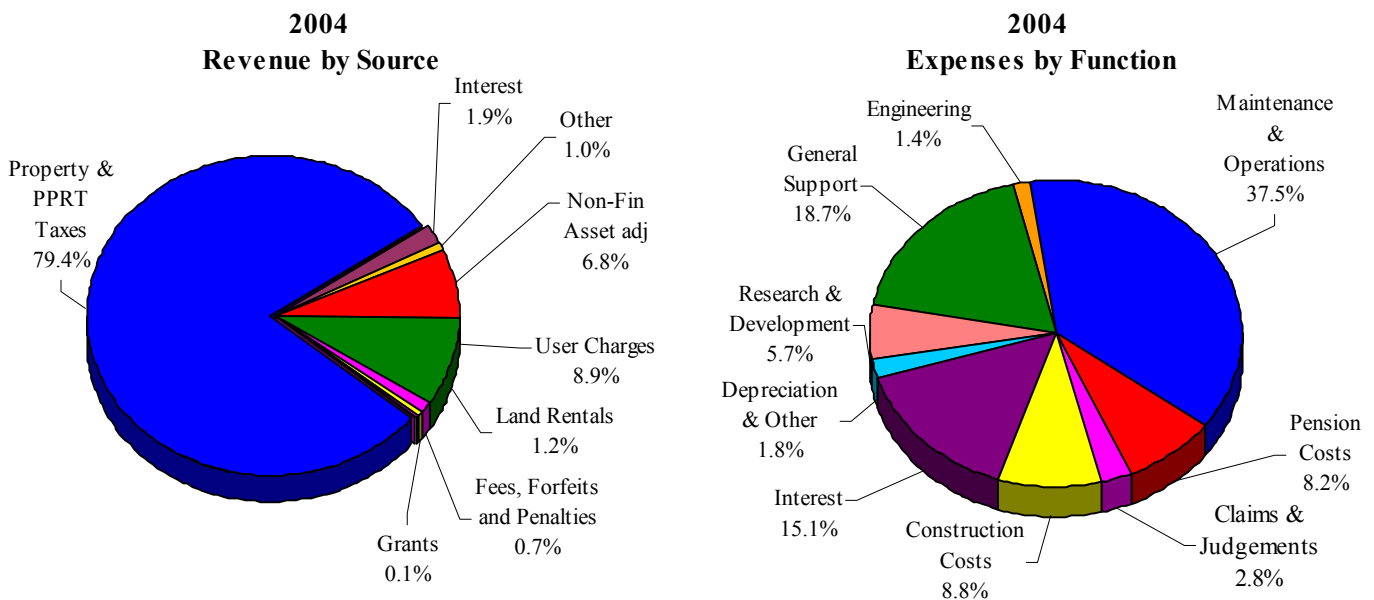
The District's net asset position increased by \$543,879,000 from 2003 to 2004. A \$445,844,000 restatement of the beginning net assets for the addition of the Egan and North Side networks accounted for a large portion of the increase, while the \$98,035,000 excess of revenue over expenses in 2004 contributed to the balance of the increase.

Revenues totaled \$530,045,000 in 2004, up \$55,977,000 or 11.8% from the prior year. Property taxes and personal property replacement taxes increased by \$23,797,000 because of an increase in the District's 2004 property tax levy and higher than anticipated personal property tax collections. Interest on earnings decreased by \$3,220,000 in 2004 because of a decrease in amounts available for investment. Other revenues increased by \$3,227,000 in 2004 principally because of a large gain on the sale of land and equipment in 2004. The adjustment of \$35,865,000, for non-financial assets, was for non-recurring items that represented the recording of a net pension asset of \$52,572,000 from prior

periods which was offset by a change in accounting for personal property replacement tax revenue of \$16,707,000. User charge revenue and fees, forfeits and penalty revenues experienced slight decreases in 2004 of \$1,057,000 and \$92,000, respectively. Rental revenue increased by \$1,143,000 based on the District's successful marketing of their rental property. Federal grant revenue decreased by \$3,686,000 in 2004 as a result of a reduction of Federal funding for the TARP program.

- Total expenses in 2004 were \$432,010,000. This represents a \$31,625,000 or 7.9% increase from the previous year. Inventory adjustments explain most of the 2004 increase in Purchasing's expenses of \$1,436,000, while higher health care costs were responsible for the \$4,984,000 increase in Personnel's expenses. Engineering Department expenses increased in 2004 by \$3,183,000 because of repair projects scheduled for process facilities. Maintenance and Operations expenses increased by \$1,594,000 in 2004 mainly because of scheduled salary increases, and expenses for pension costs increased by \$5,843,000. Claims and judgment expenses in 2004 were \$13,515,000 higher than 2003 because of increased estimates for claims and contingent environmental liabilities. Construction expenses increased in 2004 by \$3,263,000 partly because of additional preservation costs for modified infrastructure assets, and interest expense was lower by \$2,560,000 because of a reduction in the amount of outstanding debt. All other expenses experienced a \$367,000 increase in 2004.

The following percentage charts show the major sources of revenue and expenses by function for the year ended December 31, 2004:



### ANALYSIS OF DISTRICT'S GOVERNMENTAL FUND FINANCIAL STATEMENTS

As previously discussed, the District's governmental funds' focus is on short-term inflows, outflows and currently available resources. The difference between assets and liabilities in the governmental funds is fund balance, which is made up of reserved fund balance and unreserved fund balance. Reserved fund balance is not available for new spending, while the unreserved fund balance serves as a measure of a fund's net resources available for new spending at the end of the year.

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

Year ended December 31, 2004

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 2004 the District reports four major funds and one non-major fund. 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 fund is the Special Revenue Retirement Fund.

The District finished the current fiscal year with combined governmental fund balances of \$767,669,000, a decrease of \$71,305,000 or 8.5% from 2003. The decrease is a result of expenditures exceeding revenues by \$124,025,000 while other financing sources of state revolving loan proceeds totaled \$52,720,000. Over \$481,216,000 or 62.7% of the fund balances represented unreserved and undesignated fund balances that are available for current spending in accordance with the purposes of the specific funds. The remainder of the fund balances of \$286,453,000 are reserved for the Working Cash accounts.

**General Corporate Fund.** The General Corporate Fund is the principal operating fund of the District and it includes annual property taxes and other revenues, which are used for the payment of general operating expenditures not chargeable to other funds. The General Corporate Fund's fund balance at the end of the current fiscal year totaled \$168,011,000. The fund balance represented 61.4% of the General Corporate Fund expenditures, a good indication of the fund's liquidity. The total fund balance for the General Corporate Fund decreased by \$18,905,000 in the current year, which was the amount that expenditures exceeded revenues. The deficit unreserved fund balance of (\$68,321,000) is a result of the deferral of 2004 property tax revenue.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2004 and 2003 is shown in the following schedule (in thousands of dollars):

	2004		2003		Increase (Decrease)	Percent Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
Revenues:						
Property taxes	\$ 172,537	67.6 %	\$ 185,493	70.3 %	\$ (12,956)	(7.0) %
Personal property replacement tax	19,546	7.7	17,423	6.6	2,123	12.2
Total tax revenue	192,083	75.3	202,916	76.9	(10,833)	(5.3)
Interest on investments	1,715	0.7	1,606	0.6	109	6.8
Land sales	1,874	0.7	239	0.1	1,635	684.1
TIF distributions	604	0.2	1,097	0.4	(493)	(44.9)
Claims and damage settlements	150	0.1	113	-	37	32.7
Miscellaneous	1,768	0.7	822	0.3	946	115.1
User charges	47,257	18.6	48,722	18.5	(1,465)	(3.0)
Land rentals	6,160	2.4	5,023	1.9	1,137	22.6
Fees, forfeits and penalties	3,438	1.3	3,446	1.3	(8)	(0.2)
Federal grants	1	-	1	-	-	-
Total revenues	\$ 255,050	100.0 %	\$ 263,985	100.0 %	\$ (8,935)	(3.4) %



Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, investment interest income and rental income. In 2004, General Corporate Fund revenues totaled \$255,050,000, a decrease of \$8,935,000 or 3.4% from the 2003 revenues of \$263,985,000. Total tax revenues decreased by \$10,833,000 or 5.3% to \$192,083,000 for the year 2004. The 2004 tax revenue decrease resulted from decreases in property taxes of \$12,956,000 or 7%, netted against an increase in personal property replacement taxes of \$2,123,000 or 12.2%. The decrease in property taxes resulted from a reduction in tax distributions received from the County Collector. The increase in personal property replacement taxes resulted from an improvement in the State's economy resulting in increased tax collections received from the State of Illinois.

Interest earned on General Corporate Fund investments for 2004 increased to \$1,715,000 from \$1,606,000 in 2003. The \$109,000 or 6.8% increase can be attributed to an increase in the average interest rate on investment purchases. The average interest rate increased to 2.20% in 2004 from 1.21% in 2003. Land sales increased by \$1,635,000 in 2004 because of a large sale of District land in Fulton County. All other revenues, including miscellaneous revenue, increased by \$154,000 in 2004.

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

**General Corporate Fund  
Comparative Expenditures Schedule**

	2004		2003		Increase (Decrease)	Percent Increase (Decrease)
	Amount	% of Total	Amount	% of Total		
Expenditures:						
Employee cost	\$ 168,729	61.6 %	\$ 161,433	61.5 %	\$ 7,296	4.5 %
Energy cost	30,660	11.2	30,567	11.6	93	0.3
Chemicals	3,775	1.4	4,227	1.6	(452)	(10.7)
Solids disposal	17,461	6.4	17,406	6.6	55	0.3
Repair to structures/equipment	20,955	7.6	16,761	6.4	4,194	25.0
Materials, parts & supplies	12,691	4.6	12,737	4.8	(46)	(0.4)
Machinery & equipment	1,808	0.7	4,287	1.6	(2,479)	(57.8)
Claims and judgments	3,829	1.4	2,972	1.1	857	28.8
All other	14,047	5.1	12,744	4.8	1,303	10.2
Total expenditures	\$ 273,955	100.0 %	\$ 263,134	100.0 %	\$ 10,821	4.1 %

In 2004, General Corporate Fund expenditures totaled \$273,955,000, an overall increase of \$10,821,000 or 4.1% more than 2003 expenditures. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2004, accounting for 73% of total expenditures (73% in 2003).

Employee costs, which include salaries and wages, group life and health insurance, Medicare contributions, tuition and training, increased by \$7,296,000 or 4.5% over results reported for the year 2003. Salaries and wages during 2004 amounted to \$134,439,000 which was \$2,429,000 or 2% higher than 2003. This change resulted from cost of living and annual step increases. The District's contribution for employee health insurance increased by \$5,043,000 or 20% in 2004 to \$29,749,000. The health insurance increase is based on increases in health care payments and additional accrued costs.

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Repairs of structures and equipment increased by \$4,194,000 in 2004, or 25%, as a result of the schedule of repair projects for facilities.

Purchases of machinery and equipment decreased \$2,479,000 or 57.8% in 2004 because of reduced expenditures for vehicles, computer equipment and other equipment used in District facilities.

Expenditures for claims and judgments rose by \$857,000 in 2004 because of additional employee claims and an increase in general claims and emergency repairs.

Expenditures for all other categories increased by \$953,000 in 2004 with the majority of this increase attributable to higher operating payments made to other governmental treatment agencies.

**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 \$164,185,000. The fund balance represented 105% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Bond Fund decreased by \$10,064,000 in the current year, which represented the amount that debt service costs exceeded revenues.

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

The Construction Fund's fund balance at the end of the current fiscal year totaled \$66,354,000. The fund balance represented 183% of the total Construction Fund expenditures. The fund balance for the Construction Fund decreased by \$8,814,000 representing the amount that expenditures exceeded revenue in the current year.

The Capital Improvements Bond Fund's fund balance at the end of the current fiscal year totaled \$369,119,000. This amount will provide resources for the 2005 construction program. The fund balance represented 406% of the total Capital Improvements Bond Fund expenditures, and it decreased by \$33,522,000 in the current year as a result of expenditures exceeding revenues by \$86,242,000, while other financing sources of State Revolving Loans totaled \$52,720,000.

### GENERAL CORPORATE FUND BUDGET ANALYSIS

The General Corporate Fund budget includes the budgetary accounts of the Corporate Fund and Reserve Claim divisions. A comparison of the 2004 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 2004 budget and actual results at the appropriation line item level is presented in Other Supplemental Information (Exhibit B-1).

*Metropolitan Water Reclamation District of Greater Chicago*

A condensed summary of the 2004 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

	<b>Budget</b>		<b>Actual Amounts</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property and personal property replacement taxes	\$ 211,035	\$ 211,035	\$ 211,025	\$ (10)
User charges	47,000	47,000	48,008	1,008
Interest on investments	1,650	1,650	1,677	27
Land rentals	5,750	5,750	5,986	236
Other	4,875	4,875	8,116	3,241
Total revenues	<u>270,310</u>	<u>270,310</u>	<u>274,812</u>	<u>4,502</u>
<b>Operating expenditures:</b>				
Board of Commissioners	3,848	3,848	3,545	303
General Administration	17,642	17,642	15,509	2,133
Research and Development	25,729	25,729	23,560	2,169
Purchasing	8,173	8,173	7,013	1,160
Personnel	36,136	36,136	35,878	258
Information Technology	12,075	12,075	10,927	1,148
Law	5,434	5,434	5,015	419
Finance	3,572	3,572	3,028	544
Engineering	13,837	13,837	6,268	7,569
Maintenance and Operations	174,133	174,133	158,836	15,297
Claims and judgments	33,000	33,000	3,829	29,171
Total expenditures	<u>333,579</u>	<u>333,579</u>	<u>273,408</u>	<u>60,171</u>
Revenues over (under) expenditures	<u>(63,269)</u>	<u>(63,269)</u>	<u>1,404</u>	<u>64,673</u>
Revenue and other financing sources (uses) over (under) expenditures	<u>(63,269)</u>	<u>(63,269)</u>	<u>1,404</u>	<u>64,673</u>
Fund balances - beginning as adjusted	<u>63,269</u>	<u>63,269</u>	<u>71,919</u>	<u>8,650</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,323</u>	<u>\$ 73,323</u>

Actual revenues for 2004 in the General Corporate Fund totaled \$274,812,000 or \$4,502,000 more than budgeted revenues, a 1.7% positive variation. This variance resulted from property taxes and personal property replacement taxes being slightly less than budget by \$10,000, user charge receipts exceeding the budget by \$1,008,000, interest on investments having a \$27,000 variance over budget, and land income revenue had a \$236,000 positive variance over budget. Actual revenues from other sources included land sales which were \$1,774,000 over budget because of the aforementioned land sale in Fulton county, and fees, forfeits and penalties exceeding budget by \$939,000 and revenue from all other accounts exceeding budget by \$528,000.

The 2004 General Corporate Fund final appropriation of \$333,579,000 did not change from the original amount. Actual budgetary expenditures totaled \$273,408,000 or 82.0% of the total appropriation. A significant portion of the appropriation variance of \$59,870,000 was a result of claims expenditures being \$29,171,000 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

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financial risk that could curtail normal operations. Expenditures for the Maintenance & Operations Department were \$15,297,000 below appropriations mainly because of variances for electricity, chemicals, waste disposal costs, repairs and repair parts. The Engineering Department's variance of \$7,569,000 was mainly due to the scheduling of repair projects for process facilities. General Administration's variance can be attributed to the deferral of vehicle purchases until 2005. Also, management controls placed on staffing and other appropriation accounts 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, 2004, amounted to \$2,956,663,000. Reportable capital assets net of accumulated depreciation for 2004 as compared to 2003 are as follows (in thousands of dollars):

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Land	\$ 127,261	\$ 127,915	\$ (654)	(0.5) %
Buildings	9,392	9,577	(185)	(1.9)
Machinery and equipment	21,076	22,430	(1,354)	(6.0)
Depreciable infrastructure	1,407,259	1,414,855	(7,596)	(0.5)
Modified infrastructure	746,498	278,505	467,993	168.0
Construction in progress	<u>645,177</u>	<u>579,769</u>	<u>65,408</u>	11.3
Total	<u>\$2,956,663</u>	<u>\$2,433,051</u>	<u>\$ 523,612</u>	21.5 %

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

- The initial condition assessments of the Egan and North Side Water Reclamation Plant (WRP) networks were completed in 2004 resulting in infrastructure assets totaling \$445,844,000 being reported in the government-wide financials as a restatement of capital asset and net asset balances at the beginning of 2004. The Kirie and Hanover network assets were reported in 2002 and 2003, respectively. Eligible infrastructure assets for the District's remaining four networks reported under the modified approach will be reported as the initial condition assessments are finished (see further discussion of the modified approach below).
- Construction in progress increased by \$65,408,000 from 2003 to 2004 because of on-going construction and completed infrastructure projects that remain as construction in progress until their corresponding network's initial condition assessment is finished.

In addition to the above, commitments totaling \$245,376,000 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

**Modified approach.** The District's infrastructure assets include interceptor sewers, wastewater treatment basins, waterway assets (such as reservoirs and aeration stations), and deep tunnels, drop shafts and regulating elements making up a pollution and flood control program called TARP. The District is using the modified approach to report its infrastructure assets, with the exception of the TARP deep tunnels and drop shafts which are depreciated. The District elected the modified approach to: a) clearly convey to the taxpayers the District's efforts to maintain infrastructure assets at or above an established condition level; b) provide and codify a process to coordinate construction projects between the Engineering and Maintenance & Operations departments; c) readily

highlight infrastructure assets that need significant repair/rehabilitation/replacement under a construction project; and d) provide additional evaluative information to bond rating agencies so that the District's bond rating is maintained at the highest level.

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

### DEBT ACTIVITY

**Long-term Debt.** The District's long-term debt as of December 31, 2004 totaled \$1,519,535,000. The breakdown of this debt and changes from 2003 to 2004 are as follows (in thousands of dollars):

	2004	2003	Increase (Decrease)	Percent Increase (Decrease)
Bonds payable	\$1,329,123	\$1,363,739	\$ (34,616)	(2.5) %
Bond anticipation notes including accrued interest	90,473	94,245	(3,772)	(4.0)
Claims payable	73,542	65,946	7,596	11.5
Compensated absences and other liabilities	26,397	25,349	1,048	4.1
Total	\$1,519,535	\$1,549,279	\$ (29,744)	(1.9) %

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

- Bonds payable decreased by \$34,616,000 in 2004 as a result of the retirement of \$92,560,000 in bonds, offset by the conversion to bonds of \$57,944,000 in bond anticipation note principal and interest.
- Bond anticipation notes decreased by \$3,772,000 in 2004 as a result of the issuance of \$52,720,000 in notes, the accrual of \$1,452,000 in interest converted to bonds and the conversion of \$57,944,000 in note principal and interest.
- Claims payable increased by \$7,596,000 in 2004 primarily because of an increase in the liability for environmental remediation costs.
- The estimated liability for compensated absences increased slightly from \$25,349,000 to \$26,397,000 during 2004.

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

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

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

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

The amount of the District's debt may not exceed 5.75% of the last published equalized assessed valuation of taxable real estate within the District, which was \$110,266,627,963 in 2003. At December 31, 2004, the District's statutory debt limit of \$6,340,331,000 exceeded the applicable net debt amount of \$1,264,584,000 by \$5,075,747,000.

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

The amount of outstanding non-referendum Capital Improvement Bonds may not exceed 3.35% of the last known equalized assessed valuation of taxable property within the District. At December 31, 2004, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding Corporate Working Cash bonds and State Revolving Fund bonds) of \$1,033,200,000 did not exceed the limitation of \$3,693,932,000.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2004, 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 Improvement</u>	<u>Refunding</u>
1991	\$ 39	\$ 39	\$ -
1992	76	-	76
1993	71	21	50
1995	26	26	-
1997	76	-	76
2001	23	23	-
2002	580	164	416
2003	146	146	-
Total bonds outstanding at December 31, 2004	1,037	<u>\$ 419</u>	<u>\$ 618</u>
Remaining bond authorization at December 31, 2004	2,657		
Total bond authorization at December 31, 2004	<u>\$ 3,694</u>		

The amount of non-referendum Corporate Working Cash Fund bonds, which when added to (a) proceeds from the sale of Working Cash Fund bonds previously issued, (b) any amounts collected from the Corporate Working Cash Fund levy, and (c) amounts transferred from the Construction Working Cash Fund, may not exceed 90% of the amount produced by multiplying the maximum general corporate tax rate permitted by the last known equalized assessed valuation of all property in the District at the time the bonds are issued, plus 90% of the District's last known entitlement of the Personal Property Replacement Tax. At December 31, 2004, the District's remaining Corporate Working Cash Fund bond authorization is \$243,437,300.

The Illinois Compiled Statutes provides authorization for the funding of the District Capital Improvement Program by the issuance of non-referendum capital improvement bonds. Starting in 2003, bonds may be issued during any budget year in an amount not to exceed \$150 million (\$100 million in prior years), plus the amount of any bonds authorized and unissued during the three preceding budget years. The District has issued various series of bonds since the authorization. Bonds authorized and unissued from the budget years ended December 31, 2004 and 2003 are \$315,000,000 and \$165,000,000, respectively.

At December 31, 2004, the District is authorized to issue \$2,200,000 of Calumet-Sag Navigation Bonds.

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

## **ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT**

The District's service area is sizeable, including 126 communities, in addition to the City of Chicago, and encompassing 91% of the area of Cook County. Population growth has been strong in recent years, leading to a substantial population of over 5.4 million people, an increase of 5.1% over the past decade. This reverses the downward population trend from 1970 to 1990.

The District is located in one of the strongest and most economically diverse areas of the country. The equalized assessed valuation for the District has experienced a 5.41% average growth rate over the last ten years. This strong growth reflects continued diversification of the area economy and a relatively healthy pace of new construction projects, including residential. The county's manufacturing sector has declined over the past decade while service-related employment has grown, thus reducing the county's exposure to the cyclical declines associated with heavy manufacturing. The employment picture improved in 2004, with a decline in the unemployment rate for the Chicago metropolitan area to 5.7% in December 2004 from 6.8% a year earlier.

Fiscal constraints and the evolving regulatory environment at the federal and state levels will continue to negatively impact the District. The completion of the Tunnel and Reservoir Plan hinges on sufficient funding from the Army Corps of Engineers. Personal property replacement taxes received from the state are expected to increase in 2005 to \$27.0 million from \$25.7 million in 2004. The significant budget deficit at the state level has resulted in attempts to shift costs to local governments.

Passage of Public Act 93-1049 in 2004 gives the District responsibility for stormwater management for all of Cook County, including areas outside of the District's boundaries. A separate Stormwater Management Fund has been established in 2005, to account for activities associated with stormwater management, and an initial 2005 budget of \$10.1 million has been appropriated. The Act allows the Stormwater Management Fund to levy property taxes within the District's corporate limits and impose fees to non-District territories to provide resources for stormwater management activities. Early in 2005, \$4.0 million was loaned from the Capital Improvements Bond Fund to the Stormwater Management Fund to cover 2005 appropriation expenditures until the 2005 property tax levy is collected in 2006.

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Studies are being completed at the District's three largest WRP's (Stickney, Calumet and North Side) to identify major capital improvements at each plant to continue to provide quality effluent into the year 2040. The goals of the studies are to reduce maintenance and energy costs by 20 percent and operation costs by 30 percent. The final product of the studies will be the development of Master Plans that establish, prioritize and budget the construction contracts needed for each plant over the next 20 years. In 2005, major upgrades at the Stickney and Calumet WRP's will begin as the Master Plans are implemented. Computer models of the three largest plants will be developed as part of the studies to simulate the effects of process design changes at the plants and to fine tune plant operations including corrective measures to plant disruptions.

In 2005, the Little Calumet Leg Tunnel of the District's Tunnel and Reservoir Plan (TARP) system will be substantially completed. In related TARP action, the District's Board of Commissioners has authorized the District to fund the design and construction of the Thornton Composite Reservoir. Thus far, the District has paid \$57.7 million for the Thornton Reservoir work with the remaining cost estimated at approximately \$120 million. Also, the District will continue to work with the U.S. Army Corps of Engineers' (USACE) to fund and construct the McCook Reservoir. To date, the District has paid \$39.6 million to USACE toward its estimated \$128.6 million local share of the McCook Reservoir costs. Also, the District will be credited \$41.9 million for mining, relocation and land costs with the remaining payments to USACE estimated at \$47.1 million over the next five years. The District's present Capital Improvement bonding authority is adequate to fund the District's share of the McCook Reservoir costs and current resources appear adequate to finance the above capital programs into 2006 when another bond issue is likely.

The District's focus in preparing its 2005 budget continues to be to reduce the growth of expenditures in order to present a balanced budget while maintaining a strong fund balance. The total appropriation request for 2005 is \$956.0 million, an increase of \$73.6 million. The establishment of the \$10.1 million appropriation in the Stormwater Management Fund, continued increases in health care costs, cost of living adjustments and large construction projects are the main reasons for the increase. The District's 2005 property tax levy is \$428.4 million, a 3.8% increase over the 2004 levy. Collections from investment income are estimated at \$16 million in 2005, a slight increase from 2004, as a result of continuing increases in short-term interest rates.

The General Corporate Fund includes the budgetary accounts of the Corporate Fund and Reserve Claim Fund. The 2005 Corporate Fund appropriation of \$313,589,000 represents an increase of \$13,010,000 or 4.3% from 2004. This change is chiefly due to increases over 2004 in health care costs, cost of living salary adjustments and large infrastructure maintenance projects. The Corporate Fund's 2005 budget includes a property tax levy of \$205,961,000, an increase of \$7,463,000 or 3.8% over 2004's levy. Non-property tax revenues are budgeted to increase moderately over 2004 budgeted amounts. The Corporate Fund's 2005 budget anticipates using \$38,900,000 of the 2004 ending budgetary fund balance to finance the 2005 appropriation. It is the District's intent to maintain a sufficient fund balance to protect its operations from economic uncertainty. A fund balance of 10 to 15 percent of the Corporate Fund appropriations is viewed by District management as necessary to maintain financial stability during periods of revenue fluctuations. The 2005 Reserve Claim Fund appropriation is \$35,000,000, an increase of \$2,000,000 from 2004. The Reserve Claim Fund's 2005 budget includes a property tax levy of \$5,513,000. It is the District's intent to levy at the statutory allowable tax rate to accumulate sufficient resources for claims and contingent liabilities including environmental liabilities.

The 2005 Bond and Interest Fund appropriation to pay principal and interest on bonds of \$156,809,000 decreased by \$614,000 from the 2004 appropriation. The 2005 property tax levy decreased by \$1,116,000, from the 2004 adjusted levy, to \$165,036,000. Investment income is estimated at \$3,500,000 in 2005, roughly the same amount as the adjusted 2004 budget estimate.

The Construction Fund's appropriation for 2005 is \$54,509,000, a decrease of \$9,075,000 from 2004. The decrease was possible because of a net transfer of 51 positions to the Capital Improvements Bond Fund. The Construction Fund's budget includes a property tax levy of \$17,940,000, an increase of \$3,093,000 from 2004. The levy increase is necessary because of a higher estimate of expenditures versus appropriations in 2004, thereby reducing net assets available for appropriation in 2005.



The 2005 Capital Improvements Bond Fund appropriation of \$354,740,000 represents an increase of \$55,647,000 from 2004 reflecting the pattern in the award of major projects. There are no bond sales expected in 2005. State Revolving Loan proceeds to fund TARP projects are estimated to be \$38,000,000 in 2005, \$2,000,000 less than the previous year's budget amount. No grant revenue is budgeted for 2005, but investment income and miscellaneous revenue are estimated at \$7,937,000 in 2005, a slight decrease from the 2004 budget.

The Stormwater Management Fund established in 2005 includes an initial appropriation of \$10,085,000 necessitating a property tax levy of \$10,451,000. The appropriation will allow the District to initiate preliminary work required to implement the legislation including the development of a countywide stormwater management plan.

The District has six collective bargaining agreements that cover fifteen unions and include approximately 900 of the District's employees for purposes of determining wages and benefits. All six collective bargaining agreements will be up for renewal in 2005.

### **REQUESTS FOR ADDITIONAL INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**

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

December 31, 2004 (with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund		Debt Service Fund		Capital Improvements Bond Fund	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Cash	\$ 1,795	\$ 2,821	\$ 180	\$ 61	\$ 85	\$ 3,254
Deposits with escrow agent	-	-	13,288	16,174	-	-
Certificates of deposit (note 4)	752	85,341	19,090	22,334	94,016	160,325
Investments (note 4)	133,884	60,453	93,242	91,031	284,340	232,700
Taxes receivable, net (note 5)	201,171	183,428	163,728	151,987	-	-
Other receivables, net (note 5)	3,165	3,674	-	5	5,634	33,044
Due from other funds (note 12)	275	733	-	-	-	-
Inventories	34,914	35,728	-	-	-	-
Restricted cash	-	-	18,572	18,931	-	-
Deferred charges	-	-	-	-	-	-
Capital assets not being depreciated (note 6)	-	-	-	-	-	-
Capital assets being depreciated, net (note 6)	-	-	-	-	-	-
Total assets	<u>\$ 375,956</u>	<u>\$ 372,178</u>	<u>\$ 308,100</u>	<u>\$ 300,523</u>	<u>\$ 384,075</u>	<u>\$ 429,323</u>
<b>Liabilities, Fund Balances / Net assets</b>						
<b>Liabilities:</b>						
Deferred tax revenue (note 5)	\$ 176,159	\$ 151,671	\$ 143,703	\$ 126,062	\$ -	\$ -
Other deferred revenue (note 5)	1,898	1,924	-	-	-	-
Accounts payable and other liabilities (note 5)	29,388	30,133	212	212	14,836	26,387
Due to Pension Trust Fund (note 12)	-	-	-	-	-	-
Due to other funds (note 12)	500	1,534	-	-	120	295
Accrued interest payable	-	-	-	-	-	-
Deferred credit	-	-	-	-	-	-
Long-term liabilities: (note 11)						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	-	-	-
Total liabilities	<u>207,945</u>	<u>185,262</u>	<u>143,915</u>	<u>126,274</u>	<u>14,956</u>	<u>26,682</u>
Fund balances/net assets						
<b>Fund balances:</b>						
Reserved for working cash	236,332	231,982	-	-	-	-
Unreserved (note 1.p):						
Undesignated	(68,321)	(45,066)	164,185	174,249	369,119	402,641
Total fund balances	<u>168,011</u>	<u>186,916</u>	<u>164,185</u>	<u>174,249</u>	<u>369,119</u>	<u>402,641</u>
Total liabilities and fund balances	<u>\$ 375,956</u>	<u>\$ 372,178</u>	<u>\$ 308,100</u>	<u>\$ 300,523</u>	<u>\$ 384,075</u>	<u>\$ 429,323</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt						
Restricted for corporate working cash						
Restricted for debt service						
Restricted for capital projects						
Restricted for construction working cash						
Restricted for pension						
Unrestricted						
Total Net Assets						

See accompanying notes to basic financial statements.

Metropolitan Water Reclamation District of Greater Chicago

Construction Fund		Other Governmental / Retirement Fund		Total Governmental Activities		Adjustments (Note 2a)		Statements of Net Assets	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
\$ 16	\$ 156	\$ -	\$ -	\$ 2,076	\$ 6,292	\$ -	\$ -	\$ 2,076	\$ 6,292
-	-	-	-	13,288	16,174	-	-	13,288	16,174
-	34,880	-	-	113,858	302,880	-	-	113,858	302,880
70,201	39,753	-	-	581,667	423,937	-	-	581,667	423,937
14,947	24,404	31,631	28,581	411,477	388,400	-	16,707	411,477	405,107
-	-	-	-	8,799	36,723	(2,570)	(2,190)	6,229	34,533
500	1,500	-	-	775	2,233	(775)	(2,233)	-	-
-	-	-	-	34,914	35,728	-	-	34,914	35,728
-	-	-	-	18,572	18,931	-	-	18,572	18,931
-	-	-	-	-	-	68,543	26,246	68,543	26,246
-	-	-	-	-	-	1,518,936	986,189	1,518,936	986,189
-	-	-	-	-	-	1,437,727	1,446,862	1,437,727	1,446,862
<u>\$ 85,664</u>	<u>\$ 100,693</u>	<u>\$ 31,631</u>	<u>\$ 28,581</u>	<u>\$ 1,185,426</u>	<u>\$ 1,231,298</u>	<u>3,021,861</u>	<u>2,471,581</u>	<u>4,207,287</u>	<u>3,702,879</u>
\$ 12,822	\$ 20,168	\$ 24,442	\$ 20,819	\$ 357,126	\$ 318,720	(357,126)	(318,720)	-	-
-	-	-	-	1,898	1,924	(41)	335	1,857	2,259
6,333	4,953	-	-	50,769	61,685	-	-	50,769	61,685
-	-	7,189	7,762	7,189	7,762	24,442	20,819	31,631	28,581
155	404	-	-	775	2,233	(775)	(2,233)	-	-
-	-	-	-	-	-	10,088	9,517	10,088	9,517
-	-	-	-	-	-	17,731	19,761	17,731	19,761
-	-	-	-	-	-	99,186	97,344	99,186	97,344
-	-	-	-	-	-	1,420,349	1,451,935	1,420,349	1,451,935
<u>19,310</u>	<u>25,525</u>	<u>31,631</u>	<u>28,581</u>	<u>417,757</u>	<u>392,324</u>	<u>1,213,854</u>	<u>1,278,758</u>	<u>1,631,611</u>	<u>1,671,082</u>
50,121	49,868	-	-	286,453	281,850	(286,453)	(281,850)	-	-
16,233	25,300	-	-	481,216	557,124	(481,216)	(557,124)	-	-
66,354	75,168	-	-	767,669	838,974	(767,669)	(838,974)	-	-
<u>\$ 85,664</u>	<u>\$ 100,693</u>	<u>\$ 31,631</u>	<u>\$ 28,581</u>	<u>\$ 1,185,426</u>	<u>\$ 1,231,298</u>				
						1,921,730	1,373,683	1,921,730	1,373,683
						236,294	236,068	236,294	236,068
						297,800	290,794	297,800	290,794
						16,268	53,931	16,268	53,931
						50,132	49,880	50,132	49,880
						44,590	-	44,590	-
						8,862	27,441	8,862	27,441
						<u>\$ 2,575,676</u>	<u>\$ 2,031,797</u>	<u>\$ 2,575,676</u>	<u>\$ 2,031,797</u>

## Exhibit A-2

### Statements of Governmental Fund Revenues, Expenditures and Changes in Fund

Year ended December 31, 2004

(with comparative amounts for prior year)

(in thousands of dollars)

	General		Debt Service		Capital Improvements	
	Corporate Fund		Fund		Bond Fund	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
General revenues:						
Property taxes	\$ 172,537	\$ 185,493	\$ 142,916	\$ 155,875	\$ -	\$ -
Personal property replacement tax	19,546	17,423	-	-	-	-
Interest on investments	1,715	1,606	2,957	4,341	4,289	5,851
Land sales	1,874	239	-	-	-	-
Tax increment financing distributions	604	1,097	-	-	-	-
Claims and damage settlements	150	113	-	-	300	-
Miscellaneous	1,768	822	88	97	2	63
Gain on sale	-	-	-	-	-	-
Adjustments for non-financial assets	-	-	-	-	-	-
Program revenues:						
Charges for services						
User charges	47,257	48,722	-	-	-	-
Land rentals	6,160	5,023	-	-	-	-
Fees, forfeits and penalties	3,438	3,446	-	-	-	-
Capital grants and contributions						
Federal grants	1	1	-	-	-	4,835
Total revenues	<u>255,050</u>	<u>263,985</u>	<u>145,961</u>	<u>160,313</u>	<u>4,591</u>	<u>10,749</u>
<b>Expenditures/Expenses</b>						
Operations:						
Board of Commissioners	3,552	3,315	-	-	-	-
General Administration	15,538	14,987	-	-	-	-
Research and Development	24,030	24,172	-	-	-	-
Purchasing	5,932	4,510	-	-	-	-
Personnel	35,877	30,916	-	-	-	-
Information Technology	10,574	11,417	-	-	-	-
Law	5,018	4,646	-	-	-	-
Finance	3,033	3,025	-	-	-	-
Engineering	6,273	4,095	-	-	-	-
Maintenance and Operations	160,299	159,079	-	-	-	-
Pension costs	-	-	-	-	-	-
Claims and judgements	3,829	2,972	-	-	-	-
Construction costs	-	-	-	-	90,833	129,008
Loss on sale	-	-	-	-	-	-
Depreciation (unallocated)	-	-	-	-	-	-
Debt service:						
Redemption of bonds	-	-	92,560	91,198	-	-
Interest on bonds	-	-	63,465	67,428	-	-
Total expenditures/expenses	<u>273,955</u>	<u>263,134</u>	<u>156,025</u>	<u>158,626</u>	<u>90,833</u>	<u>129,008</u>
Revenues over (under) expenditures	<u>(18,905)</u>	<u>851</u>	<u>(10,064)</u>	<u>1,687</u>	<u>(86,242)</u>	<u>(118,259)</u>
Other financing sources (uses):						
State revolving fund loan proceeds	-	-	-	-	52,720	77,613
Proceeds from sale of bonds	-	-	-	14,605	-	131,395
Transfers	-	35,000	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>14,605</u>	<u>52,720</u>	<u>209,008</u>
Revenues and other financing sources (uses) over (under) expenditures	<u>(18,905)</u>	<u>35,851</u>	<u>(10,064)</u>	<u>16,292</u>	<u>(33,522)</u>	<u>90,749</u>
Change in net assets	-	-	-	-	-	-
Fund balances/net assets:						
Beginning of the year as restated	186,916	151,065	174,249	157,957	402,641	311,892
End of the year	<u>\$ 168,011</u>	<u>\$ 186,916</u>	<u>\$ 164,185</u>	<u>\$ 174,249</u>	<u>\$ 369,119</u>	<u>\$ 402,641</u>

See accompanying notes to basic financial statements.

## Balances/Statements of Activities

Metropolitan Water Reclamation District of Greater Chicago

Construction Fund		Other Governmental / Retirement Fund		Total Governmental Activities		Adjustments (Note 2b)		Statements of Activities	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
\$ 21,314	\$ 30,498	\$ 23,559	\$ 25,885	\$ 360,326	\$ 397,751	\$ 34,782	\$ (23,940)	\$ 395,108	\$ 373,811
2,602	2,999	3,813	3,626	25,961	24,048	-	(587)	25,961	23,461
982	1,365	-	-	9,943	13,163	-	-	9,943	13,163
1,734	-	-	-	3,608	239	(3,608)	(239)	-	-
-	-	-	-	604	1,097	-	-	604	1,097
-	-	-	-	450	113	-	-	450	113
14	21	-	-	1,872	1,003	(156)	(226)	1,716	777
-	-	-	-	-	-	2,677	233	2,677	233
-	-	-	-	-	-	35,865	-	35,865	-
500	1,500	-	-	47,757	50,222	(776)	(2,184)	46,981	48,038
-	-	-	-	6,160	5,023	6	-	6,166	5,023
362	446	-	-	3,800	3,892	-	-	3,800	3,892
-	-	-	-	1	4,836	773	(376)	774	4,460
<u>27,508</u>	<u>36,829</u>	<u>27,372</u>	<u>29,511</u>	<u>460,482</u>	<u>501,387</u>	<u>69,563</u>	<u>(27,319)</u>	<u>530,045</u>	<u>474,068</u>
-	-	-	-	3,552	3,315	26	18	3,578	3,333
-	-	-	-	15,538	14,987	431	196	15,969	15,183
-	-	-	-	24,030	24,172	569	497	24,599	24,669
-	-	-	-	5,932	4,510	163	149	6,095	4,659
-	-	-	-	35,877	30,916	54	31	35,931	30,947
-	-	-	-	10,574	11,417	311	209	10,885	11,626
-	-	-	-	5,018	4,646	46	21	5,064	4,667
-	-	-	-	3,033	3,025	32	22	3,065	3,047
-	-	-	-	6,273	4,095	(104)	(1,109)	6,169	2,986
-	-	-	-	160,299	159,079	1,604	1,230	161,903	160,309
-	-	27,372	29,511	27,372	29,511	7,982	-	35,354	29,511
-	-	-	-	3,829	2,972	8,346	(4,312)	12,175	(1,340)
36,322	35,857	-	-	127,155	164,865	(89,098)	(130,071)	38,057	34,794
-	-	-	-	-	-	172	440	172	440
-	-	-	-	-	-	7,596	7,596	7,596	7,596
-	-	-	-	92,560	91,198	(92,560)	(91,198)	-	-
-	-	-	-	63,465	67,428	1,933	530	65,398	67,958
<u>36,322</u>	<u>35,857</u>	<u>27,372</u>	<u>29,511</u>	<u>584,507</u>	<u>616,136</u>	<u>(152,497)</u>	<u>(215,751)</u>	<u>432,010</u>	<u>400,385</u>
<u>(8,814)</u>	<u>972</u>	<u>-</u>	<u>-</u>	<u>(124,025)</u>	<u>(114,749)</u>	<u>222,060</u>	<u>188,432</u>		
-	-	-	-	52,720	77,613	(52,720)	(77,613)	-	-
-	-	-	-	-	146,000	-	(146,000)	-	-
-	(35,000)	-	-	-	-	-	-	-	-
<u>-</u>	<u>(35,000)</u>	<u>-</u>	<u>-</u>	<u>52,720</u>	<u>223,613</u>	<u>(52,720)</u>	<u>(223,613)</u>	<u>-</u>	<u>-</u>
(8,814)	(34,028)	-	-	(71,305)	108,864	71,305	(108,864)	-	-
-	-	-	-	-	-	98,035	73,683	98,035	73,683
75,168	109,196	-	-	838,974	730,110	-	-	2,477,641	1,958,114
<u>\$ 66,354</u>	<u>\$ 75,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 767,669</u>	<u>\$ 838,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,575,676</u>	<u>\$ 2,031,797</u>

**Exhibit A-3**  
**General Corporate Fund**  
**Statements of Revenues, Expenditures and Changes in Fund Balance- Budget**

Year ended December 31, 2004  
(with comparative amounts for prior year)

	2004			
	<i>(in thousands of dollars)</i>			
	Budget		Actual	Actual
	Original	Final	Amounts	Variance With Final Budget - Positive (Negative)
Revenues:				
Property taxes:				
Gross levy	\$ 198,497	\$ 198,497	\$ 198,497	\$ -
Allowance for uncollectible taxes	(6,947)	(6,947)	(6,947)	-
Net property tax levy	191,550	191,550	191,550	-
Property tax collections	4,505	4,505	4,390	(115)
Personal property replacement tax:				
Entitlement	14,603	14,603	14,603	-
Collections	377	377	482	105
Total tax revenue	211,035	211,035	211,025	(10)
Interest on investments	1,650	1,650	1,677	27
Land sales	100	100	1,874	1,774
Tax increment financing distributions	925	925	897	(28)
Miscellaneous	2,215	2,215	2,776	561
User charges	47,000	47,000	48,008	1,008
Land rentals	5,750	5,750	5,986	236
Claims and damage settlements	5	5	-	(5)
Fees, forfeits and penalties	1,630	1,630	2,569	939
Total revenues	270,310	270,310	274,812	4,502
Operating expenditures:				
Board of Commissioners	3,848	3,848	3,545	303
General Administration	17,642	17,642	15,509	2,133
Research and Development	25,729	25,729	23,560	2,169
Purchasing	8,173	8,173	7,013	1,160
Personnel	36,136	36,136	35,878	258
Information Technology	12,075	12,075	10,927	1,148
Law	5,434	5,434	5,015	419
Finance	3,572	3,572	3,028	544
Engineering	13,837	13,837	6,268	7,569
Maintenance and Operations	174,133	174,133	158,836	15,297
Claims and judgments	33,000	33,000	3,829	29,171
Total expenditures	333,579	333,579	273,408	60,171
Revenues and other financing sources (uses) over (under) expenditures	(63,269)	(63,269)	1,404	64,673
Fund balances at beginning of year	68,718	68,718	75,673	6,955
Adjustments for estimated tax levy collections	(5,449)	(5,449)	(3,754)	1,695
Release of designation for fixed asset replacement	-	-	-	-
Fund balances at beginning of the year as adjusted	63,269	63,269	71,919	8,650
Fund balances at end of year	\$ -	\$ -	\$ 73,323	\$ 73,323

See accompanying notes to basic financial statements.



and Actual on Budgetary Basis

Metropolitan Water Reclamation District of Greater Chicago

2003			
<i>(in thousands of dollars)</i>			
Budget		Actual Amounts	Actual Variance With Final Budget - Positive (Negative)
Original	Final		
\$ 179,958	\$ 179,958	\$ 179,958	\$ -
(6,298)	(6,298)	(6,298)	-
173,660	173,660	173,660	-
4,120	4,120	4,129	9
13,492	13,492	13,492	-
340	340	406	66
191,612	191,612	191,687	75
3,000	3,000	1,432	(1,568)
1,000	1,000	239	(761)
925	925	704	(221)
863	863	2,199	1,336
46,560	46,560	48,976	2,416
5,500	5,500	5,307	(193)
5	5	97	92
1,750	1,750	2,177	427
251,215	251,215	252,818	1,603
3,771	3,771	3,311	460
16,319	16,379	14,936	1,443
25,470	25,470	23,711	1,759
7,968	7,884	6,583	1,301
33,597	33,597	30,908	2,689
13,223	13,323	11,036	2,287
5,579	5,579	4,641	938
3,155	3,155	3,021	134
8,150	8,150	4,089	4,061
173,562	173,486	156,716	16,770
31,000	31,000	2,972	28,028
321,794	321,794	261,924	59,870
(70,579)	(70,579)	(9,106)	61,473
67,886	67,886	82,213	14,327
30	30	(8,159)	(8,189)
2,663	2,663	8,608	5,945
70,579	70,579	82,662	12,083
\$ -	\$ -	\$ 73,556	\$ 73,556

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

December 31, 2004  
(with comparative amounts for prior year)

Metropolitan Water Reclamation District of Greater Chicago

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash	\$ 176	\$ 159
Pension plan investments:		
Bonds	461,416	444,866
Common and preferred stocks	645,219	604,761
Short-term investments	12,647	10,748
Total pension plan investments	<u>1,119,282</u>	<u>1,060,375</u>
Due from Primary Government:		
Property taxes	35,941	32,569
Allowance for uncollectible taxes	<u>(4,309)</u>	<u>(3,988)</u>
Net property taxes receivable	31,632	28,581
Miscellaneous receivables	<u>842</u>	<u>5,282</u>
Total receivables	<u>32,474</u>	<u>33,863</u>
Total assets	<u>1,151,932</u>	<u>1,094,397</u>
<b>Liabilities and Net Plan Assets</b>		
Liabilities:		
Accounts payable and other liabilities	<u>1,164</u>	<u>5,991</u>
Total liabilities	<u>1,164</u>	<u>5,991</u>
Net assets held in trust for pension benefits	<u>\$ 1,150,768</u>	<u>\$ 1,088,406</u>

See accompanying notes to basic financial statements.

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

*Year ended December 31, 2004*  
*(with comparative amounts for prior year)*

*Metropolitan Water Reclamation District of Greater Chicago*

*(in thousands of dollars)*

	<u>2004</u>	<u>2003</u>
Additions:		
Contributions from the District	\$ 30,982	\$ 28,779
Employee contributions	15,151	14,230
Total contributions	<u>46,133</u>	<u>43,009</u>
Investment income		
Net appreciation in fair value of investments	85,939	152,818
Interest on fixed income investments	7,162	13,251
Interest on short-term investments	196	152
Dividend income	5,598	6,527
Total investment income	98,895	172,748
Investment expenses	(1,993)	(1,736)
Investment income net of expenses	<u>96,902</u>	<u>171,012</u>
Other		
Adjustment of prior year's allowance for uncollectible amounts	4	11
Total additions	<u>143,039</u>	<u>214,032</u>
Deductions:		
Annuities and benefits		
Employee annuitants	65,198	61,194
Surviving spouse annuitants	11,920	11,164
Child annuitants	43	45
Ordinary disability benefits	810	722
Duty disability benefits	142	106
Total annuities and benefits	78,113	73,231
Refunds of employee contributions	1,321	1,042
Administrative expenses	1,243	1,149
Total deductions	<u>80,677</u>	<u>75,422</u>
Net increase during the year	62,362	138,610
Net assets held in trust for pension benefits - beginning of year	<u>1,088,406</u>	<u>949,796</u>
Net assets held in trust for pension benefits - end of year	<u>\$ 1,150,768</u>	<u>\$ 1,088,406</u>

See accompanying notes to basic financial statements.

# Notes to the Basic Financial Statements

Year ended December 31, 2004

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

The government-wide financial statements include the Statements of Net Assets and the Statements of Activities and contain information for all the District’s governmental activities but excludes the Pension Trust Fund, a fiduciary fund whose resources are not available to finance the District’s operations. The effect of interfund transactions has been removed from the government-wide statements. The Statements of Net Assets report the financial condition of the District. This statement includes all existing resources and obligations, both current and noncurrent, with the difference between the two reported as net assets. The Statements of Activities report the District’s operating results for the year with the difference between expenses and revenues representing the changes in net assets. Expenses are reported by function (i.e., department) while revenues are segregated by program revenues and general revenues. Program revenues include charges for services (i.e., user charges, land rentals, fees, forfeitures and penalties) and capital grants. General revenues include taxes, interest on investments and all other revenues not classified as program revenues.

In government, the basic accounting and reporting entity is a “fund.” A fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts which record financial resources, together with all related liabilities, obligations, reserves and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives, in accordance with special regulations, restrictions or limitations. Separate fund financial statements are included in the basic financial statements for the governmental funds and the fiduciary fund. The emphasis of the governmental fund financial statements is on major funds, with each major fund displayed as a separate column. The governmental fund financial statements include a budgetary statement for the General Corporate Fund.

As a special purpose government, the District has elected to make a combined presentation of the governmental fund statements and the government-wide statements. Therefore, the basic financial statements include a combined Governmental Funds Balance Sheets/Statements of Net Assets (Exhibit A-1) and a 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, 2004

The District reports the following major governmental funds:

**General Corporate Fund** - Established to account for an annual property tax levy and certain other revenues, which are to be used for the payments of general expenditures of the District not specifically chargeable to other funds. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the General 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 General Corporate Fund from tax collections received during the subsequent year. Also included in this fund are accounts of the "Reserve Claim Fund," established under Chapter 70, ILCS 2605/12 of the Illinois Compiled Statutes, which was established for the payment of claims, awards, losses, judgments or liabilities which might be imposed against the District, and for the repair or replacement of certain property maintained by the District. The assets, liabilities and fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions at December 31, 2004, are as follows (in thousands of dollars):

	<b>Total General Corporate Fund</b>	<b>Reclass- ification</b>	<b>Corporate Division</b>	<b>Corporate Working Cash Division</b>	<b>Reserve Claim Division</b>
<b>Assets</b>					
Cash	\$ 1,795	\$ -	\$ 1,781	\$ 14	\$ -
Certificates of deposit	752	-	-	-	752
Investments	133,884	-	65,445	33,780	34,659
Receivables:					
Property taxes receivable	229,687	-	223,276	634	5,777
Allowance for uncollectible taxes	(29,087)	-	(27,839)	(534)	(714)
Net property taxes receivable	200,600	-	195,437	100	5,063
Personal property replacement tax	571	-	557	-	14
User charges	2,628	-	2,628	-	-
Miscellaneous	537	-	537	-	-
Inventories	34,914	-	34,914	-	-
Due from Capital Improvements Bond Fund	120	-	120	-	-
Due from Construction Fund	155	-	155	-	-
Due from Corporate Fund	-	-	(202,400)	202,400	-
Total assets	<u>\$ 375,956</u>	<u>\$ -</u>	<u>\$ 99,174</u>	<u>\$ 236,294</u>	<u>\$ 40,488</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Deferred tax revenue	\$ 176,159	\$ -	\$ 171,748	\$ (38)	\$ 4,449
Other deferred revenue	1,898	-	1,898	-	-
Accounts payable and other liabilities	29,388	-	29,113	-	275
Due to Construction Fund	500	-	500	-	-
Total liabilities	<u>207,945</u>	<u>-</u>	<u>203,259</u>	<u>(38)</u>	<u>4,724</u>
Fund balances-reserved:					
Working cash	236,332	-	-	236,332	-
Fund balances-unreserved:					
Designated for payment of future claims	-	(35,764)	-	-	35,764
Undesignated	(68,321)	35,764	(104,085)	-	-
Total fund balances	<u>168,011</u>	<u>-</u>	<u>(104,085)</u>	<u>236,332</u>	<u>35,764</u>
Total liabilities and fund balances	<u>\$ 375,956</u>	<u>\$ -</u>	<u>\$ 99,174</u>	<u>\$ 236,294</u>	<u>\$ 40,488</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, 2004, are as follows (in thousands of dollars):

	<b>Total General Corporate Fund</b>	<b>Corporate Division</b>	<b>Corporate Working Cash Division</b>	<b>Reserve Claim Division</b>
<b>Revenues:</b>				
Property taxes	\$ 172,537	\$ 164,532	\$ 3,765	\$ 4,240
Personal property replacement tax	19,546	18,599	466	481
Total tax revenue	<u>192,083</u>	<u>183,131</u>	<u>4,231</u>	<u>4,721</u>
Interest on investments	1,715	1,263	116	336
Land sales	1,874	1,874	-	-
Tax increment financing distributions	604	604	-	-
Miscellaneous	1,919	1,812	3	104
User charges	47,257	47,257	-	-
Land rentals	6,160	6,160	-	-
Fees, forfeits and penalties	3,438	3,438	-	-
Total revenues	<u>255,050</u>	<u>245,539</u>	<u>4,350</u>	<u>5,161</u>
<b>Operating expenditures:</b>				
Board of Commissioners	3,552	3,552	-	-
General Administration	15,538	15,538	-	-
Research and Development	24,030	24,030	-	-
Purchasing	5,932	5,932	-	-
Personnel	35,877	35,877	-	-
Information Technology	10,574	10,574	-	-
Law	5,018	5,018	-	-
Finance	3,033	3,033	-	-
Engineering	6,273	6,273	-	-
Maintenance and Operations	160,299	160,299	-	-
Claims and judgments	3,829	-	-	3,829
Total expenditures	<u>273,955</u>	<u>270,126</u>	<u>-</u>	<u>3,829</u>
Revenues over (under) expenditures	(18,905)	(24,587)	4,350	1,332
Fund balance at beginning of year	<u>186,916</u>	<u>(79,498)</u>	<u>231,982</u>	<u>34,432</u>
Fund balance at end of year	<u>\$ 168,011</u>	<u>\$ (104,085)</u>	<u>\$ 236,332</u>	<u>\$ 35,764</u>

## Notes to the Basic Financial Statements

Year ended December 31, 2004

**Debt Service Fund** - Established to account for annual property tax levies and certain other revenues, principally interest on investments, which are used for the payment of interest and redemption of principal on bonded debt.

**Capital Improvements Bond Fund** - Established to account for the proceeds of bonds authorized by the Illinois General Assembly, bond anticipation notes net of redemptions, government grants, and certain other revenues, all to be used in connection with improvements, replacements and additions to designated environmental improvement projects.

**Construction Fund** - Established to account for the annual property tax levy and certain other revenues to be used for the acquisition of capital assets used in the principal functions of the District. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the Construction Fund. These accounts were established under Chapter 70, ILCS 2605/9c of the Illinois Compiled Statutes, which refers to these accounts as a "Construction Working Cash Fund." Amounts borrowed in one year are generally repaid by the Construction Fund from tax collections received during the subsequent year. The assets, liabilities and fund balances of the Construction Fund, detailed as to the Working Cash and Construction account divisions at December 31, 2004, are as follows (in thousands of dollars):

Assets	Total Construction Fund	Construction Division	Construction Working Cash Division
Cash	\$ 16	\$ 5	\$ 11
Investments	70,201	36,780	33,421
Receivables:			
Property taxes receivable	20,112	19,839	273
Allowance for uncollectible taxes	(5,243)	(4,970)	(273)
Net property taxes receivable	14,869	14,869	-
Personal property replacement tax	78	78	-
Due from General Corporate Fund	500	500	-
Total assets	<u>\$ 85,664</u>	<u>\$ 52,232</u>	<u>\$ 33,432</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Deferred tax revenue	\$ 12,822	\$ 12,811	\$ 11
Accounts payable and other liabilities	6,333	6,333	-
Due to Corporate Fund	155	16,855	(16,700)
Total liabilities	<u>19,310</u>	<u>35,999</u>	<u>(16,689)</u>
Fund balances-reserved:			
Working cash	50,121	-	50,121
Fund balances-unreserved:			
Undesignated	16,233	16,233	-
Total fund balances	<u>66,354</u>	<u>16,233</u>	<u>50,121</u>
Total liabilities and fund balances	<u>\$ 85,664</u>	<u>\$ 52,232</u>	<u>\$ 33,432</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, 2004, are as follows (in thousands of dollars):

	<b>Total Construction Fund</b>	<b>Construction Division</b>	<b>Construction Working Cash Division</b>
Revenues:			
Property taxes	\$ 21,314	\$ 21,382	\$ (68)
Personal property replacement tax	2,602	2,602	-
Total tax revenue	<u>23,916</u>	<u>23,984</u>	<u>(68)</u>
Interest on investments	982	661	321
Land sales	1,734	1,734	-
Miscellaneous	14	14	-
User charge	500	500	-
Fees, forfeits and penalties	362	362	-
Total revenues	<u>27,508</u>	<u>27,255</u>	<u>253</u>
Capital expenditures:			
Personal services	18,387	18,387	-
Contractual services	130	130	-
Materials and supplies	67	67	-
Machinery and equipment	25	25	-
Capital projects	17,713	17,713	-
Total expenditures	<u>36,322</u>	<u>36,322</u>	<u>-</u>
Revenues over (under) expenditures	(8,814)	(9,067)	253
Fund balance at beginning of year	<u>75,168</u>	<u>25,300</u>	<u>49,868</u>
Fund balance at end of year	<u>\$ 66,354</u>	<u>\$ 16,233</u>	<u>\$ 50,121</u>

## Notes to the Basic Financial Statements

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Year ended December 31, 2004

The District reports the following non-major governmental fund:

**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).

In addition, the District reports the following fiduciary fund:

**Pension Trust Fund** - Established to account for employer/employee contributions, investment earnings and expenditures for employee pensions. The balance reflected as property taxes receivable represents amounts due from the property tax levies authorized by the District's Retirement Fund.

### c. Basis of Accounting and Measurement Focus

**Government-wide and Fiduciary Fund Financial Statements** - The government-wide and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the period of related cash flows. Property taxes are recognized in the year of levy and personal property replacement taxes are recognized in the year earned. Grants and similar items are recognized as revenue in the fiscal year that all eligibility requirements have been met.

**Governmental Fund Financial Statements** - The District's governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when susceptible to accrual, i.e., when measurable and available to finance operations. Expenditures are recognized in the period in which the fund liability is incurred except for principal and interest on long-term debt, compensated absences, claims, judgments and arbitrage, which are recognized when due and payable.

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with a fund are determined by its measurement focus. Since governmental funds are accounted for on the current financial resources measurement focus, only current assets and current liabilities are included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Property taxes, user charge revenue, interest, land rentals and personal property replacement tax revenue are accrued to the extent that they are measurable and available to satisfy liabilities of the reporting period. In general, the accrual period is limited to amounts collected within sixty days following year-end. Property tax receivables that are unavailable are reported as deferred revenue.

Grants from Federal and State agencies are recorded as revenues in the fund financial statements when reimbursable expenditures are incurred and the grant resources are measurable and available.

Property taxes attach as an enforceable lien on property. They are levied and recorded as a receivable as of January 1. They are due on January 1 of the following year and are collected in two installments, on March 1 and on a date ranging from August to November of the year due. The collection deadline for 2003 property taxes was extended to November 15, 2004.

**d. Budgeting (appropriations)** - The District's fiscal year begins January 1 and ends on December 31. The District's procedure for adopting the annual budget consists of the following stages:

- (1) Department Heads propose expenditure estimates for the coming year which, if approved by the General Superintendent, become his recommendations for presentation to the Committee on Budget and Employment;
- (2) The Committee on Budget and Employment, comprises all nine Commissioners and holds hearings with the General Superintendent and with the Department Heads. These hearings are open to the public. After these budgetary reviews, the Committee on Budget and Employment submits its Tentative Budget to the Board of Commissioners;
- (3) The Tentative Budget is put on public display for ten to twenty days. A public hearing is held during the ten to twenty day timeframe where citizen groups, including civic groups, labor and the press, are invited to critique the tentative budget;
- (4) Shortly after the public hearings, the Board of Commissioners adopts the budget for the coming year;
- (5) Then, after a minimum five-day waiting period following budget adoption, and at a Regular Board Meeting, the Commissioners consider and approve any budget amendments. The Adopted Budget, along with any approved amendments, is the final budget document. This process must be completed prior to December 31 preceding the year to which the budget applies;
- (6) The budget implementation phase, performed by the General Superintendent and the department heads, begins January 1;
- (7) The legal level of control for the District's appropriations (the level at which the Board of Commissioners must approve any transfers of appropriated amounts) is on a line item (object) basis for the General Corporate Fund and the Construction Fund. The level of control for Capital Improvements Bond Fund is on a line item class basis. (A line item class represents a group of line items. For example, the line item class "personal services" is a grouping of line items such as salaries and wages, group insurance, professional services, Medicare contributions, etc.). For the Debt Service Fund and the Retirement Fund, the level of control is on a fund basis;
- (8) The General Superintendent is authorized to transfer appropriations between line items within an object class of expenditure within a department. After March 1<sup>st</sup>, 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. The Capital Improvements Bond Fund is budgeted on an "obligation" basis of accounting, which records total expenditures and grant revenues in the period in which contracts or grants are awarded. Appropriations lapse at year-end for the General Corporate, Special Revenue, Construction and Debt Service Funds. Appropriations for the Capital Improvements Bond Fund lapse at the end of the year to the extent of the unencumbered balances. Encumbered balances are not reported as reservations of fund balances, as the amounts are re-appropriated in the following year. The inventory is accounted for on the purchase method for budgetary purposes and on the consumption method for GAAP financial reporting purposes;
- (10) All governmental funds have legally adopted budgets; however, the working cash divisions of the General Corporate and Construction Funds do not have budgets;
- (11) Supplemental appropriation ordinances may be adopted during the year only if matched with estimated appropriable resources. There were no supplemental appropriations in fiscal year 2004.

**e. Deposits with escrow agent** represent cash with the escrow agent set aside for the subsequent payment of interest on debt.

## Notes to the Basic Financial Statements

Year ended December 31, 2004

- 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, plus accrued interest. The state statute requires the State Treasurer's Illinois Funds and Illinois Prime Funds to comply with the Illinois Public Funds Investment Act (30 ILCS 235). Investments of the Pension Trust Fund, other than short-term investments, are stated at fair value plus accrued interest. Investments in short-term obligations, principally commercial paper, are carried at cost plus accrued interest, which approximates fair value.
- h. Inventory**, which consists mainly of materials, supplies, and repair parts which extend the life of the District's treatment facilities, is reported on the Balance Sheet of the General Corporate Fund and the government-wide Statements of Net Assets. The District maintains a perpetual record-keeping system and uses a moving-average method, based on cost, for pricing its storeroom inventories. Materials, supplies and repair parts are recorded as expenditures/expenses when consumed. The District has elected not to reserve a portion of the fund balance for inventory, since the full inventory is available for use (National Council on Governmental Accounting Statement 1).
- i. Restricted assets** represent cash with a trustee set aside for the future payment of administrative costs on debt-related transactions. The assets are reported as restricted cash on the financial statements, since they are maintained in a separate bank account and their use is limited by applicable bond ordinances.
- j. Deferred charges** in the Statement of Net Assets consist of the negative year-end balance for the net pension asset and the unamortized excess amount required for debt refunding.
- k. Capital assets** including land, buildings, land improvements, equipment, infrastructure and construction in progress are recorded at historical cost or estimated historical cost in the government-wide financial statements. Retirements of capital assets are recorded at historical cost. Interest costs are not capitalized. Infrastructure assets include the District's sewers, water reclamation plants (WRP), waterway assets and TARP deep tunnels and drop shafts. The thresholds for reporting capital assets are as follows:

Land, buildings and land improvements	\$100,000 and over
Infrastructure	\$500,000 and over
Equipment	\$5,000 and over

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

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

The District is using the modified approach as an alternative to depreciation to report its eligible infrastructure assets, with the exception of the TARP deep tunnels and drop shafts, which are depreciated. The modified infrastructure assets are categorized into networks, systems and subsystems. Each of the District's seven WRPs represents a separate network and the waterway assets are an eighth network. The systems within the networks are categorized by the process flow through the network (i.e., collection system, treatment processes system, solids processing system, flood & pollution control system or drying solids/utilization system). The subsystems represent the major processes of each system (e.g., fine screens and grit chambers are subsystems of the treatment processes system). Condition assessments at each network are performed at the subsystem level and these assessments are compiled into a single assessment for each system. The rating scales used in the condition assessments are explained in Required Supplementary Information immediately following the notes.

Infrastructure assets reported under the modified approach are not depreciated, since the District manages these assets using an asset management system, and documents that the assets are being preserved at a level of acceptable or better, as evidenced by a condition assessment.

In compliance with Governmental Accounting Standards Board (GASB) Statement 34, existing infrastructure assets accounted for with the modified approach are not reported in the government-wide financial statements until an initial condition assessment is completed for the assets' network. Pursuant to GASB 34, the District has until its 2006 fiscal year to complete the initial condition assessments of its networks and report existing assets in its government-wide financial statements. Condition assessments of eligible infrastructure assets must be completed at least every three years following the initial assessments. In 2002 and 2003 the District completed the initial condition assessments at the Kirie and Hanover WRPs. In 2004 the District completed the initial assessments at the Northside and Egan WRPs. Therefore, the Kirie, Hanover, Northside and Egan WRP's infrastructure assets are the only existing assets reported as infrastructure under the modified approach in the government-wide financial statements. The existing Northside and Egan infrastructure assets, totaling \$445,844,000, are recorded as a restatement to the capital asset and net asset balances at the beginning of the 2004 fiscal year in the government-wide financial statements.

Existing infrastructure assets for which the initial network condition assessments have yet to be completed, and which, therefore, are not reported in the government-wide financial statements, amounted to \$2,476,102,000 at December 31, 2004. Modified infrastructure assets under construction as of January 1, 2001 are reported in the government-wide financial statements as construction in progress, and are reclassified to infrastructure assets when construction is significantly complete and/or the corresponding network's initial condition assessment is finished.

- l. Compensated Absences** for accumulated unpaid vacation, holiday, overtime, severance and sick leave are paid to employees at retirement or termination. An employee is paid one hundred percent of accumulated vacation, holiday, overtime and severance pay, and fifty percent of accumulated sick pay up to a maximum of sixty days. Compensated absences are accrued as they are earned in the government-wide financial statements. Expenditures and liabilities for compensated absences are recorded in the fund financial statements when due and payable.

Included in the long-term liabilities of the Statements of Net Assets at December 31, 2004 are liabilities for compensated absences of \$1,777,000, due within one year, and \$24,620,000, due in more than one year.

- m. Long-term Obligations** – Long-term debt and other long-term obligations are reported in the government-wide Statements of Net Assets. Bond premiums, discounts and issuance costs are deferred as credits or charges, and amortized over the life of the bonds using the straight-line method in the government-wide financial statements. In addition, the excess of the amount required to refund debt over the book value of the old debt is reported as a deferred charge and amortized over the shorter life of the old debt in the government-wide financial statements.

The face amount 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, are recognized as debt service expenditures in the fund financial statements.

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

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

## Notes to the Basic Financial Statements

Year ended December 31, 2004

Net Assets are displayed in three components in the government-wide Statements of Net Assets:

- Invested in Capital Assets, Net Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any debt attributable to capital assets.
  - Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. Net assets restricted for working cash and pension are based on legal restrictions while net assets restricted for debt service and capital projects are based on legal restrictions and/or outside parties. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, and then unrestricted resources when they are needed.
  - Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
- o. User Charge** – The District has utilized a User Charge System since January 1, 1980. The system was developed in accordance with Public Law 92-500 which required recipients of grants from the Environmental Protection Agency to charge certain users of waste water treatment services a proportionate share of the cost of operations and maintenance.
- p. Comparative data, reclassifications and restatements** – The basic financial statements present comparative data for the prior year to provide an understanding of the changes in financial position and results of operations. Certain reclassifications and restatements have been made to the prior period financial statements in order to conform to the current period presentation. A reclassification of Working Cash balances from unreserved and undesignated to reserved was made in 2004. The government-wide capital asset and net asset balances at the beginning of 2004 were restated by an increase of \$445,844,000. This increase represented existing infrastructure assets at the Egan and North Side WRP networks included in the initial condition assessments completed in 2004, as previously disclosed in Note 1. k.
- q. Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- r. New Accounting Pronouncements** – In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. The District implemented Statement No. 42 beginning with the year ended December 31, 2003.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement amends earlier guidance on the preparation of the Statistical Section. The District implemented Statement No. 44 beginning with the year ended December 31, 2004.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. Specifically, the District will be required to measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired District employees in future years. The District is also required to record a net OPEB obligation which is defined as the cumulative difference between annual OPEB cost and the employer's contribution to a plan, including the OPEB liability or asset at transition, if any. The District is currently evaluating the impact of adopting Statement No. 45, but cannot determine the impact that this standard will have on the financial statements when adopted. The District will implement Statement No. 45 beginning with the year ended December 31, 2007.

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

**a. Reconciliation of Total Fund Balances to the Total Net Assets**—The following explanations are provided for the reconciling adjustments shown in the Governmental Funds Balance Sheets/Statements of Net Assets at December 31, 2004 (in thousands of dollars):

Total fund balances of governmental funds	<u>\$ 767,669</u>
<i>Amounts reported for governmental activities in the Statements of Net Assets 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 Assets. Certain modified infrastructure assets of the District will not be reported until initial condition assessments are completed. The cost of the remaining capital assets and accumulated depreciation is as follows:	
Capital assets	3,091,982
Accumulated depreciation	<u>(135,319)</u>
Capital assets, net	<u>2,956,663</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 Assets. The long-term liabilities consist of :	
Compensated absences	(26,397)
Claims and other liabilities	(73,542)
Bond anticipation notes	(90,473)
General obligation debt	<u>(1,329,123)</u>
Total long-term liabilities	<u>(1,519,535)</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 may be offset by deferred liabilities in the governmental funds. However, these assets may increase net assets in the Statements of Net Assets. They consist of:	
Property taxes and personal property replacement tax deferrals	357,126
Adjustment for pension trust fund	(24,442)
Adjustment to user charge	(2,570)
Deferred charge for net pension asset	44,590
Installment sale	41
Adjustment to deferred revenues	<u>374,745</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 Assets. They consist of:	
Deferral of bond premium	(17,731)
Deferral of bond issuance costs	<u>23,953</u>
Total deferrals	<u>6,222</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 Assets. The 2004 amount is:	
Accrued interest	<u>(10,088)</u>
Interfund transactions are eliminated for government-wide reporting. These transactions consist of :	
Due from other funds	775
Due to other funds	<u>(775)</u>
Total interfund	<u>-</u>
Total net assets of governmental activities	<u><u>\$ 2,575,676</u></u>

## Notes to the Basic Financial Statements

Year ended December 31, 2004

**b. Reconciliation of the Change in Fund Balances to the Change in Net Assets**—The following explanations are provided for the adjustments shown in the Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statements of Activities for the year ended December 31, 2004 (in thousands of dollars):

Change in fund balances of governmental funds	<u>\$ (71,305)</u>
<i>Amounts reported for governmental activities in the Statements of Activities are different because:</i>	
Construction costs for capital outlays are reported as expenditures in governmental funds. However, in the Statements of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense except for those assets under the modified approach. In the current period, these amounts are:	
Construction costs for capital outlays	89,098
Depreciation expense-allocated to various departments	(2,481)
Depreciation expense-unallocated	<u>(7,596)</u>
Excess of construction costs over depreciation expense	<u>79,021</u>
Debt proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statements of Net Assets. In the current period, debt proceeds and related items were:	
Bond anticipation note proceeds	<u>(52,720)</u>
Debt proceeds total	<u>(52,720)</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 Assets. In the current year, the repayments consists of :	
Bond principal retirement	<u>92,560</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 :	
(Increase) decrease in compensated absences-allocated to various departments	(1,048)
(Increase) decrease in claims and judgments	(7,596)
(Increase) decrease in bond interest	(571)
(Increase) decrease in bond anticipation notes interest	(1,452)
(Increase) decrease in net pension obligation	(7,982)
Amortization of bond issuance /refundng costs	(2,293)
Amortization of bond premium	<u>2,030</u>
Total additional expenses	<u>(18,912)</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 Assets and offset against sale proceeds resulting in gain or (loss) in the Statements of Activities. The net effect of miscellaneous transactions involving capital asset sales:	
Total land and equipment sales	<u>(1,253)</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	34,782
User charge adjustment	(776)
Grant and rent adjustment	773
Non-financial assets	<u>35,865</u>
Total adjustments	<u>70,644</u>
Change in net assets of governmental activities	<u><u>\$ 98,035</u></u>



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

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

	<b>General Corporate Fund</b>
Revenues and other sources (uses) over (under) expenditures on a budgetary basis	\$ 1,404
Adjustment from Budget to GAAP for:	
Tax revenues	(18,942)
Cash basis other revenues	(820)
GAAP versus budgetary expenditure differences	(547)
	\$ (18,905)
Revenues and other sources (uses) over (under) expenditures on GAAP Basis	

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

### 4. Deposits and Investments

#### Cash

The carrying amount of cash, excluding the Pension Trust Fund, was \$20,647,608 at December 31, 2004, while the bank balances were \$19,368,009. All account balances at banks were either insured by the FDIC for \$100,000, or collateralized with securities of the U. S. Government, or with letters of credit issued by the Federal Home Loan Bank held in the District's name by financial institutions acting as the District's agent.

At December 31, 2004, the Pension Trust Fund's carrying amount of cash was \$175,769, while the bank balances were \$603,334. The Federal Deposit Insurance Corporation insures bank balances up to \$100,000. As of December 31, 2004, \$1,000,000 of the bank balance was collateralized with securities of the U.S. Government held in the Pension Trust Fund's name by a financial institution acting as the Fund's agent.

#### Certificates of Deposit

Certificates of deposit, excluding the Pension Trust Fund, amounted to \$113,858,000 at December 31, 2004. In accordance with District policy, certificates of deposit were collateralized with securities of the U.S. Government or letters of credit issued by the

## Notes to the Basic Financial Statements

Year ended December 31, 2004

Federal Home Loan Bank in an amount equal to 110% or 102%, respectively, of the funds on deposit. All investment collateral is held in safekeeping in the District's name by financial institutions acting as the District's agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

### Investments (excluding Pension Trust Fund)

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

The following schedule reports the fair values and maturities (using the segmented time distribution method) for the District's investments at December 31, 2004 (in thousands of dollars):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1 Year</u>	<u>1- 3 Years</u>
U.S. Agencies	\$ 421,308	\$ 129,070	\$ 292,238
Commercial Paper	138,788	138,788	-
State Treasurer's Illinois Funds and Prime Funds	21,571	21,571	-
Total Investments	<u>\$ 581,667</u>	<u>\$ 289,429</u>	<u>\$ 292,238</u>

**Interest Rate Risk** - The District's investment policy protects against fair value losses resulting from rising interest rates by structuring its investments so that sufficient securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity. In addition, the District's policy limits direct investments to securities maturing in three (3) years or less. Written notification is required to be made to the Board of Commissioners of the intent to invest in securities maturing more than three (3) years from the date of purchase.

**Credit Risk** - The District's investment policy applies the "prudent person" standard in managing its investment portfolio. As such, investments are made with such judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The District's investment policy limits investments in commercial paper to the highest rating classifications, as established by at least two of the four major rating services, and which mature not later than 180 days from the purchase date. Such purchases may not exceed 10 % of the issuer corporation's outstanding obligations.

*Metropolitan Water Reclamation District of Greater Chicago*

Credit ratings for the District's investments in debt securities as described by Standard & Poor's and Moody's at December 31, 2004 (excluding investments in U.S. Treasuries which are not considered to have credit risk) are as follows:

<u>Investment Type</u>	<u>Credit Ratings</u>	<u>% of Investment Type</u>	<u>% of Total Investments</u>
U.S. Agencies	AAA/Aaa	100%	72%
Commercial Paper	A-1/P-1	100%	24%
State Treasurer's Illinois Funds and Prime Funds	Aaa	100%	4%

**Concentration of Credit Risk** - The District limits the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than twenty (20) percent of the amount invested in commercial paper can be invested in any one entity. As of December 31, 2004 there were no individual investments that were greater than five percent of total investments.

**Custodial Credit Risk** - The District's investments are not exposed to custodial credit risk since its investment policy requires all investment collateral to be held in safekeeping by a third party custodial institution as designated by the Treasurer, in the District's name, and maintained at the required levels for the investment type. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities which are in the possession of the outside party.

**Trust Fund's Investments**

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

The Pension Trust Fund's policy is to maintain long-term focus on its investment decision-making process. Specifically, the Fund's benefit liabilities extend many years into the future. As such, the investment focus should be on long-term results. The Fund's fixed income performance objective is the Lehman Brothers Aggregate Bond Index.

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities (using the segmented time distribution method) for the Pension Trust Fund's investments at December 31, 2004 (in thousands of dollars):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>0 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Greater than 10 Years</u>
U.S. Treasuries	\$ 75,269	\$ 21,568	\$ 22,137	\$ 31,564
U.S. Agencies	56,098	31,891	22,838	1,369
Corporate Bonds and Notes	136,361	67,051	52,654	16,656
Mortgage Backed Securities	127,744	2,147	1,513	124,084
Asset Backed Securities	29,565	5,773	3,094	20,698
Collateralized Mortgage Obligations	36,726	-	1,342	35,384
Pooled Funds & Mutual Funds	12,628	12,628	-	-
<b>Totals</b>	<b>474,391</b>	<b>\$ 141,058</b>	<b>\$ 103,578</b>	<b>\$ 229,755</b>
Investments Not Sensitive to Interest Rate Risk: Common and Preferred Stock	644,891			
<b>Total Investments</b>	<b>\$ 1,119,282</b>			

## Notes to the Basic Financial Statements

Year ended December 31, 2004

**Interest Rate Risk** - The Pension Trust Fund does not maintain a policy relative to interest rate risk. The Board of Trustees recognizes that its investments are subject to short-term volatility. However, their goal is to maximize total return within prudent risk parameters.

**Credit Risk** - The Pension Trust Fund's policy requires all fixed income investments to be of investment grade quality or higher at purchase. 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. All securities shall be of "investment grade" quality; 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.

The following reports the credit ratings for the Fund's debt securities at December 31, 2004 (included are U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government which are classified under the heading U.S. Treasuries):

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

	<u>AAA / Aaa</u>	<u>AA / Aa</u>	<u>A / A</u>	<u>BBB / Baa</u>	<u>BB/Bb</u>
U.S. Treasuries	15.75%	0.12%	-	-	-
U.S. Agencies	11.47%	0.36%	-	-	-
Corporate Bonds and Notes	3.30%	4.33%	11.02%	9.99%	0.10%
Mortgage Backed Securities	26.84%	-	-	-	0.09%
Asset Backed Securities	6.23%	-	-	-	-
Collateralized Mortgage Obligations	7.00%	0.37%	0.37%	-	-
Pooled Funds and Mutual Funds	2.66%	-	-	-	-

**Concentration of Credit Risk** – Investments that represent five percent or more of the plan's net assets are disclosed in Note 7, Pension Plan.

**Custodial Credit Risk** – The Pension Trust Fund's investments are registered in electronic book entry form and held in a Trust Account custodied by The Bank of New York, the Pension Fund's agent. At December 31, 2004 securities held in the Trust Account are maintained by one or more depositories, such as the Federal Reserve or Depository Trust and Clearing Company (DTCC). Securities held in depositories are registered in a nominee name of The Bank of New York. In the case of DTCC, assets in the Bank's account are held in the name of CEDE & Co. Customer identification of these assets is done at the Bank by reconciling the aggregate securities electronically reflected in each account with the total position held at the depository. This reconciliation is performed daily and any differences are researched and resolved. These assets can not be attached by the Bank's creditors.

## 5. Receivables, Deferred Revenues and Payables

Certain receivables and payables reported in the financial statements represent aggregations of different components, such as balances due from/to taxpayers, users, other governments, vendors and employees. The following information is provided to detail significant balances making up the components.

**Receivables**

Receivables as of December 31, 2004 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

	<b>General Corporate</b>	<b>Debt Service</b>	<b>Capital Improve- ments Bond</b>	<b>Construc- tion</b>	<b>Other Govern- mental / Retire- ment</b>	<b>Adjust- ments</b>	<b>Statement of Net Assets</b>
Receivables at December 31, 2004:							
Property taxes	\$229,687	\$187,649	\$ -	\$ 20,112	\$ 32,127	\$ -	\$ 469,575
Allowance for uncollectible taxes	(29,087)	(23,921)	-	(5,243)	(4,309)	-	(62,560)
Net property taxes	200,600	163,728	-	14,869	27,818	-	407,015
Personal property replacement tax	571	-	-	78	3,813	-	4,462
Total taxes receivable, net	201,171	163,728	-	14,947	31,631	-	411,477
Other receivables:							
User charges	2,628	-	-	-	-	(1,346)	1,282
Allowance for uncollectible user charges	-	-	-	-	-	(1,224)	(1,224)
Total user charges, net	2,628	-	-	-	-	(2,570)	58
State revolving fund loans	-	-	5,634	-	-	-	5,634
Miscellaneous	537	-	-	-	-	-	537
Total other receivables, net	3,165	-	5,634	-	-	(2,570)	6,229
Total net receivables at December 31, 2004	\$204,336	\$163,728	\$ 5,634	\$ 14,947	\$ 31,631	\$ (2,570)	\$ 417,706

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 and other deferred revenue are reported in the Governmental Funds Balance Sheets in connection with receivables for property taxes that are not considered to be available to liquidate liabilities of the current period. In addition, other deferred revenue is reported in the Governmental Funds Balance Sheets and the government-wide Statements of Net Assets for rental resources that have been received, but not earned. Deferred tax revenue reported in the governmental funds is unavailable as of December 31, 2004. Other deferred revenue reported in the General Corporate Fund and the government-wide Statements of Net Assets is unearned as of December 31, 2004.

## Notes to the Basic Financial Statements

Year ended December 31, 2004

### Payables

Payables reported as "Accounts payable and other liabilities" as of December 31, 2004 in the District's governmental funds and government-wide financial statements are detailed as follows (in thousands of dollars):

	<u>General Corporate</u>	<u>Debt Service</u>	<u>Capital Improve- ments Bond</u>	<u>Construc- tion</u>	<u>Other Govern- mental/ Retire- ment</u>	<u>Adjust- ments</u>	<u>Statement of Net Assets</u>
Accounts payable and other liabilities at December 31, 2004:							
Vouchers payable and other liabilities	\$ 24,430	\$ 212	\$ 14,836	\$ 6,333	\$ -	\$ -	\$ 45,811
Accrued payroll and withholdings	3,332	-	-	-	-	-	3,332
Bid deposits	1,626	-	-	-	-	-	1,626
Total accounts payable and other liabilities at December 31, 2004	<u>\$ 29,388</u>	<u>\$ 212</u>	<u>\$ 14,836</u>	<u>\$ 6,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,769</u>

### 6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2004 is as follows (in thousands of dollars):

	<u>Balances January 1, 2004 (as restated)</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances December 31, 2004</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 127,915	\$ 271	\$ 925	\$ 127,261
Construction in progress	579,769	91,252	25,844	645,177
Infrastructure under modified approach*	724,349	24,556	2,407	746,498
Total capital assets not being depreciated	<u>1,432,033</u>	<u>116,079</u>	<u>29,176</u>	<u>1,518,936</u>
Capital assets being depreciated:				
Buildings	13,226	-	-	13,226
Equipment	40,484	1,270	1,227	40,527
Infrastructure	1,519,293	-	-	1,519,293
Total capital assets being depreciated	<u>1,573,003</u>	<u>1,270</u>	<u>1,227</u>	<u>1,573,046</u>
Less accumulated depreciation:				
Buildings	3,649	185	-	3,834
Equipment	18,054	2,296	899	19,451
Infrastructure	104,438	7,596	-	112,034
Total accumulated depreciation	<u>126,141</u>	<u>10,077</u>	<u>899</u>	<u>135,319</u>
Total capital assets being depreciated, net	<u>1,446,862</u>	<u>(8,807)</u>	<u>328</u>	<u>1,437,727</u>
Governmental activities capital assets, net*	<u>\$ 2,878,895</u>	<u>\$ 107,272</u>	<u>\$ 29,504</u>	<u>\$ 2,956,663</u>

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

Depreciation expense in the government-wide Statements of Activities, for the year ended December 31, 2004, was charged to the District's governmental functions as follows (in thousands of dollars):

<b>Department</b>	<b>Amount</b>
BOC/Treasury	\$ 15
General Administration	351
Research and Development	431
Purchasing	134
Personnel	21
Information Technology	272
Law	12
Finance	17
Engineering	156
Maintenance and Operations	1,072
Total allocated depreciation	<u>2,481</u>
Unallocated Infrastructure depreciation	7,596
Total depreciation	<u><u>\$ 10,077</u></u>

## 7. Pension Plan

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

The Pension Trust Fund issues a publicly available financial report that includes financial statements and required supplementary information establishing the financial position of the Plan. That report may be obtained by writing to the Metropolitan Water Reclamation District Retirement Fund, 111 E. Erie, Chicago, IL, 60611-2898 or calling 1-312-751-3222.

**Basis of Accounting** - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

## Notes to the Basic Financial Statements

Year ended December 31, 2004

**Investments** - Investments that represent 5 percent or more of the Plan's net assets (except those issued or guaranteed by the U.S. Government) are separately identified below for the year ended December 31, 2004 (in thousands of dollars):

Investments at Fair Value	
Bonds	
MFB NTGI Daily Aggregate Bond	\$ 186,996
SSGA Bond Market Index Fund	130,961
UBS Sec Mtge Fund	18,203
Other	125,256
Common Stock	
MFB NTGI QM Coltv Daily S&P 500 Equity Index	110,464
NTGI Coltv Monthly US Marketcap Equity Fund	146,281
Other	388,474
Short-term investments	12,647
Total Investments	<u>\$ 1,119,282</u>

**Annual Pension Cost and Net Pension Asset** - The annual pension cost and net pension obligation of the Plan for the year ended December 31, 2004 were as follows:

Annual required contribution	\$ 40,146,454
Interest on net pension asset	(4,074,298)
Adjustment to annual required contribution	<u>2,892,218</u>
Annual pension cost	38,964,374
Contributions made	<u>30,982,232</u>
Decrease in net pension asset	7,982,142
Net pension asset beginning of year	<u>(52,571,588)</u>
Net pension asset end of year	<u>\$ (44,589,446)</u>

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

**Funding Status and Progress** - The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation, using the Entry Age Normal actuarial cost method and the Level Dollar amortization method. The actuarial assumption includes: (a) 7.75% per year rate of return on investments, net of investment expense, compounded annually; (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation; (c) additional projected salary increases of 1.75% per year, attributable to seniority/merit; (d) post-retirement benefit compound increases of 3.0% per year for employee and surviving spouse annuitants; and (e) 4.00% inflation rate. The actuarial value of assets was determined by using the five-year Smoothed Market method. The unfunded actuarial accrued liability is being amortized as a level percent of payroll on an open basis. The amortization period at December 31, 2004 was 30 years. A schedule of the progress in funding the Pension Trust Fund can be found in Required Supplementary Information immediately following the notes.



**Trend Information** - The annual pension cost, percentage of annual pension contributed, and net pension obligation for the past three years ending December 31, 2004 are presented below:

<u>Fiscal</u> <u>Year Ending</u>	<u>Employer Contributions</u>		<u>Net Pension</u> <u>Obligation</u>
	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	
12/31/04	\$ 38,964,374	79.51%	\$ (44,589,446)
12/31/03	36,679,621	78.46%	(52,571,588)
12/31/02	33,754,206	84.92%	(60,472,561)

## 8. Other Post-Employment Benefits

Retirees and annuitants receiving a pension through the Pension Trust Fund are eligible for District-sponsored health insurance. Coverage is available through two HMOs, or through the comprehensive major medical program administered by Blue Cross and Blue Shield of Illinois. As of December 31, 2004, 1,866 of the 2,206 eligible annuitants were participating in District-sponsored coverage.

The Board of Commissioners adopted a policy of subsidizing retiree medical insurance costs in 1974. This policy was amended at the Board Meeting of December 20, 1984, and took effect in February 1, 1985. Retirees contribute 25% of the premium and the District pays the remaining 75%. Each year, the Board approves an appropriation to fund retiree medical costs as part of the Personnel Department, General Corporate Fund budget. Thus, employer contributions for Other Post-Employment Benefits (OPEB) are funded on a pay-as-you-go basis. The amount of OPEB expenditures (net of participant contributions) recognized during 2004 by the District was \$10,331,112.

## 9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund contract commitments approximated \$9,413,000 at December 31, 2004. Construction and Capital Improvements Bond Funds' contract commitments (encumbrances) were \$245,376,000 at December 31, 2004. In conjunction with these commitments, government grants of \$162,000 at December 31, 2004 have been awarded and are collectible as contract expenditures are incurred. State Revolving Fund Loan commitments of \$45,386,000 at December 31, 2004 are also collectible as contract expenditures are incurred.

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

The original estimate of the time to permit, design and build the facility was three years. Once completed and accepted for operation by the District, a 20-year operational contract will follow. The District will begin payment on the contract only after the facility is completed and accepted for operation.

## Notes to the Basic Financial Statements

*Year ended December 31, 2004*

The payment to the contractor will be divided into two parts. The first is a facility fee of approximately \$4.7 million per year for 19 years to pay for the facility. The facility will become the property of the District at the end of the contract. The second payment is a dollar per ton cost for the processing and disposal of biosolids. The first year's estimated cost is \$4.8 million (based on 150 tons of biosolids). This cost is subject to annual adjustments based on the Consumer Price Index and the Producer Price Index.

The District has an option to purchase the facility at the end of the 5<sup>th</sup>, 10<sup>th</sup> and 15<sup>th</sup> year of operation for the remaining principal portion of the debt. Payments under the contract will not exceed \$217,169,090. The District expects that the facility payment will be made from the Capital Improvements Bond Fund while the processing and disposal costs will be paid from the General Corporate Fund. Under Illinois law this contract will constitute indebtedness includible within the District's 5.75% general debt limit once the facility is completed, but it will not be includible in the District's 3.35% bonded debt limit.

As of December 31, 2004, the District had no liability, short-term or long-term, for rebatable arbitrage.

### 10. Risk Management and Claims

The District is primarily self-insured. Under the "Reserve Claim Fund" the District may levy an annual property tax not to exceed .005% of the equalized assessed valuation of taxable property within the District's territorial limits. The Reserve Claim Fund accounts for claims, awards, losses, judgments or liabilities which might be imposed on the District under the Workers' Compensation Act or the Workers' Occupational Diseases Act. Additionally, the Reserve Claim Fund accounts for any claim in tort, including but not limited to any claim imposed under the Local Governmental and Governmental Employees Tort Immunity Act, and for the repair or replacement, where the cost thereof exceeds \$10,000, of any property owned by the District which is damaged by fire, flood, explosion, vandalism or other natural or manmade peril. The aggregate amount that may accumulate in the Reserve Claim Fund cannot exceed .05% of the equalized assessed valuation. The Reserve Claim Fund accounts are included in the General Corporate Fund as described in Note 1.b. to the financial statements.

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

Under current environmental protection laws, the District may be ultimately responsible for the environmental remediation of some of its leased-out properties. The District has developed a preliminary estimate of environmental remediation costs for major lease sites needing environmental remediation. The range of such estimated total remediation costs at December 31, 2004 is between \$64.5 million and \$185.5 million. The District is of the opinion that the tenants (except for those who are bankrupt, out of business, or otherwise financially unable to perform) would ultimately be liable for the bulk of, if not all of, these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. However, a provision of \$68.75 million is recognized at December 31, 2004 in the long term liabilities of the government-wide financial statements as an estimate of probable, contingent liability of the District. The amount of \$61.4 million was recognized as of December 31, 2003, or an increase in the contingent liability of \$7.3 million during the year 2004.

In 1999, the Illinois Department of Revenue ruled that a legislative change to the Tax code exempted all lands of the District from taxation, wherever located. Some counties appealed that decision and as of this printing the cases are pending in court. In the event of an adverse ruling, it is contingently possible that the District could face a total tax liability of approximately \$218,000.

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 and retired employees through an insured life insurance program. The District estimated a liability of \$1,944,000 in the General Corporate, Construction and Capital Improvements Funds at December 31, 2004 for its self-insured plans. This amount is based on payments of \$1,744,000 during the year and a \$16,000 increase in the estimate.

Additional insurance policies in effect at December 31, 2004 are listed below. There were no reductions in insurance coverage from the prior year. Settled claims have not exceeded this coverage in any of the past four fiscal years.

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

<i>Automobiles, Trucks, and Trailers</i>	
Excess liability.....	\$5,000,000
Deductible.....	\$1,000,000
<i>Owners, Landlords and Tenants</i>	
Each occurrence.....	\$1,000,000
General aggregate.....	\$2,000,000
Deductible.....	\$500
<i>Public Employee Dishonesty</i>	
Aggregate Limit.....	\$6,000,000
Deductible.....	\$100,000
<i>Faithful Performance</i>	
Aggregate Limit.....	\$5,000,000
Deductible.....	\$100,000
<i>Public Employee Forgery or Alteration</i>	
Each occurrence.....	\$500,000
Deductible.....	\$500
<i>Marine Liability</i>	
Excess liability.....	\$10,000,000
Deductible.....	\$10,000
<i>Group Travel Accident</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

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

	<u>2004</u>	<u>2003</u>
Claims Payable at January 1:	\$ 65,946	\$ 71,108
Claims incurred	3,829	2,972
Changes in prior years' claims estimate	7,596	(5,162)
Claim payments	(3,829)	(2,972)
Claims Payable at December 31:	<u>\$ 73,542</u>	<u>\$ 65,946</u>

## Notes to the Basic Financial Statements

Year ended December 31, 2004

### 11. Long-Term Debt

The following is a summary of general long-term liability transactions of the District for the year ended December 31, 2004 (in thousands of dollars):

	<b>Bonds Payable</b>	<b>Claims Payable</b>	<b>Compen- sated Absences</b>	<b>Bond Anticipation Notes and Interest</b>	<b>Total</b>
Long-term liabilities at January 1, 2004	\$1,363,739	\$ 65,946	\$ 25,349	\$ 94,245	\$1,549,279
Increase in compensated absences	-	-	2,825	-	2,825
Increase in claims payable due to current year claims and changes in estimates	-	4,125	-	-	4,125
Provision for Contingent Environmental Clean Up Costs	-	7,300	-	-	7,300
Payments	-	(3,829)	(1,777)	-	(5,606)
Bond anticipation notes issued	-	-	-	52,720	52,720
Conversion of State Revolving Fund Loans and accrued interest to bonds	57,944	-	-	(57,944)	-
Interest on bond anticipation notes issued	-	-	-	1,452	1,452
Retirements of general obligation bonds	(92,560)	-	-	-	(92,560)
<b>Total long-term liabilities at December 31, 2004</b>	<b><u>\$1,329,123</u></b>	<b><u>\$ 73,542</u></b>	<b><u>\$ 26,397</u></b>	<b><u>\$ 90,473</u></b>	<b><u>\$1,519,535</u></b>
Due within one year	\$ 94,567	\$ 2,842	\$ 1,777	\$ -	\$ 99,186
Due in more than one year	<u>1,234,556</u>	<u>70,700</u>	<u>24,620</u>	<u>90,473</u>	<u>1,420,349</u>
<b>Total long-term liabilities at December 31, 2004</b>	<b><u>\$ 1,329,123</u></b>	<b><u>\$ 73,542</u></b>	<b><u>\$ 26,397</u></b>	<b><u>\$ 90,473</u></b>	<b><u>\$ 1,519,535</u></b>

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 and Construction 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.

*Metropolitan Water Reclamation District of Greater Chicago*

As of December 31, 2004, the annual debt service requirements for general obligation bonds are shown below. The interest requirements for variable rate debt with swaps are based on the District's synthetic fixed rates.

*(in thousands of dollars)*

<b>Maturing</b>	<b>Construction Working Cash 6.00% (Issued 01/95)</b>	<b>Capital Improvement Bond Series (3.0-7.0%) (Issued 6/91 to 01/03)</b>	<b>Refunding (4.65-6.5%) (Issued 08/92 to 06/02)</b>	<b>State Revolving Funds Series (2.5-3.745%) (Issued 08/90 to 11/04)</b>	<b>Total Principal</b>	<b>Total Interest</b>
2005	\$ 4,130	\$ 43,840	\$ 28,375	\$ 18,222	\$ 94,567	\$ 60,902
2006	-	47,310	28,475	18,718	94,503	55,249
2007	-	27,100	39,600	19,228	85,928	50,310
2008	-	13,800	30,300	19,751	63,851	46,249
2009	-	14,400	31,600	20,290	66,290	43,304
2010-2014	-	83,100	43,700	101,104	227,904	186,517
2015-2019	-	107,600	-	69,479	177,079	141,471
2020-2024	-	78,000	78,000	25,001	181,001	110,406
2025-2029	-	-	230,000	-	230,000	63,013
2030-2034	-	-	108,000	-	108,000	8,222
	<u>\$ 4,130</u>	<u>\$ 415,150</u>	<u>\$ 618,050</u>	<u>\$ 291,793</u>	<u>\$ 1,329,123</u>	<u>\$ 765,643</u>

Expenditures for principal and interest made on January 1, 2005 approximated \$21,300,000 and \$5,900,000, respectively.

**2003 Bond Issues:**

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

**2002 Bond Issues:**

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

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

## Notes to the Basic Financial Statements

Year ended December 31, 2004

### 2001 Bond Issues:

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

### Capital Improvement Bonds, IEPA Series:

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

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

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

With similar terms and conditions as the 2001 IEPA series, the District, in 1997, authorized the issuance of \$190,000,000 of Capital Improvement Bonds, 1997 IEPA series, to finance the cost of the Calumet TARP – Torrence Avenue Tunnel. Under this authority, the IEPA has approved the following approximate loan amounts:

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

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

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

Converted amounts of \$57,944,175 in 2004 represented the sum of bond anticipation note principal of \$57,000,000 and interest of \$944,175.

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

- August, 2003 – The District issued \$10.5 million of Capital Improvement Bonds – IEPA Series 97DD, through the conversion of the sum of bond anticipation note principal of \$10.4 million and interest of \$0.2 million with maturity dates from January 1, 2004 to July 1, 2023. Interest on the bonds accrues at a rate of 2.905% payable January 1 and July 1.
- July, 2002 – The District issued \$11.2 million of Capital Improvement Bonds – IEPA Series 94V, through the conversion of the sum of bond anticipation note principal of \$10.5 million and interest of \$0.7 million with maturity dates from January 1, 2003 to July 1, 2018. Interest on the bonds accrues at a rate of 2.5% payable January 1 and July 1.
- July, 2002 – The District issued \$36.5 million of Capital Improvement Bonds – IEPA Series 97CC, through the conversion of the sum of bond anticipation note principal of \$ 35.5 million and interest of \$ 1.0 million with maturity dates from July 1, 2003 to July 1, 2022. Interest on the bonds accrues at a rate of 2.535% payable January 1 and July 1.

Beginning in 1991, the District’s Board of Commissioners adopted ordinances providing for the issuance of Bond Anticipation Notes. The bond anticipation notes are issued exclusively to cover interim project loan advances from the Illinois Environmental Protection Agency. Principal and interest related to the Bond Anticipation Notes was \$90,473,300 at December 31, 2004. Of the bond anticipation notes outstanding at December 31, 2004, \$90,473,300 will be refinanced through IEPA Series 2001 bonds. The conversion of these bond anticipation notes to Capital Improvement Bonds is not expected to occur within the next calendar year; therefore, the notes will be reported as a part of long term-debt.

**Refunding Transactions** - In prior years, the District defeased certain obligations and other bonds by placing the proceeds of new bonds and additional cash in trust to provide for all future debt service requirements of the refunded debt. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the accompanying financial statements, as the District defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transactions. Bonds outstanding in the amount of \$474,640,000 were considered defeased at December 31, 2004.

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

**Terms** - The notional amounts of the swaps match the principal amounts of the associated debt. The District’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in the associated “bonds payable” category. The June 2002 bonds mature between the years 2023 and 2031 while the bonds issued in January 2003 mature between 2017 and 2022. For the June 2002 bonds, the District pays the counterparty a fixed rate of 4.785% and receives a variable payment based on the BMA rate. For the bonds issued in January 2003, the District pays the counterparty a fixed rate of 3.64% and receives a variable payment computed at 70% of the LIBOR rate. Conversely, the bonds’ variable rate coupon payments are determined by rates established by the Remarketing Agents on a weekly basis.

**Fair Value** - A decline in interest rates produced negative fair values on swaps at December 31, 2004, of \$30,044,000 and \$4,387,000, for June 2002 series A and B issues, respectively, and \$1,711,000 for January 2003 series E bonds. The swaps’ negative fair values may be countered by a reduction in total interest payments required under the variable rate bonds, creating lower synthetic interest rates. Since the coupons on the District’s variable rate bonds adjust to changing interest rates, the bonds do not have corresponding

## Notes to the Basic Financial Statements

*Year ended December 31, 2004*

changes in their fair value. The swaps' fair values were estimated using a bond pricing model similar to the zero-coupon model which calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

**Credit risk** - The District was not exposed to counterparty credit risk at December 31, 2004 because the swaps had negative fair values. If changes in interest rates create positive fair values for the swaps in the future, the District would be exposed to credit risk in the amount of the derivatives' fair values. The swap agreements contain varying collateral agreements with the counterparties. The agreements require full collateralization of the fair value of the swaps should the counterparties' credit ratings fall below Standard & Poor's rating of BBB+, or Moody's Investor Services rating of Baa1. Collateral on all swaps is to be held by a third party custodian in the form of cash, debt obligations issued by the U.S. Treasury or debt issued by federally sponsored agencies.

The District has executed the three swap agreements with various counterparties. One counterparty holds 50% of the notional amount of the outstanding swaps and has credit ratings of AA and Aa3 with Standard & Poor's and Moody's, respectively. A second counterparty holds 44% of the notional amount of the outstanding swaps and has credit ratings of A- and A1 with Standard & Poor's and Moody's, respectively. A third counterparty holds 6% of the notional amount of the outstanding swaps and has credit ratings of A+ and A1 with Standard & Poor's and Moody's, respectively.

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

**Basis risk** - The District's variable rate bond coupon payments are determined by rates established by Remarketing Agents on a weekly basis. If the Remarketing Agents fail to determine the rates, then the weekly rates shall be the equivalent of the BMA Municipal Swap Index. For the Series E bond issue, for which the District receives a variable rate payment other than the BMA (i.e., 70% of the LIBOR rate), the District is exposed to basis risk should the relationship between the LIBOR and BMA converge. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized. As of December 31, 2004, the interest rates paid to bondholders were 1.97% for the Series A and B issues and 1.97% for the Series E issue. The BMA rate and 70% of the LIBOR rate at December 31, 2004 were 1.99% and 1.69%, respectively.

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

**Swap payments and associated debt** - Using rates as of December 31, 2004, the annual debt service requirements for the District's outstanding variable rate debt, along with the net swap payments, are shown in the schedules that follow. As rates vary, the variable rate interest payments and net swap payments will vary.



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

(in thousands of dollars)

Fiscal Year Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net *	
2005	\$ -	\$ 8,195	\$ 11,627	\$ 19,822
2006	-	8,195	11,627	19,822
2007	-	8,195	11,627	19,822
2008	-	8,195	11,627	19,822
2009	-	8,195	11,627	19,822
2010-2014	-	8,195	11,627	19,822
2015-2019	-	8,195	11,627	19,822
2020-2024	38,100	7,445	10,562	56,107
2025-2029	219,500	3,871	5,492	228,863
2030-2033	158,400	5,075	7,200	170,675
	<u>\$ 416,000</u>	<u>\$ 73,756</u>	<u>\$ 104,643</u>	<u>\$ 594,399</u>

\* Computed: (Fixed rate payment - Variable rate payment from counterparty) x Notional amount.

\* Computed: (4.785% - 1.99%) x \$416,000,000.

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

(in thousands of dollars)

Fiscal Year Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net *	
2005	\$ -	\$ 2,876	\$ 2,847	\$ 5,723
2006	-	2,876	2,847	5,723
2007	-	2,876	2,847	5,723
2008	-	2,876	2,847	5,723
2009	-	2,876	2,847	5,723
2010-2014	-	2,876	2,847	5,723
2015-2019	44,000	2,009	1,989	47,998
2020-2022	102,000	867	858	103,725
	<u>\$ 146,000</u>	<u>\$ 20,132</u>	<u>\$ 19,929</u>	<u>\$ 186,061</u>

\* Computed: (Fixed rate payment - Variable rate payment from counterparty) x Notional amount.

\* Computed: (3.64% - 1.69%) x \$146,000,000.

## Notes to the Basic Financial Statements

Year ended December 31, 2004

### 12. Interfund Transactions

The interfund receivable and payable balances at the end of the year are reported as “due from/to other funds” in the Governmental Funds Balance Sheets and are eliminated in the government-wide Statements of Net Assets. The balances generally result from payroll transactions paid from the General Corporate Fund that are later reimbursed by other funds. In addition, \$500,000 is due from the General Corporate Fund to the Construction Fund representing the year-end distribution of user charge revenue. Also, 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, 2004 are as follows (in thousands of dollars):

	Interfund	
	Receivables	Payables
General Corporate Fund	\$ 275	\$ 500
Capital Improvements Bond Fund	-	120
Construction Fund	500	155
	<u>\$ 775</u>	<u>\$ 775</u>

In addition to the above, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2004, that represented earned but uncollected property taxes in the Retirement Fund and the government-wide Statements of Net Assets.

Transfers between funds as authorized in the budget are recorded as “other financing sources (uses)” in the fund operating statements. Transfers are eliminated in the government-wide Statements of Activities. During the year ended December 31, 2004, there were no interfund transfers.

### 13. Designated Fund Balances

The Reserve Claim account division of the General Corporate Fund reports a fund balance designation for payment of future claims liabilities in the amount of \$35,764,000 at December 31, 2004. This designation provides resources to meet potential claims liabilities without detrimental impact on future years’ operating budgets and it is reclassified to an undesignated, unreserved fund balance for the overall presentation of the General Corporate Fund, since designations can not exceed the total unreserved fund balance.

### 14. Property Tax Extension Limitation Act

Effective March 1, 1995, the Property Tax Extension Limitation Act (PTELA) limits the amount of property taxes the District can extend for years subsequent to 1993. The law limits the District’s increase in aggregate tax levy extension to 5% of the previous year or to the percentage increase in the consumer price index, whichever is less. The limitation does not apply to the District’s Debt Service and the new Stormwater Management Fund levies.

In addition, the individual tax levies of the Corporate, Construction, Reserve Claim, Corporate Working Cash and Construction Working Cash Funds have statutory limitations. The Corporate levy cannot exceed .46% 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 provided. However, the aggregate amount which may accumulate in the Reserve Claim Fund shall not exceed .05% of the equalized assessed valuation. Beginning with the 2005 tax levies, the Corporate levy limitation will be reduced to .41% of the equalized assessed valuation and the new Stormwater Management Fund levy will have a limitation of .05% of the equalized assessed valuation as a result of statutory changes.

## **15. Operating Leases**

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

2005	\$	3,374
2006		3,058
2007		2,862
2008		2,731
2009		2,670
Later Years		74,040

## **16. Subsequent Events**

On April 7, 2005 the Board of Commissioners approved two Ordinances authorizing the issuance of up to \$425,000,000 General Obligation Refunding Bonds, Unlimited Tax Series of [Month], 2005 and the issuance of up to \$75,000,000 General Obligation Refunding Bonds, Limited Tax Series of [Month], 2005. These Ordinances would provide the District the ability to act quickly to take advantage of favorable market conditions, should they arise, to refund the District's outstanding Series 2002 A and B bonds with traditional fixed-rate bonds and cancel their associated swap agreements and allow the District to restructure this financing into the fixed-rate bond market, retaining all or most of the structural savings obtained by using the variable rate bonds.

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

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

Year ended December 31, 2004

### Modified Approach for Eligible Infrastructure Assets

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

1. Central WRP Basin All systems, subsystems and components associated with the Stickney WRP service area (excluding Waterways Network assets).
2. North Side WRP Basin All systems, subsystems and components associated with the North Side WRP service area (excluding Waterways Network assets).
3. Calumet WRP Basin All systems, subsystems and components associated with the Calumet WRP service area (excluding Waterways Network assets and Lemont Network).
4. Egan WRP Basin All systems, subsystems and components associated with the Egan WRP service area (excluding Waterways Network assets).
5. Kirie WRP Basin All systems, subsystems and components associated with the Kirie WRP service area (excluding Waterways Network assets).
6. Hanover Park WRP Basin All systems, sub-systems, and components associated with the Hanover Park WRP service area (excluding Waterways Network assets).
7. Lemont WRP Basin All systems, subsystems and components associated with the Lemont WRP service area (excluding Waterways Network assets).
8. Waterways Consists of 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>Asset Condition</b>	<b>Assessment Description</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 preventive maintenance 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 and Hanover WRP networks were completed in 2002 and 2003, respectively, while the Egan and North Side WRP networks' initial condition assessments were completed in 2004. The initial assessments for the remaining networks are scheduled as follows:

Central WRP and Waterway Networks	2005
Calumet and Lemont WRP Networks	2006

Condition assessments of each network will continue at least every three years following the initial assessment.

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

Year ended December 31, 2004

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

	<u>Collection Processes System</u>	<u>Treatment Processes System</u>	<u>Solids Processing System</u>	<u>Flood and Pollution Control System</u>	<u>Solids Drying/Utilization System</u>
<b><u>Condition Assessment Ratings</u></b>					
<b>Kirie WRP Network</b>					
Initial Condition Assessment - 2002	3	3	2	2	NA
<b>Hanover WRP Network</b>					
Initial Condition Assessment - 2003	2	2	2	NA	2
<b>Egan WRP Network</b>					
Initial Condition Assessment - 2004	2	2	2	2	NA
<b>Northside WRP Network</b>					
Initial Condition Assessment - 2004	3	3	3	2	NA
<b><u>Maintenance/Preservation Costs</u></b>					
<b>Kirie WRP Network</b>					
Estimated 2004	\$ 497,904	\$ 2,542,711	\$ 9,000	\$ 7,500	NA
Actual 2004	630,803	1,902,280	8,514	4,755	NA
Estimated Year 2003	\$ 840,592	\$ 1,073,965	\$ 23,739	\$ 32,476	NA
Actual Year 2003	621,688	622,847	4,677	23,660	NA
Estimated 2002	\$ 535,283	\$ 2,222,180	\$ 3,897	\$ 6,908	NA
Actual 2002	566,934	1,639,330	3,498	7,477	NA
<b>Hanover WRP Network</b>					
Estimated 2004	\$ 172,682	\$ 1,346,374	\$ 179,246	NA	\$ 46,700
Actual 2004	176,831	1,106,536	154,638	NA	52,622
Estimated Year 2003	\$ 163,423	\$ 680,542	\$ 189,289	NA	\$ 83,405
Actual Year 2003	167,317	741,499	168,123	NA	62,570
<b>Egan WRP Network</b>					
Estimated 2004	\$ 1,103,505	\$ 1,767,877	\$ 473,487	\$ 72,800	NA
Actual 2004	765,214	1,637,495	676,192	65,681	NA
<b>Northside WRP Network</b>					
Estimated 2004	\$ 3,683,361	\$ 4,898,752	\$ 783,180	\$ 27,600	NA
Actual 2004	3,618,074	4,627,969	881,502	27,358	NA



**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)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a/c)</b>
12/31/04	\$ 1,161,779	\$ 1,578,367	\$ 416,588	73.60%	\$ 146,360	284.63%
12/31/03	1,146,521	1,517,869	371,348	75.53%	142,594	260.42%
12/31/02	1,136,907	1,470,939	334,032	77.29%	137,680	242.61%

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## **OTHER SUPPLEMENTAL INFORMATION**

### **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 B-1**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>			Actual Variance with Final Budget - Positive (Negative)	
	Budget Amounts				
	Original	Net Transfers	Final		
Board of Commissioners:					
Personal services					
Salaries of regular employees	\$ 2,842	\$ (20)	\$ 2,822	\$ 2,603	\$ 219
Compensation plan adjustments	57	22	79	79	-
Tuition and training payments	2	3	5	4	1
Payment for professional services	637	(2)	635	585	50
Personal services n.o.c.*	257	(3)	254	251	3
Total personal services	3,795	-	3,795	3,522	273
Contractual services					
Travel	9	-	9	6	3
Meals and lodging	8	2	10	9	1
Postage, freight and delivery charges	1	-	1	-	1
Motor vehicle operating services	1	-	1	-	1
Reprographic services	6	(2)	4	2	2
Contractual services n.o.c.	1	-	1	-	1
Total contractual services	26	-	26	17	9
Materials and supplies					
Office, printing and photographic supplies	25	-	25	5	20
Materials and supplies n.o.c.	2	-	2	1	1
Total materials and supplies	27	-	27	6	21
Board of Commissioners total	3,848	-	3,848	3,545	303
General Administration:					
Personal Services					
Salaries of regular employees	10,049	(47)	10,002	10,002	-
Compensation plan adjustments	439	174	613	613	-
Salaries of non-budgeted employees	-	1	1	1	-
Tuition and training payments	108	(56)	52	45	7
Payment for professional services	517	(171)	346	180	166
Personal services n.o.c.	172	52	224	224	-
Total personal services	11,285	(47)	11,238	11,065	173
Contractual services					
Travel	19	-	19	5	14
Meals and lodging	39	-	39	24	15
Postage, freight, and delivery charges	213	-	213	206	7
Compensation for personally owned autos	16	1	17	17	-

*(continued)*

\* n.o.c = not otherwise classified

*Metropolitan Water Reclamation District of Greater Chicago*

*(in thousands of dollars)*

<b>Corporate Division</b>	<b>Budget Amounts</b>			<b>Actual Amounts</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Net Transfers</b>	<b>Final</b>		
General Administration (continued):					
Motor vehicle operating expenses	\$ 141	\$ -	\$ 141	\$ 117	\$ 24
Reprographic services	76	7	83	76	7
Electrical energy	422	(42)	380	364	16
Natural gas	50	-	50	31	19
Water and water services	4	-	4	3	1
Communications services	4	(3)	1	-	1
Subscriptions and membership dues	296	38	334	334	-
Rental charges	17	-	17	13	4
Administration building operation	642	-	642	616	26
Administrative building operation annex	692	159	851	834	17
Contractual services n.o.c	212	-	212	167	45
Waste material disposal charges	78	-	78	23	55
Repairs to buildings	426	(170)	256	240	16
Safety repairs and services	277	52	329	149	180
Repairs to office furniture and equipment	219	-	219	163	56
Computer software maintenance	13	6	19	12	7
Repairs to vehicle equipment	561	-	561	370	191
Repairs n.o.c.	5	(1)	4	-	4
Total contractual services	4,422	47	4,469	3,764	705
Materials and supplies					
Electrical parts and supplies	14	58	72	64	8
Plumbing accessories and supplies	5	-	5	3	2
Hardware	6	-	6	5	1
Buildings, grounds, paving materials and supplies	2	-	2	-	2
Office, printing and photographic supplies	222	(14)	208	152	56
Wearing apparel	33	-	33	27	6
Books, maps and charts	67	(31)	36	35	1
Safety and medical supplies	167	-	167	167	-
Computer software	15	(12)	3	2	1
Computer supplies	5	-	5	3	2
Materials and supplies n.o.c.	44	(1)	43	19	24
Total materials and supplies	580	-	580	477	103
Machinery and equipment					
Office furniture and equipment	200	(25)	175	-	175
Computer equipment	80	-	80	-	80
Vehicle equipment	1,065	-	1,065	173	892
Machinery and equipment n.o.c.	10	25	35	30	5
Total machinery and equipment	1,355	-	1,355	203	1,152
General Administration total	17,642	-	17,642	15,509	2,133

*(continued)*

**Exhibit B-1 (continued)**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>			Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
	Budget Amounts				
	Original	Net Transfers	Final		
Research and Development:					
Personal services					
Salaries of regular employees	\$ 21,249	\$ (28)	\$ 21,221	\$ 20,430	\$ 791
Compensation plan adjustments	837	(17)	820	575	245
Salaries of non-budgeted employees	10	-	10	5	5
Tuition and training payments	80	(14)	66	34	32
Payment for professional services	440	115	555	476	79
Personal services n.o.c.	270	42	312	310	2
Total personal services	22,886	98	22,984	21,830	1,154
Contractual services					
Travel	16	-	16	13	3
Meals and lodging	49	1	50	47	3
Postage, freight and delivery charges	9	-	9	7	2
Compensation for personally owned autos	28	3	31	31	-
Motor vehicle operating services	4	-	4	1	3
Reprographic services	5	3	8	3	5
Electrical energy	12	-	12	10	2
Natural gas	3	-	3	2	1
Communication services	2	-	2	-	2
Rental charges	49	(12)	37	17	20
Governmental services charges	82	19	101	92	9
Contractual services n.o.c.	441	11	452	389	63
Repairs to buildings	2	(2)	-	-	-
Repairs to marine equipment	50	23	73	57	16
Computer equipment maintenance	1	-	1	-	1
Computer software maintenance	267	(33)	234	99	135
Communication equipment maintenance	5	-	5	3	2
Repairs to testing and laboratory equipment	491	(11)	480	368	112
Repairs to n.o.c.	17	-	17	9	8
Total contractual services	1,533	2	1,535	1,148	387
Materials and supplies					
Electrical parts and supplies	24	(23)	1	-	1
Office, printing and photographic supplies	45	-	45	30	15
Farming supplies	11	-	11	4	7
Laboratory testing supplies and small equipment	491	(19)	472	307	165
Wearing apparel	24	1	25	14	11
Books, maps and charts	4	-	4	1	3
Computer software	-	3	3	3	-
Computer supplies	5	-	5	2	3
Fuel	20	-	20	14	6
Communications supplies	3	-	3	-	3
Materials and supplies n.o.c.	88	-	88	37	51
Total materials and supplies	715	(38)	677	412	265

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

Corporate Division	Budget Amounts			Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
	(in thousands of dollars)				
	Original	Net Transfers	Final		
Research and Development (continued):					
Machinery and equipment					
Computer equipment	\$ 45	\$ -	\$ 45	\$ -	\$ 45
Testing and laboratory equipment	550	(62)	488	170	318
Total machinery and equipment	595	(62)	533	170	363
Research and Development total	25,729	-	25,729	23,560	2,169
Purchasing:					
Personal services					
Salaries of regular employees	4,426	(44)	4,382	4,273	109
Compensation plan adjustments	159	-	159	51	108
Tuition and training payments	13	-	13	2	11
Payments for professional services	100	-	100	-	100
Personal services n.o.c.	59	44	103	98	5
Total personal services	4,757	-	4,757	4,424	333
Contractual services					
Travel	2	-	2	-	2
Meals and lodging	4	-	4	2	2
Compensation for personally owned autos	2	-	2	1	1
Motor vehicle operating services	1	-	1	-	1
Testing and inspection services	2	-	2	-	2
Advertising	216	(6)	210	136	74
Contractual services n.o.c.	-	6	6	5	1
Repairs to buildings	3	-	3	-	3
Repairs to office furniture and equipment	5	-	5	3	2
Computer software maintenance	5	-	5	-	5
Communication equipment maintenance	2	-	2	2	-
Repairs to vehicle equipment	6	-	6	1	5
Repairs n.o.c.	4	-	4	2	2
Total contractual services	252	-	252	152	100
Materials and supplies					
Metals	123	(1)	122	101	21
Electrical parts and supplies	335	(28)	307	190	117
Plumbing accessories and supplies	230	-	230	196	34
Hardware	75	-	75	68	7
Buildings, grounds, paving materials and supplies	135	-	135	96	39
Fiber, paper and insulation materials	35	-	35	23	12
Paints, solvents, and related materials	40	-	40	35	5
Vehicle parts and supplies	9	-	9	4	5

(continued)

**Exhibit B-1 (continued)**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>				Actual Variance with Final Budget - Positive (Negative)
	Budget Amounts			Actual Amounts	
	Original	Net Transfers	Final		
Purchasing (continued):					
Mechanical and repair parts	\$ 110	\$ 1	\$ 111	\$ 103	\$ 8
Office, printing and photographic supplies	207	-	207	119	88
Laboratory testing supplies and small equipment	431	15	446	430	16
Cleaning supplies	280	-	280	227	53
Tools and supplies	140	-	140	104	36
Wearing apparel	118	-	118	99	19
Safety and medical supplies	60	3	63	61	2
Computer supplies	228	-	228	93	135
Fuel	325	10	335	330	5
Gas (in containers)	75	-	75	39	36
Communications supplies	13	-	13	5	8
Lubricants	180	-	180	111	69
Materials and supplies n.o.c.	15	-	15	3	12
Total materials and supplies	3,164	-	3,164	2,437	727
Purchasing total	8,173	-	8,173	7,013	1,160
Personnel:					
Personal services					
Salaries of regular employees	3,622	(294)	3,328	3,328	-
Compensation plan adjustments	169	-	169	110	59
Social security and medicare contributions	1,600	92	1,692	1,686	6
Salaries of non-budgeted employees	10	(10)	-	-	-
Employee claims	90	-	90	52	38
Tuition and training payments	363	(103)	260	260	-
Payment for professional services	742	(304)	438	438	-
Health and life insurance premiums	29,138	611	29,749	29,749	-
Personal services n.o.c.	39	8	47	47	-
Total personal services	35,773	-	35,773	35,670	103
Contractual services					
Travel	6	(2)	4	3	1
Meals and lodging	13	-	13	10	3
Postage, freight and delivery charges	8	-	8	5	3
Compensation for personally owned autos	4	2	6	5	1
Court reporting services	50	-	50	9	41
Medical services	157	-	157	126	31
Rental charges	10	-	10	8	2

*(continued)*



*Metropolitan Water Reclamation District of Greater Chicago*

<b>Corporate Division</b>	<b>Budget Amounts</b>			<b>Actual Amounts</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<i>(in thousands of dollars)</i>				
	<b>Original</b>	<b>Net Transfers</b>	<b>Final</b>		
Personnel (continued):					
Contractual services n.o.c	\$ 17	\$ -	\$ 17	\$ 15	\$ 2
Computer software maintenance	44	-	44	6	38
Communication equipment maintenance	3	-	3	-	3
Total contractual services	312	-	312	187	125
Materials and supplies					
Office, printing and photographic supplies	6	-	6	2	4
Books, maps, and charts	18	-	18	9	9
Computer software	1	-	1	-	1
Computer supplies	12	-	12	9	3
Materials and supplies n.o.c.	14	-	14	1	13
Total materials and supplies	51	-	51	21	30
Personnel total	36,136	-	36,136	35,878	258
Information Technology:					
Personal services					
Salaries of regular employees	5,390	(157)	5,233	5,113	120
Compensation plan adjustments	141	157	298	261	37
Salaries of non-budgeted employees	286	(4)	282	117	165
Payment for professional services	1,060	(220)	840	377	463
Personal services n.o.c.	42	19	61	58	3
Total personal services	6,919	(205)	6,714	5,926	788
Contractual services					
Travel	16	-	16	9	7
Meals and lodging	29	-	29	14	15
Compensation for personally owned autos	6	-	6	5	1
Communication services	748	20	768	747	21
Subscription and membership dues	10	-	10	4	6
Contractual services n.o.c	20	-	20	-	20
Computer equipment maintenance	437	(47)	390	346	44
Computer software maintenance	929	(139)	790	770	20
Communication equipment maintenance	366	370	736	654	82
Repairs n.o.c.	1	-	1	-	1
Total contractual services	2,562	204	2,766	2,549	217
Materials and supplies					
Office, printing and photographic supplies	27	(19)	8	7	1
Books, maps and charts	5	(4)	1	-	1
Computer software	937	(403)	534	534	-
Computer supplies	739	15	754	742	12
Communication supplies	344	51	395	353	42
Total materials and supplies	2,052	(360)	1,692	1,636	56

*(continued)*

**Exhibit B-1 (continued)**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>			Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
	Budget Amounts				
	Original	Net Transfers	Final		
Information Technology (continued):					
Machinery and equipment					
Office furniture and equipment	\$ -	13	\$ 13	\$ 13	
Computer equipment	200	360	560	533	27
Computer software	272	(116)	156	96	60
Communication equipment	70	104	174	174	-
Total machinery and equipment	542	361	903	816	87
Information Technology total	12,075	-	12,075	10,927	1,148
Law:					
Personal Services					
Salaries of regular employees	3,886	-	3,886	3,851	35
Compensation plan adjustments	277	(225)	52	45	7
Tuition and training payments	7	-	7	4	3
Payment for professional services	915	165	1,080	762	318
Personal services n.o.c.	31	-	31	28	3
Total personal services	5,116	(60)	5,056	4,690	366
Contractual services					
Travel	6	-	6	5	1
Meals and lodging	2	1	3	2	1
Compensation for personally owned autos	3	-	3	2	1
Reprographic services	11	-	11	10	1
Communication services	2	-	2	-	2
Court reporting services	32	-	32	22	10
Insurance premiums	125	60	185	159	26
Contractual services n.o.c.	101	(4)	97	88	9
Computer equipment maintenance	1	-	1	-	1
Communication equipment maintenance	3	-	3	2	1
Total contractual services	286	57	343	290	53
Materials and supplies					
Office, printing and photographic supplies	2	-	2	2	-
Books, maps and charts	28	3	31	31	-
Materials and supplies n.o.c.	2	-	2	2	-
Total materials and supplies	32	3	35	35	-
Law total	5,434	-	5,434	5,015	419
Finance:					
Personal services					
Salaries of regular employees	\$ 2,726	\$ -	\$ 2,726	\$ 2,647	\$ 79
Compensation plan adjustments	129	(1)	128	45	83
Tuition and training payments	28	-	28	15	13

*(continued)*

Metropolitan Water Reclamation District of Greater Chicago

(in thousands of dollars)

<b>Corporate Division</b>	<b>Budget Amounts</b>			<b>Actual Amounts</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Net Transfers</b>	<b>Final</b>		
Finance (continued):					
Payment for professional services	\$ 508	\$ -	\$ 508	\$ 217	\$ 291
Personal services n.o.c.	39	1	40	39	1
Total personal services	3,430	-	3,430	2,963	467
Contractual services					
Travel	5	-	5	1	4
Meals and lodging	11	-	11	5	6
Postage, freight and delivery charges	1	-	1	1	-
Compensation for personally owned autos	3	-	3	1	2
Reprographic services	42	-	42	9	33
Communication services	1	-	1	1	-
Court reporting services	45	-	45	43	2
Contractual services n.o.c.	7	-	7	1	6
Repairs to office furniture and equipment	3	-	3	-	3
Total contractual services	118	-	118	62	56
Materials and supplies					
Office, printing and photographic supplies	4	-	4	3	1
Computer software	20	-	20	-	20
Total materials and supplies	24	-	24	3	21
Finance total	3,572	-	3,572	3,028	544
Engineering:					
Personal services					
Salaries of regular employees	2,280	101	2,381	2,333	48
Compensation plan adjustments	186	(90)	96	35	61
Tuition and training payments	25	(17)	8	3	5
Payments for professional services	58	29	87	68	19
Personal services n.o.c.	35	-	35	31	4
Personal service expense for preliminary engineering reports and studies	50	52	102	46	56
Total personal services	2,634	75	2,709	2,516	193
Contractual services					
Travel	2	-	2	1	1
Meals and lodging	3	-	3	3	-
Compensation for personally owned autos	2	-	2	2	-
Soil and rock mechanics investigation	-	187	187	72	115
Contractual services n.o.c.	-	-	-	-	-
Repairs to collection facilities	77	25	102	49	53
Repairs to waterway facilities	290	-	290	-	290
Repairs to process facilities	4,667	-	4,667	2,733	1,934
Repairs to buildings	6,091	(287)	5,804	885	4,919

(continued)

**Exhibit B-1 (continued)**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>			Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
	Budget Amounts				
	Original	Net Transfers	Final		
Engineering (continued):					
Repairs to testing and laboratory equipment	\$ 1	\$ -	\$ 1	\$ -	\$ 1
Repairs n.o.c.	3	-	3	1	2
Total contractual services	11,136	(75)	11,061	3,746	7,315
Materials and supplies					
Office, printing and photographic supplies	48	-	48	-	48
Wearing apparel	8	-	8	5	3
Books, maps and charts	1	-	1	-	1
Materials and supplies n.o.c.	3	-	3	1	2
Total materials and supplies	60	-	60	6	54
Machinery and equipment					
Office furniture and equipment	7	-	7	-	7
Total machinery and equipment	7	-	7	-	7
Engineering total	13,837	-	13,837	6,268	7,569
Maintenance and Operations:					
Personal services					
Salaries of regular employees	76,360	(430)	75,930	74,668	1,262
Compensation plan adjustments	3,851	390	4,241	3,375	866
Salaries of non-budgeted employees	100	-	100	66	34
Tuition and training payments	67	1	68	45	23
Payment for professional services	370	35	405	271	134
Personal services n.o.c.	544	39	583	507	76
Total personal services	81,292	35	81,327	78,932	2,395
Contractual services					
Travel	19	-	19	7	12
Meals and lodging	41	2	43	39	4
Compensation for personally owned autos	319	(2)	317	218	99
Motor vehicle operating services	5	-	5	-	5
Electrical energy	29,026	(225)	28,801	27,903	898
Natural gas	1,759	633	2,392	2,351	41
Water and water services	540	185	725	670	55
Communications services	309	(2)	307	281	26
Testing and inspection services	199	(17)	182	136	46
Rental charges	299	(12)	287	195	92
Governmental service charges	2,067	619	2,686	2,668	18
Maintenance of grounds and pavements	1,983	(72)	1,911	1,709	202
Contractual services n.o.c.	857	158	1,015	711	304
Liquid fertilizer application services	381	45	426	422	4
Waste material disposal charges	19,496	(212)	19,284	17,017	2,267

*(continued)*

*Metropolitan Water Reclamation District of Greater Chicago*

<b>Corporate Division</b>	<b>Budget Amounts</b>			<b>Actual Amounts</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<b>Net</b>				
	<b>Original</b>	<b>Transfers</b>	<b>Final</b>		
<i>(in thousands of dollars)</i>					
Maintenance and Operations (continued):					
Farming services	\$ 12	\$ -	\$ 12	\$ 11	\$ 1
Repairs to collection facilities	5,192	(692)	4,500	3,291	1,209
Repairs to waterway facilities	415	(231)	184	171	13
Repairs to process facilities	7,887	350	8,237	6,153	2,084
Repairs to railroads	1,661	(111)	1,550	1,329	221
Repairs to buildings	2,898	(142)	2,756	2,373	383
Repairs to material handling and farm equipment	252	35	287	266	21
Safety repairs and services	294	-	294	249	45
Repairs to marine equipment	32	6	38	33	5
Repairs to office furniture and equipment	4	-	4	2	2
Computer equipment maintenance	1	-	1	1	-
Computer software maintenance	46	-	46	42	4
Communication equipment maintenance	131	-	131	91	40
Repairs to vehicle equipment	71	-	71	38	33
Repairs to testing and laboratory equipment	6	-	6	-	6
Repairs n.o.c.	66	(1)	65	40	25
Total contractual services	76,268	314	76,582	68,417	8,165
Materials and supplies					
Metals	47	3	50	29	21
Electrical parts and supplies	1,824	(26)	1,798	1,603	195
Plumbing accessories and supplies	912	17	929	721	208
Hardware	52	3	55	43	12
Buildings, grounds, paving materials and supplies	233	-	233	166	67
Fiber, paper and insulation materials	10	-	10	4	6
Paints, solvents, and related materials	5	-	5	5	-
Vehicle parts and supplies	185	-	185	146	39
Mechanical repair parts	4,494	1	4,495	3,233	1,262
Manhole materials	50	-	50	49	1
Office, printing and photographic supplies	68	13	81	51	30
Farming supplies	4	-	4	3	1
Processing chemicals	6,239	(402)	5,837	3,774	2,063
Laboratory testing supplies and small equipment	27	-	27	26	1
Cleaning supplies	20	-	20	10	10
Tools and supplies	258	4	262	204	58
Wearing apparel	7	-	7	5	2
Books, maps and charts	16	-	16	9	7
Safety and medical supplies	157	22	179	121	58
Computer software	12	-	12	-	12
Computer supplies	63	-	63	39	24
Fuel	280	-	280	207	73

*(continued)*

**Exhibit B-1 (continued)**

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

*Year ended December 31, 2004*

Corporate Division	<i>(in thousands of dollars)</i>			Actual Variance with Final Budget - Positive (Negative)	
	Budget Amounts				
	Original	Net Transfers	Final		Actual Amounts
Maintenance and Operations (continued):					
Gas (in containers)	\$ 44	\$ -	\$ 44	\$ 18	\$ 26
Communication supplies	176	(11)	165	69	96
Lubricants	34	-	34	12	22
Materials and supplies n.o.c.	142	10	152	116	36
Total materials and supplies	15,359	(366)	14,993	10,663	4,330
Machinery and equipment					
Equipment for collection facilities	105	(13)	92	40	52
Equipment for waterway facilities	-	-	-	-	-
Equipment for process facilities	635	17	652	431	221
Material handling and farming equipment	265	10	275	263	12
Marine equipment	69	7	76	37	39
Computer equipment	30	-	30	25	5
Vehicle equipment	5	(4)	1	-	1
Testing and laboratory equipment	15	-	15	8	7
Machinery and equipment n.o.c.	40	-	40	20	20
Total machinery and equipment	1,164	17	1,181	824	357
Fixed and other charges					
Charges, n.o.c.	50	-	50	-	50
Total fixed and other charges	50	-	50	-	50
Maintenance and Operations total	174,133	-	174,133	158,836	15,297
<b>Corporate Division Total</b>					
Total all departments:					
Personal services	177,887	(104)	177,783	171,538	6,245
Contractual services	96,915	549	97,464	80,332	17,132
Materials and supplies	22,064	(761)	21,303	15,696	5,607
Machinery and equipment	3,663	316	3,979	2,013	1,966
Fixed and other charges	50	-	50	-	50
Total Corporate Division	300,579	-	300,579	269,579	31,000
<b>Reserve Claim Division</b>					
Employee claims	7,000	-	7,000	3,152	3,848
General claims and emergency repair and replacement cost over \$10,000	26,000	-	26,000	677	25,323
Total Reserve Claim Division	33,000	-	33,000	3,829	29,171
<b>Total General Corporate Fund</b>	<b>\$ 333,579</b>	<b>\$ -</b>	<b>\$ 333,579</b>	<b>\$ 273,408</b>	<b>\$ 60,171</b>

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

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

(with comparative amounts for prior year)

	<i>(in thousands of dollars)</i>		<b>Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>	<b>Percent of Total 2004</b>
	<b>2004</b>	<b>2003</b>			
Personal services:					
Salaries and wages	\$ 134,439	\$ 132,010	\$ 2,429	2 %	49 %
Employee health and life insurance premiums	29,749	24,706	5,043	20	11
Payment for professional services	3,370	3,646	(276)	(8)	1
Social security and medicare contributions	1,686	1,615	71	4	1
Tuition and training payments	528	732	(204)	(28)	-
Other	1,763	1,715	48	3	1
<b>Total personal services</b>	<b>171,535</b>	<b>164,424</b>	<b>7,111</b>	<b>4</b>	<b>63</b>
Contractual services:					
Electrical energy	28,277	28,680	(403)	(1)	10
Natural gas	2,383	1,887	496	26	1
Postage freight and delivery charges	219	255	(36)	(14)	0
Biosolids application services	421	365	56	15	0
Waste material disposal charges	17,041	17,041	-	-	6
Administration building operation	1,450	1,172	278	24	1
Communication services	1,028	960	68	7	-
Farming services	11	12	(1)	(8)	-
Court reporting services	75	93	(18)	(19)	-
Water and water services	673	552	121	22	-
Motor vehicle operating services	120	121	(1)	(1)	-
Employee travel and transportation	484	503	(19)	(4)	-
Rental charges	232	179	53	30	-
Maintenance of grounds and pavements	1,709	1,569	140	9	1
Governmental service charges	2,760	1,992	768	39	1
Repairs to process facilities	8,887	6,219	2,668	43	3
Other repairs	12,108	10,541	1,567	15	5
Other contractual services	2,440	2,346	94	4	1
<b>Total contractual services</b>	<b>80,318</b>	<b>74,487</b>	<b>5,831</b>	<b>8</b>	<b>29</b>
Materials and supplies:					
Processing chemicals	3,775	4,227	(452)	(11)	2
Laboratory testing supplies	754	911	(157)	(17)	-
Mechanical repair parts	3,801	4,361	(560)	(13)	2
Fuels and lubricants	727	698	29	4	-
Electrical parts and supplies	1,698	1,481	217	15	1
Plumbing accessories and supplies	662	822	(160)	(19)	-
Office, printing and photographic supplies	346	372	(26)	(7)	-
Buildings, grounds, paving materials and supplies	271	324	(53)	(16)	-
Cleaning supplies	241	250	(9)	(4)	-
Metals	124	124	-	-	-
Computer supplies	862	991	(129)	(13)	-
Other materials and supplies	3,205	2,403	802	33	1
<b>Total materials and supplies</b>	<b>16,466</b>	<b>16,964</b>	<b>(498)</b>	<b>(3)</b>	<b>6</b>

(Continued)

**Exhibit B-2 (continued)**  
**General Corporate Fund-Corporate and Reserve Claim Divisions**  
**Schedule of Expenditures by Type-GAAP Basis**

*Year ended December 31, 2004*  
*(with comparative amounts for prior year)*

*Metropolitan Water Reclamation District of Greater Chicago*

	<i>(in thousands of dollars)</i>				
	<b>2004</b>	<b>2003</b>	<b>Increase (Decrease)</b>	<b>Percent Increase (Decrease)</b>	<b>Percent of Total 2004</b>
Machinery and equipment:					
Material handling and farming equipment	\$ 263	\$ 268	\$ (5)	(2) %	- %
Vehicle equipment	173	1,011	(838)	(83)	1
Office furniture and equipment	13	178	(165)	(93)	-
Testing and laboratory equipment	178	308	(130)	(42)	-
Equipment for collection facilities	28	11	17	155	-
Equipment for process facilities	376	902	(526)	(58)	-
Computer equipment	420	1,371	(951)	(69)	-
Computer software	96	139	(43)	(31)	-
Communication equipment	174	20	154	770	-
Other machinery and equipment	86	79	7	9	-
Total machinery and equipment	<u>1,807</u>	<u>4,287</u>	<u>(2,480)</u>	(58)	<u>1</u>
Claims and judgments	<u>3,829</u>	<u>2,972</u>	<u>857</u>	29	<u>1</u>
Total expenditures	<u>\$ 273,955</u>	<u>\$ 263,134</u>	<u>\$ 10,821</u>	4 %	<u>100 %</u>



## **SPECIAL REVENUE FUND**

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

### **Retirement Fund**

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

**Exhibit C-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, 2004*

<b>Retirement Fund</b>	<b>Actual on Budgetary Basis</b>	<b>Final Budget</b>	<b>Actual Variance with Final Budget - Positive (Negative)</b>
Revenues:			
Property taxes	\$ 24,440	\$ 25,076	\$ (636)
Personal property replacement tax	3,505	3,505	-
Total tax revenue	<u>27,945</u>	<u>28,581</u>	<u>(636)</u>
Operating expenditures:			
Pension costs	<u>27,945</u>	<u>28,581</u>	<u>636</u>
Total expenditures	<u>27,945</u>	<u>28,581</u>	<u>636</u>
Revenues over (under) expenditures	-	-	-
Fund balances at beginning of year	-	-	-
Fund balances at end of 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 D-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, 2004*

	<u>Actual on Budgetary Basis</u>	<u>Final Budget</u>	<u>Actual Variance with Final Budget - Positive (Negative)</u>
Revenues:			
Property taxes	\$ 148,817	\$ 149,748	\$ (931)
Total tax revenue	148,817	149,748	(931)
Interest on investments	1,734	1,700	34
Miscellaneous	<u>1,020</u>	<u>-</u>	<u>1,020</u>
Total revenues	151,571	151,448	123
Expenditures:			
Total expenditures	<u>154,508</u>	<u>157,422</u>	<u>2,914</u>
Revenues over (under) expenditures	(2,937)	(5,974)	3,037
Fund balances at beginning of year	<u>147,126</u>	<u>108,089</u>	<u>39,037</u>
Fund balances at end of the year	<u><u>\$ 144,189</u></u>	<u><u>\$ 102,115</u></u>	<u><u>\$ 42,074</u></u>

## **CAPITAL PROJECTS FUNDS**

Funds established to account for all resources, principally property taxes, bond proceeds and construction grants, which are used for the acquisition of capital facilities.

The following funds are included in Capital Projects Funds:

### **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.

### **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.

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

Year ended December 31, 2004

	<i>(in thousands of dollars)</i>				<b>Actual Variance with Final Budget - Positive (Negative)</b>
	<b>Budget Amounts</b>			<b>Actual Amounts</b>	
	<b>Original</b>	<b>Net Transfers</b>	<b>Final</b>		
<b>Construction Fund:</b>					
Personal services					
Salaries of regular employees	\$ 8,964	\$ -	\$ 8,964	\$ 8,006	\$ 958
Compensation plan adjustments	500	-	500	246	254
Salaries of non-budgeted employees	-	-	-	-	-
Tuition and training payments	124	-	124	32	92
Payment for professional services	317	119	436	175	261
Health and life insurance	1,135	68	1,203	1,202	1
Personal services n.o.c.	78	34	112	90	22
Preliminary engineering reports and studies	7,869	(221)	7,648	4,311	3,337
Construction drawings, specifications and cost estimates	4,747	1,200	5,947	4,183	1,764
Aerial surveys and post construction awards	17	-	17	-	17
Post-award engineering for construction projects	930	-	930	141	789
	<u>24,681</u>	<u>1,200</u>	<u>25,881</u>	<u>18,386</u>	<u>7,495</u>
Total personal services					
Contractual services					
Travel	62	-	62	4	58
Meals and lodging	79	-	79	14	65
Postage and delivery charges	2	-	2	1	1
Compensation for personally owned autos	10	-	10	7	3
Motor vehicle operating services	-	2	2	1	1
Reprographic services	131	-	131	14	117
Water and water services	4	-	4	2	2
Testing and inspection services	279	-	279	-	279
Court reporting services	5	-	5	24	(19)
Rental charges	2	-	2	2	-
Soil and rock mechanics investigation	380	-	380	-	380
Contractual services n.o.c.	45	(2)	43	33	10
Computer software maintenance	25	-	25	19	6
Communications equipment maintenance	-	-	-	-	-
Repairs to testing and laboratory equipment	4	-	4	1	3
Repairs n.o.c.	15	-	15	8	7
	<u>1,043</u>	<u>-</u>	<u>1,043</u>	<u>130</u>	<u>913</u>
Total contractual services					
Materials and supplies					
Office, printing and photo supplies	154	98	252	43	209
Books, maps and charts	10	-	10	-	10
Computer software	-	8	8	5	3
Computer supplies	-	-	-	-	-
Materials and supplies n.o.c.	16	-	16	7	9
	<u>180</u>	<u>106</u>	<u>286</u>	<u>55</u>	<u>231</u>
Total materials and supplies					
Machinery and equipment					
Office furniture and equipment	20	(6)	14	-	14
Computer equipment	-	-	-	-	-
Computer software	29	-	29	25	4
Machinery and equipment n.o.c.	25	6	31	-	31
	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 74</u>	<u>\$ 25</u>	<u>\$ 49</u>

*(Continued)*

Metropolitan Water Reclamation District of Greater Chicago

(in thousands of dollars)

	<u>Budget Amounts</u>			<u>Actual Amounts</u>	<u>Actual Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Net</u>			
		<u>Transfers</u>	<u>Final</u>		
<b>Construction Fund (continued):</b>					
Capital Projects					
Collection facilities structures	\$ 4,145	\$ (1,306)	\$ 2,839	\$ 1,254	\$ 1,585
Process facilities structures	13,142	-	13,142	7,244	5,898
Buildings	1,430	-	1,430	423	1,007
Preservation of collection facility structures	13,644	-	13,644	5,786	7,858
Preservation of process facility structures	4,871	-	4,871	3,005	1,866
Preservation of buildings	375	-	375	-	375
Total capital projects	<u>37,607</u>	<u>(1,306)</u>	<u>36,301</u>	<u>17,712</u>	<u>18,589</u>
<b>Construction Fund Summary:</b>					
Personal services	24,681	1,200	25,881	18,386	7,495
Contractual services	1,043	-	1,043	130	913
Material and supplies	180	106	286	55	231
Machinery and equipment	74	-	74	25	49
Capital projects	<u>37,607</u>	<u>(1,306)</u>	<u>36,301</u>	<u>17,712</u>	<u>18,589</u>
Construction Fund total	<u>63,585</u>	<u>-</u>	<u>63,585</u>	<u>36,308</u>	<u>27,277</u>
<b>Capital Improvements Bond Fund</b>					
Personal services	28,650	-	28,650	15,634	13,016
Contractual services	629	-	629	-	629
Machinery and equipment	100	-	100	-	100
Capital projects	269,464	(260)	269,204	97,296	171,908
Land	200	260	460	271	189
Fixed and other charges	<u>50</u>	<u>-</u>	<u>50</u>	<u>15</u>	<u>35</u>
Capital Improvements Bond Fund total *	<u>299,093</u>	<u>-</u>	<u>299,093</u>	<u>113,216</u>	<u>185,877</u>
Capital Projects Funds total	<u>\$ 362,678</u>	<u>\$ -</u>	<u>\$ 362,678</u>	<u>\$ 149,524</u>	<u>\$ 213,154</u>

\* 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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## **OTHER FINANCIAL INFORMATION**

**Exhibit F-1****Combined Schedules of Property Tax Levies, Allowances, Collections and Receivables  
—All Governmental Fund Types***Levy Years 1999-2004**(in thousands of dollars)*

	Cumulative as of December 31, 2004		2004		2003	
	Amount	%	Amount	%	Amount	%
<b>Gross property tax levy</b>						
General Corporate Fund:						
Corporate	\$1,001,927	44.5	\$198,498	48.2	\$180,310	45.3
Corporate Working Cash	20,495	0.9	-	-	4,645	1.2
Reserve Claim	25,637	1.1	5,142	1.2	4,645	1.2
Total General Corporate Fund	1,048,059	46.5	203,640	49.4	189,600	47.7
Other Governmental Fund:						
Retirement Fund	153,780	6.8	28,247	6.8	25,958	6.5
Debt Service Fund	870,472	38.5	166,152	40.2	157,334	39.5
Construction Fund:						
Construction	178,901	7.9	14,847	3.6	25,170	6.3
Construction Working Cash	7,531	0.3	-	-	-	-
Total Construction Fund	186,432	8.2	14,847	3.6	25,170	6.3
Total Gross Levy - All Funds	2,258,743	100.0	412,886	100.0	398,062	100.0
Less allowance for uncollectible taxes at December 31, 2004	62,560	2.8	14,451	3.5	13,933	3.5
Estimated property taxes to be collected	2,196,183	97.2	398,435	96.5	384,129	96.5
Collections by year (percent shown is percent of estimated property taxes to be collected):						
First year	1,771,067	80.6	-	-	375,549	97.8
Second year	28,319	1.3	-	-	-	-
Third year	(2,880)	(0.1)	-	-	-	-
Fourth year	(1,911)	(0.1)	-	-	-	-
Fifth year	(5,427)	(0.2)	-	-	-	-
Total collections through December 31, 2004	1,789,168	81.5	-	-	375,549	97.8
Property taxes receivable, net	\$ 407,015	18.5	\$398,435	100.0	\$ 8,580	2.2
<b>Property taxes receivable, net - by fund</b>						
General Corporate Fund:						
Corporate	\$ 195,437		\$191,549		\$ 3,888	
Corporate Working Cash	100		-		100	
Reserve Claim	5,063		4,963		100	
Total General Corporate Fund	200,600		196,512		4,088	
Other Governmental Fund:						
Retirement Fund	27,818		27,259		559	
Debt Service Fund	163,728		160,337		3,391	
Construction Fund	14,869		14,327		542	
Property taxes receivable, net	\$ 407,015		\$398,435		\$ 8,580	

Metropolitan Water Reclamation District of Greater Chicago

Levy Years							
2002		2001		2000		1999	
Amount	%	Amount	%	Amount	%	Amount	%
\$168,279	44.2	\$158,870	42.6	\$153,732	43.3	\$142,238	42.0
4,276	1.1	4,043	1.1	3,838	1.1	3,693	1.1
4,276	1.1	4,043	1.1	3,838	1.1	3,693	1.1
176,831	46.4	166,956	44.8	161,408	45.5	149,624	44.2
24,825	6.5	24,662	6.6	23,009	6.5	27,079	8.0
149,169	39.1	146,606	39.4	129,151	36.4	122,060	36.0
30,702	8.0	34,325	9.2	37,490	10.5	36,367	10.7
-	-	-	-	3,838	1.1	3,693	1.1
30,702	8.0	34,325	9.2	41,328	11.6	40,060	11.8
\$381,527	100.0	372,549	100.0	354,896	100.0	338,823	100.0
4,401	1.2	4,641	1.2	12,109	3.4	13,025	3.8
377,126	98.8	367,908	98.8	342,787	96.6	325,798	96.2
369,667	98.0	361,145	98.2	338,078	98.6	326,628	100.3
7,459	2.0	7,512	2.0	6,838	2.0	6,510	2.0
-	-	(749)	(0.2)	(1,216)	(0.3)	(915)	(0.3)
-	-	-	-	(913)	(0.3)	(998)	(0.3)
-	-	-	-	-	-	(5,427)	(1.7)
377,126	100.0	367,908	100.0	342,787	100.0	325,798	100.0
\$ -	-	\$ -	-	\$ -	-	\$ -	-
\$ -	-	\$ -	-	\$ -	-	\$ -	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	-	\$ -	-	\$ -	-	\$ -	-

**Exhibit F-2**  
**Combined Schedules of Cash Receipts and Disbursements**  
**—All Governmental Fund Types**

Year ended December 31, 2004  
(with comparative amounts for prior year)

(in thousands of dollars)

	<b>General</b>		<b>Debt</b>	
	<b>Corporate Fund</b>		<b>Service Fund</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Cash Receipts:</b>				
Property tax collections	\$ 179,242	\$ 170,609	\$ 148,816	\$ 144,107
Personal property replacement tax collections	19,587	16,812	-	-
Government grants:				
Federal	1	-	-	-
State	-	-	-	-
State revolving fund loan proceeds	-	-	-	-
Interest on investments	1,948	1,522	4,162	3,502
Investments matured and sold	4,395,688	6,145,964	619,089	760,341
User charges	48,012	48,929	-	-
Working cash advances	202,400	174,100	-	-
Working cash repayments	174,100	175,353	-	-
Net interfund advances	(1,076)	376	-	-
Transfers from Escrow Agent	-	-	2,904	-
Proceeds from bond sales	-	-	-	14,581
Transfers	-	35,000	-	-
Claim and damage settlements	99	98	-	-
TIF distributions	897	793	-	-
Sewer service agreements and impact fees	773	704	-	-
Rental income	6,143	5,307	-	-
Proceeds from sale of land	1,840	288	-	-
Proceeds from sale of equipment	819	-	-	-
Proceeds from Forest Preserve Escrow Deposit	-	-	-	-
Miscellaneous	3,926	3,546	92	1,023
<b>Total cash receipts</b>	<b>5,034,399</b>	<b>6,779,401</b>	<b>775,063</b>	<b>923,554</b>
<b>Cash Disbursements:</b>				
Payroll	143,747	134,443	-	-
Voucher expenditures	130,247	125,213	-	-
Land purchases	-	-	-	-
Transfers	-	-	-	-
Contributions to Retirement Fund	-	-	-	-
Bond redemption and related interest	-	-	154,694	158,543
Transfer to Escrow Agent	-	-	1,331	5,730
Investment purchases	4,384,931	6,167,581	619,278	756,139
Working cash advances	202,400	174,100	-	-
Working cash repayments	174,100	175,353	-	-
<b>Total cash disbursements</b>	<b>5,035,425</b>	<b>6,776,690</b>	<b>775,303</b>	<b>920,412</b>
Cash and restricted cash receipts in excess of (less than) disbursements	(1,026)	2,711	(240)	3,142
Cash and restricted cash at beginning of year	2,821	110	18,992	15,850
Cash and restricted cash at end of year	<u>\$ 1,795</u>	<u>\$ 2,821</u>	<u>\$ 18,752</u>	<u>\$ 18,992</u>

Metropolitan Water Reclamation District of Greater Chicago

<b>Construction Fund</b>		<b>Capital Improvements Bond Fund</b>		<b>Other Governmental / Retirement Fund</b>		<b>Totals</b>	
<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
\$ 23,420	\$ 29,463	\$ -	\$ -	\$ 24,441	\$ 23,934	\$ 375,919	\$ 368,113
2,605	2,918	-	-	3,505	3,227	25,697	22,957
-	-	-	4,836	-	-	1	4,836
-	-	-	63,302	-	-	-	63,302
-	-	80,131	-	-	-	80,131	-
1,146	1,205	7,272	6,672	-	-	14,528	12,901
2,680,974	3,887,510	2,740,744	3,358,752	-	-	10,436,495	14,152,567
-	1,500	-	-	-	-	48,012	50,429
16,700	25,100	-	-	-	-	219,100	199,200
25,100	31,743	-	-	-	-	199,200	207,096
1,251	(584)	(175)	208	-	-	-	-
-	-	-	-	-	-	2,904	-
-	-	-	131,419	-	-	-	146,000
-	-	-	-	-	-	-	35,000
-	-	300	-	-	-	399	98
-	-	-	-	-	-	897	793
362	445	-	-	-	-	1,135	1,149
-	-	-	-	-	-	6,143	5,307
1,734	-	-	-	-	-	3,574	288
-	-	-	-	-	-	819	-
-	-	1,398	-	-	-	1,398	-
14	21	-	-	-	-	4,032	4,590
<u>2,753,306</u>	<u>3,979,321</u>	<u>2,829,670</u>	<u>3,565,189</u>	<u>27,946</u>	<u>27,161</u>	<u>11,420,384</u>	<u>15,274,626</u>
8,613	8,378	6,547	5,931	-	-	158,907	148,752
26,250	26,546	95,636	116,827	-	-	252,133	268,586
-	-	271	34	-	-	271	34
-	35,000	-	-	-	-	-	35,000
-	-	-	-	27,946	27,161	27,946	27,161
-	-	-	-	-	-	154,694	158,543
-	-	-	-	-	-	1,331	5,730
2,676,783	3,852,646	2,730,385	3,439,344	-	-	10,411,377	14,215,710
16,700	25,100	-	-	-	-	219,100	199,200
25,100	31,743	-	-	-	-	199,200	207,096
<u>2,753,446</u>	<u>3,979,413</u>	<u>2,832,839</u>	<u>3,562,136</u>	<u>27,946</u>	<u>27,161</u>	<u>11,424,959</u>	<u>15,265,812</u>
(140)	(92)	(3,169)	3,053	-	-	(4,575)	8,814
156	248	3,254	201	-	-	25,223	16,409
<u>\$ 16</u>	<u>\$ 156</u>	<u>\$ 85</u>	<u>\$ 3,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,648</u>	<u>\$ 25,223</u>

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# III. STATISTICAL AND DEMOGRAPHICS SECTION



*The Metropolitan water Reclamation District of Greater Chicago has an impressive safety record. In this photo, George Hiles (center, representing the Illinois Safety Council) presents a plaque recognizing the District for providing a safe work environment for its employees to (from left) Edward Karpinski of the Safety Section, Commissioner Gloria Alitto Majewski, Commissioner Barbara McGowan and Chief of Maintenance and Operations Thomas K. O'Connor.*

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# Statistical and Demographics Section

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.

## Exhibits

### **G-1 through G-4**

### **G-5 through G-9**

### **G-10 through G-12**

### **G-13 through G-14**

### **G-15 through G-17**

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

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

**Exhibit G-1**  
**Net Assets by Component**

*Years ended December 31, 2004-2001*

*Metropolitan Water Reclamation District of Greater Chicago*

*(in thousands of dollars)*

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Invested in capital assets, net of related debt	\$ 1,921,730	\$ 1,373,683	\$ 1,260,463	\$ 998,609
Restricted				
Restricted for corporate working cash	236,294	236,068	196,110	191,639
Restricted for debt service	297,800	290,794	283,288	249,368
Restricted for capital projects	16,268	53,931	56,835	30,444
Restricted for construction working cash	50,132	49,880	84,501	84,184
Restricted for pension	44,590	-	-	-
Unrestricted	<u>8,862</u>	<u>27,441</u>	<u>34,027</u>	<u>62,257</u>
Total net assets as restated	<u><u>\$2,575,676</u></u>	<u><u>\$2,031,797</u></u>	<u><u>\$1,915,224</u></u>	<u><u>\$1,616,501</u></u>

## Exhibit G-2 Changes in Net Assets

Years ended December 31, 2004-2001

Metropolitan Water Reclamation District of Greater Chicago

(accrual basis of accounting)

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Expenses</b>				
Board of Commissioners	\$ 3,578	\$ 3,333	\$ 3,162	\$ 2,970
General Administration	15,969	15,183	14,543	14,150
Research and Development	24,599	24,669	24,377	24,256
Purchasing	6,095	4,659	7,187	4,953
Personnel	35,931	30,947	27,640	26,167
Information Technology	10,885	11,626	11,334	11,079
Law	5,064	4,667	4,942	4,744
Finance	3,065	3,047	5,508	4,003
Engineering	6,169	2,986	5,812	8,818
Maintenance and Operations	161,903	160,309	158,838	165,346
Pension costs	35,354	29,511	27,044	24,958
Claims and judgments (1)	12,175	(1,340)	10,644	5,994
Construction costs	38,057	34,794	28,366	47,932
Loss on sale	172	440	448	1,320
Depreciation (unallocated)	7,596	7,596	7,597	7,596
Interest on bonds	65,398	67,958	55,996	58,307
Refunding transaction costs	-	-	1,653	-
Total expenses	<u>432,010</u>	<u>400,385</u>	<u>395,091</u>	<u>412,593</u>
<b>Program Revenues</b>				
Charges for services				
User charges	46,981	48,038	48,500	48,081
Land rentals	6,166	5,023	5,115	4,479
Fees, forfeits and penalties	3,800	3,892	2,892	2,829
Capital grants and contributions				
Federal grants	774	4,460	866	3,754
Total program revenues	<u>57,721</u>	<u>61,413</u>	<u>57,373</u>	<u>59,143</u>
<b>Net (Expense)/Revenue</b>	<u>(374,289)</u>	<u>(338,972)</u>	<u>(337,718)</u>	<u>(353,450)</u>
<b>General Revenues</b>				
Property taxes	395,108	373,811	365,894	353,709
Personal property replacement tax	25,961	23,461	15,336	27,349
Interest on investments	9,943	13,163	15,693	26,770
Land sales	-	-	-	-
Tax increment financing distributions	604	1,097	656	1,077
Claims and damage settlements (2)	450	113	131	10,441
Miscellaneous	1,716	777	1,892	1,856
Gain on sale	2,677	233	3,419	228
Adjustments for non-financial assets (3)	35,865	-	-	-
Total general revenues	<u>472,324</u>	<u>412,655</u>	<u>403,021</u>	<u>421,430</u>
Change in net assets as restated	<u>\$ 98,035</u>	<u>\$ 73,683</u>	<u>\$ 65,303</u>	<u>\$ 67,980</u>

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

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

(3) Adjustment for non-financial assets. See MD&A page 30.

**Exhibit G-3****Fund Balances: Governmental Funds***Years ended December 31, 2004-1995**(modified accrual basis of accounting)**(in thousands of dollars)*

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Corporate Fund					
Reserved	\$236,332	\$231,982	\$191,967	\$200,317	\$183,296
Unreserved	(68,321)	(45,066)	(40,902)	(61,204)	(16,187)
Total general corporate fund	<u>168,011</u>	<u>186,916</u>	<u>151,065</u>	<u>139,113</u>	<u>167,109</u>
All Other Governmental Funds					
Reserved	50,121	49,868	84,482	84,116	79,270
Unreserved, reported in:					
Capital projects funds	385,352	427,941	336,606	266,720	150,355
Debt service funds	164,185	174,249	157,957	126,973	134,663
Total all other governmental funds	<u>599,658</u>	<u>652,058</u>	<u>579,045</u>	<u>477,809</u>	<u>364,288</u>
Total governmental funds	<u>\$767,669</u>	<u>\$838,974</u>	<u>\$730,110</u>	<u>\$616,922</u>	<u>\$531,397</u>

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*Metropolitan Water Reclamation District of Greater Chicago*

<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
\$178,649	\$174,467	\$170,307	\$166,146	\$155,201
<u>(21,198)</u>	<u>(22,452)</u>	<u>(37,039)</u>	<u>(36,189)</u>	<u>(50,049)</u>
<u>157,451</u>	<u>152,015</u>	<u>133,268</u>	<u>129,957</u>	<u>105,152</u>
73,590	68,889	64,224	59,456	55,384
204,170	277,762	316,248	323,709	348,976
<u>142,210</u>	<u>169,846</u>	<u>186,562</u>	<u>179,134</u>	<u>204,889</u>
<u>419,970</u>	<u>516,497</u>	<u>567,034</u>	<u>562,299</u>	<u>609,249</u>
<u>\$577,421</u>	<u>\$668,512</u>	<u>\$700,302</u>	<u>\$692,256</u>	<u>\$714,401</u>

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

Years ended December 31, 2004-1995

(modified accrual basis of accounting)

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Revenues</b>					
General Revenues:					
Property taxes	\$360,326	\$397,751	\$362,036	\$337,654	\$342,633
Personal property replacement tax	25,961	24,048	22,285	27,946	31,928
Interest on investments	9,943	13,163	15,693	26,770	39,836
Land sales	3,608	239	3,395	229	110
Tax increment financing distributions	604	1,097	656	1,077	549
Claims and damage settlements	450	113	131	10,441	-
Miscellaneous	1,872	1,003	2,080	16,062	14,710
Program Revenues:					
Charges for services					
User charges	47,757	50,222	48,890	49,194	50,902
Land rentals	6,160	5,023	5,115	4,479	4,442
Fees, forfeits and penalties	3,800	3,892	2,892	-	-
Capital grants and contributions					
Government grants	1	4,836	490	3,754	6,069
Total revenues	<u>460,482</u>	<u>501,387</u>	<u>463,663</u>	<u>477,606</u>	<u>491,179</u>
<b>Expenditures</b>					
Operations:					
Board of Commissioners	3,552	3,315	3,131	2,930	2,696
General Administration	15,538	14,987	14,318	14,009	13,633
Research and Development	24,030	24,172	23,838	23,781	22,405
Purchasing	5,932	4,510	7,037	4,872	6,917
Personnel	35,877	30,916	27,610	26,155	22,221
Information Technology	10,574	11,417	11,204	10,961	10,123
Law	5,018	4,646	4,923	4,736	4,670
Finance	3,033	3,025	5,483	3,987	4,553
Engineering	6,273	4,095	7,757	10,914	7,137
Maintenance and Operations	160,299	159,079	160,326	165,831	154,679
Pension Costs	27,372	29,511	27,044	24,958	29,829
Claims and Judgments	3,829	2,972	2,859	3,355	2,961
Construction costs	127,155	164,865	157,076	159,841	149,455
Debt service:					
Redemption of bonds	92,560	91,198	89,572	80,464	84,521
Interest on bonds	63,465	67,428	56,259	57,358	56,282
Refunding transaction costs	-	-	1,653	-	-
Total expenditures/expenses	<u>584,507</u>	<u>616,136</u>	<u>600,090</u>	<u>594,152</u>	<u>572,082</u>
Revenues over (under) expenses	<u>(124,025)</u>	<u>(114,749)</u>	<u>(136,427)</u>	<u>(116,546)</u>	<u>(80,903)</u>
Other Financing Sources (Uses)					
Payment to escrow agent	-	-	(398,620)	-	-
State revolving fund loan proceeds	52,720	77,613	26,667	17,811	35,101
Sale of refunding bonds	-	-	416,000	-	-
Proceeds from sale of bonds	-	146,000	164,000	175,000	-
Premium on sale of bonds	-	-	14,575	8,614	-
Total other financing sources (uses)	<u>52,720</u>	<u>223,613</u>	<u>222,622</u>	<u>201,425</u>	<u>35,101</u>
Net change in fund balance	<u>\$ (71,305)</u>	<u>\$ 108,864</u>	<u>\$ 86,195</u>	<u>\$ 84,879</u>	<u>\$ (45,802)</u>
Debt service as a percentage of noncapital expenditures (only available from 2001 forward)	33.4%	32.9%	31.1%	28.1%	

*Metropolitan Water Reclamation District of Greater Chicago*

<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
\$322,683	\$332,610	\$339,698	\$337,341	\$335,622
27,916	28,755	26,500	23,867	24,516
33,823	38,143	39,026	38,526	32,436
500	4,456	-	-	-
493	164	459	370	-
-	-	-	-	-
13,868	18,222	13,324	10,598	16,643
52,221	48,650	52,629	52,741	50,474
4,465	3,656	2,970	3,196	3,106
-	-	-	-	-
<u>6,366</u>	<u>1,751</u>	<u>16,761</u>	<u>32,633</u>	<u>26,088</u>
<u>462,335</u>	<u>476,407</u>	<u>491,367</u>	<u>499,272</u>	<u>488,885</u>
2,435	2,478	2,414	2,320	2,380
15,722	11,651	9,848	9,541	8,393
21,458	19,698	19,581	19,341	19,216
8,022	7,644	7,230	6,062	6,005
20,232	19,727	18,050	19,394	18,931
8,438	10,382	6,600	4,792	3,634
4,457	4,269	3,487	3,387	3,571
5,220	3,584	6,220	4,886	3,509
6,711	4,568	2,860	2,937	3,247
150,567	143,674	139,943	136,887	132,167
24,830	23,500	22,786	22,655	21,793
4,908	1,143	3,772	1,219	6,881
163,135	139,404	118,397	174,233	168,270
98,688	89,407	80,653	72,160	90,765
60,458	64,648	67,454	73,342	75,113
-	8	1,249	-	-
<u>595,281</u>	<u>545,785</u>	<u>510,544</u>	<u>553,156</u>	<u>563,875</u>
<u>(132,946)</u>	<u>(69,378)</u>	<u>(19,177)</u>	<u>(53,884)</u>	<u>(74,990)</u>
-	-	(116,841)	-	-
42,231	35,377	27,948	32,305	14,053
-	-	116,325	-	-
-	-	-	-	243,542
-	-	-	-	-
<u>42,231</u>	<u>35,377</u>	<u>27,432</u>	<u>32,305</u>	<u>257,595</u>
<u>\$ (90,715)</u>	<u>\$ (34,001)</u>	<u>\$ 8,255</u>	<u>\$ (21,579)</u>	<u>\$182,605</u>

**Exhibit G-5**  
**Equalized Assessed Value**  
**Direct Tax Rate and Estimated Actual Value of Taxable Property**

*Years ended December 31, 1994-2003*

*Metropolitan Water Reclamation District of Greater Chicago*

*(in thousands of dollars, except tax rates)*

<b>Fiscal Year Ended December 31,</b>	<b>Chicago Equalized Assessed Value</b>	<b>Suburbs Equalized Assessed Value</b>	<b>Total Equalized Assessed Value</b>	<b>Total Direct Tax Rate (*)</b>	<b>Estimated Full Taxable Value</b>	<b>Equalized Assessed Value as a Percentage of Full Value</b>
1994	\$ 30,090,355	\$ 36,216,110	\$ 66,306,465	0.495	\$ 232,912,602	28.5%
1995	30,381,480	38,486,664	68,868,144	0.495	241,704,122	28.5%
1996	30,765,001	40,411,247	71,176,248	0.492	255,185,529	27.9%
1997	33,349,557	40,511,394	73,860,951	0.451	262,426,254	28.1%
1998	33,940,146	42,812,917	76,753,063	0.444	271,586,946	28.3%
1999	35,354,802	45,509,854	80,864,656	0.419	302,544,770	26.7%
2000	40,480,075	45,036,933	85,517,008	0.415	341,294,175	25.1%
2001	41,981,912	50,923,178	92,905,090	0.401	370,634,448	25.1%
2002	45,330,892	57,506,473	102,837,365	0.371	409,432,622	25.1%
2003	57,097,996	53,168,632	110,266,628	0.361	490,564,080	22.5%

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

(\*) Tax rates per \$100 equalized assessed valuation.



## Exhibit G-6 District Direct Property Tax Rates and Overlapping Property Tax Rates of Major Local Governments, and District Tax Levies By Fund

Years ended December 31, 2004-1995

Metropolitan Water Reclamation District of Greater Chicago

(rates per \$100 of assessed value)

	2004 (1)	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>District direct rates</b>										
Corporate	\$ 0.180	\$ 0.163	\$ 0.164	\$ 0.171	\$ 0.179	\$ 0.176	\$ 0.190	\$ 0.195	\$ 0.185	\$ 0.180
Corporate Working Cash	-	0.004	0.004	0.004	0.005	0.005	0.005	0.005	0.005	-
Reserve Claim	0.005	0.004	0.004	0.004	0.005	0.005	0.005	0.005	0.005	0.005
Retirement	0.026	0.024	0.024	0.027	0.027	0.033	0.029	0.029	0.028	0.030
Debt Service	0.146	0.143	0.145	0.158	0.151	0.151	0.170	0.173	0.213	0.213
Construction	0.014	0.023	0.030	0.037	0.043	0.044	0.041	0.039	0.051	0.062
Storm water	-	-	-	-	-	-	-	-	-	-
Construction Working Cash	-	-	-	-	0.005	0.005	0.004	0.005	0.005	0.005
<b>Total direct rate</b>	<b>\$ 0.371</b>	<b>\$ 0.361</b>	<b>\$ 0.371</b>	<b>\$ 0.401</b>	<b>\$ 0.415</b>	<b>\$ 0.419</b>	<b>\$ 0.444</b>	<b>\$ 0.451</b>	<b>\$ 0.492</b>	<b>\$ 0.495</b>
<b>Major local governments' tax rates (2)</b>										
City of Chicago	\$ -	\$ 1.262	\$ 1.452	\$ 1.478	\$ 1.498	\$ 1.673	\$ 1.812	\$ 1.832	\$ 1.987	\$ 2.131
Board of Education	-	3.142	3.562	3.744	3.714	4.104	4.172	4.084	4.327	4.251
Park District	-	0.439	0.515	0.546	0.557	0.627	0.653	0.665	0.721	0.730
Cook County	-	0.630	0.690	0.746	0.824	0.854	0.911	0.919	0.989	0.994
Forest Preserve District	-	0.059	0.061	0.067	0.069	0.070	0.072	0.074	0.074	0.072
Chicago Community College Dist. (3)	-	0.246	0.280	0.307	0.311	0.347	0.354	0.356	0.377	0.376
Chicago School Finance Authority	-	0.151	0.177	0.223	0.223	0.255	0.268	0.270	0.291	0.296
City of Chicago Library Fund	-	0.118	0.139	0.159	0.162	0.187	0.186	0.192	0.195	-
<b>District's tax levies by fund</b>										
Corporate	\$198,498	\$179,961	\$168,279	\$158,870	\$153,732	\$142,238	\$145,854	\$143,735	\$131,925	\$124,388
Corporate Working Cash	-	4,646	4,276	4,044	3,838	3,693	3,533	3,443	3,315	-
Reserve Claim	5,142	4,646	4,276	4,044	3,838	3,693	3,533	3,443	3,316	3,264
Retirement	28,247	25,958	24,825	24,661	23,009	27,079	22,294	21,322	20,033	20,442
Debt Service	166,152	157,337	149,169	146,605	129,151	122,060	130,321	128,228	152,030	146,783
Construction	14,847	25,171	30,702	34,325	37,490	36,367	31,875	29,499	36,248	42,755
Construction Working Cash	-	-	-	-	3,838	3,693	3,373	3,443	3,316	3,265
<b>Total tax levies</b>	<b>\$412,886</b>	<b>\$397,718</b>	<b>\$381,527</b>	<b>\$372,549</b>	<b>\$354,896</b>	<b>\$338,823</b>	<b>\$340,783</b>	<b>\$333,113</b>	<b>\$350,183</b>	<b>\$340,897</b>

**Source:** Cook County Clerk

- (1) District's tax rates are estimated based on 2003 equalized assessed valuation of \$110.3 billion.
- (2) Major local governments' rates for 2004 are not yet available.
- (3) Formerly Chicago City Colleges.

## Exhibit G-7 Principal Property Taxpayers

Years ended December 31, 2003 and 1994 (1)

Metropolitan Water Reclamation District of Greater Chicago

(in thousands of dollars)

Taxpayer	Type of Business	2003			1994		
		Equalized Assessed Value	Rank	Percentage of Total Equalized Assessed Value	Equalized Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Sears Tower	Retail & Office	\$ 467,362	1	0.42%	\$ 243,057	1	0.37%
Equity Office (2)	Property Management	307,093	2	0.28%	-	-	-
Aon Center (3)	Insurance	307,715	3	0.28%	195,214	2	0.29%
Prudential Plaza	Financial Services	266,448	4	0.24%	-	-	-
AT & T Corporate Center	Communications	138,142	5	0.13%	146,709	5	0.22%
Bank One Plaza (4)	Banking	233,214	6	0.21%	178,830	3	0.27%
UBS Building	Investment/banking	144,867	7	0.13%	-	-	-
Three First National Plaza	Retail & Office	171,376	8	0.16%	129,883	7	0.20%
Citicorp Center	Banking	185,968	9	0.17%	122,125	8	0.18%
311 South Wacker	Investments	124,511	10	0.11%	-	-	-
Chicago Mercantile Exchange	Commodities	-	-	-	173,480	4	0.26%
Hyatt Regency Hotel	Hotel	-	-	-	131,667	6	0.20%
900 N. Michigan Ave.	Retail & Office	-	-	-	105,869	10	0.16%
Leo Burnett Building	Advertising	-	-	-	107,746	9	0.16%
Total		<u>\$ 2,346,696</u>		<u>2.13%</u>	<u>\$ 1,534,580</u>		<u>2.31%</u>

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

(1) 2004 information is unavailable.

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

(3) Formerly the Amoco Oil Building.

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

**Exhibit G-8**  
**Property Tax Levies and Collections**

*Years ended December 31, 2004-1995*

*Metropolitan Water Reclamation District of Greater Chicago*

*(in thousands of dollars)*

<b>Fiscal Year Ended December 31</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the First Year</b>		<b>Collections in Subsequent Years (*)</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
1995	\$ 340,897	\$ 331,010	97.1%	\$ (1,224)	\$ 329,786	96.7%
1996	350,183	339,255	96.9%	5,997	345,252	98.6%
1997	333,113	322,874	96.9%	594	323,468	97.1%
1998	340,783	319,261	93.7%	10,360	329,621	96.7%
1999	338,823	326,628	96.4%	(830)	325,798	96.2%
2000	354,896	338,078	95.3%	4,709	342,787	96.6%
2001	372,549	361,145	96.9%	6,763	367,908	98.8%
2002	381,527	369,667	96.9%	7,459	377,126	98.8%
2003	398,062	375,549	94.3%	-	375,549	94.3%
2004	412,886	-	-	-	-	-

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

**Exhibit G-9**  
**User Charge Rates**

*Years ended December 31, 2004-1995*

	<u>2004 (1)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Large Commercial-Industrial User Rates (2)</b>					
Flow per million gallons	\$ 202.39	\$ 217.74	\$ 185.09	\$ 200.21	\$ 215.09
5-day BOD per 1,000 lbs. (5)	215.86	227.39	197.10	216.96	205.33
SS per 1,000 lbs. (6)	168.16	182.75	151.53	158.11	163.43
<b>Tax-Exempt User Rates (3)</b>					
Flow per million gallons	\$ 209.31	\$ 223.29	\$ 190.74	\$ 201.98	\$ 181.83
5-day BOD per 1,000 lbs.	223.25	233.19	203.22	218.89	173.52
SS per 1,000 lbs.	173.92	187.41	156.16	159.51	138.14
<b>OM&amp;R Rate (4)</b>	0.5690	0.6240	0.5580	0.5950	0.4880

- (1) The current year's rates are calculated using financial data from the prior year's Budget and operating cost and loading data from two years prior. The decrease in the 2004 rates resulted from a decline in the District's recoverable Operations, Maintenance and and Replacement (OM&R) costs.
- (2) Large commercial - industrial users are nongovernmental, nonresidential users engaged in significant commercial or industrial activities.
- (3) Tax-exempt users are exempt from payment of property taxes.
- (4) This rate represents the OM&R costs as a percentage of the District's total tax levy and it is applied to commercial-industrial users' real estate tax credits for determining their final user charge.
- (5) BOD = Biological Oxygen Demand
- (6) SS = Suspended Solids

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*Metropolitan Water Reclamation District of Greater Chicago*

<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
\$ 205.63	\$ 202.75	\$ 189.48	\$ 178.64	\$ 178.65
196.13	190.60	192.39	183.45	186.91
160.40	156.57	159.62	162.71	156.88
\$ 175.13	\$ 176.16	\$ 165.71	\$ 153.07	\$ 157.37
167.04	165.60	168.35	157.18	164.49
136.61	136.03	139.72	139.44	138.13
0.4510	0.4650	0.4710	0.4780	0.5020

G-10

**Ratio of Total General Bonded Debt and Net Bonded Debt Outstanding (1)**

Years ended December 31, 2004-1995

Metropolitan Water Reclamation District of Greater Chicago

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

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes and Interest	Total Debt	Resources Available for Repayment of Debt (2)	Net Debt	Total Debt as a % Personal Income (3)	Total Debt Per Capita (3)	Net Debt as a % of Estimated Full Taxable Value (3)	Net Debt Per Capita (3)
1995	\$1,293,377	\$ 14,801	\$1,308,178	\$ 204,854	\$1,103,324	0.94%	\$ 256.25	0.46%	\$ 216.13
1996	1,238,302	29,256	1,267,558	179,134	1,088,424	0.86%	245.98	0.43%	211.22
1997	1,218,616	2,985	1,221,601	186,562	1,035,039	0.79%	240.00	0.39%	203.35
1998	1,159,093	4,519	1,163,612	169,847	993,765	0.70%	229.33	0.37%	195.85
1999	1,060,480	35,686	1,096,166	142,210	953,956	0.65%	211.25	0.32%	183.84
2000	1,040,096	27,972	1,068,068	134,663	933,405	0.59%	198.64	0.27%	173.59
2001	1,134,632	46,702	1,181,334	126,973	1,054,361	0.63%	218.85	0.28%	195.32
2002	1,298,375	26,162	1,324,537	157,957	1,166,580	0.70%	246.06	0.28%	216.72
2003	1,363,739	94,245	1,457,984	174,249	1,283,735	1.04%	268.75	0.26%	236.63
2004 (4)	1,329,123	90,473	1,419,596	164,185	1,255,411	1.04%	264.65	0.26%	234.04

- (1) Represents long-term debt for general bonded debt, and bond anticipation notes including interest which are eventually converted to general bonded debt. Details of the District's long-term debt can be found in the notes to the basic financial statements.
- (2) Represents the unreserved fund balance in the Debt Service Fund.
- (3) See Exhibit G-13 for personal income and population information and Exhibit G-5 for estimated full taxable value information.
- (4) The 2004 percentage ratios are estimates based on the 2003 personal income and estimated full taxable value information.

**G-11**

**Estimate of Direct and Overlapping Debt**

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

(In thousands of dollars)

Direct debt				
General obligation bonds				\$ 1,329,123
Overlapping bonded debt of major local governments (*)				
	<u>Net Debt</u>	<u>%</u>	<u>Applicable</u>	
		<u>Applicable</u>	<u>Amount</u>	
City of Chicago	\$ 5,349,452	100.00 %	\$ 5,349,452	
Chicago Board of Education	3,908,862	100.00	3,908,862	
Chicago School Finance Authority	328,920	100.00	328,920	
Chicago Park District	921,840	100.00	921,840	
Cook County Community College District #508	78,610	100.00	78,610	
Cook County	3,099,740	98.01	3,038,055	
Cook County Forest Preserve District	135,155	98.01	<u>132,465</u>	
Total overlapping debt				<u>13,758,205</u>
Total direct and overlapping debt				<u>\$ 15,087,328</u>

(\*) Does not include debt issued by other non-major taxing authorities located in Cook County.

## Exhibit G-12 Computation of Statutory Debt Margin

Years ended December 31, 2004-1995

(in thousands of dollars)

	<u>2004 (*)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Equalized assessed valuation</b>	\$ 110,266,628	\$ 110,266,628	\$ 102,837,365	\$ 92,905,090	\$ 85,517,008
<b>Statutory debt limit (5.75% of equalized assessed valuation)</b>	<u>6,340,331</u>	<u>6,340,331</u>	<u>5,913,148</u>	<u>5,342,043</u>	<u>4,917,228</u>
<b>Total debt applicable to debt limit:</b>					
General obligation bonds outstanding	1,329,123	1,363,739	1,298,375	1,134,632	1,040,096
Bond anticipation notes outstanding	90,473	94,245	26,162	46,702	27,972
Liabilities of tax financed funds:					
Corporate	29,112	29,661	29,321	37,658	30,289
Debt service	212	212	486	-	-
Reserve claim	276	472	149	1,951	1,588
Construction	<u>6,333</u>	<u>4,953</u>	<u>4,161</u>	<u>5,691</u>	<u>11,187</u>
Total applicable debt	1,455,529	1,493,282	1,358,654	1,226,634	1,111,132
Less applicable assets:					
Debt service funds cash and investments	125,441	129,600	128,508	114,179	121,305
Interest payable in the next twelve months	<u>(60,902)</u>	<u>(63,488)</u>	<u>(62,325)</u>	<u>(58,199)</u>	<u>(53,112)</u>
Total applicable assets	<u>64,539</u>	<u>66,112</u>	<u>66,183</u>	<u>55,980</u>	<u>68,193</u>
<b>Total net debt applicable to debt limit</b>	<u>1,390,990</u>	<u>1,427,170</u>	<u>1,292,471</u>	<u>1,170,654</u>	<u>1,042,939</u>
<b>Statutory debt margin</b>	<u>\$ 4,949,341</u>	<u>\$ 4,913,161</u>	<u>\$ 4,620,677</u>	<u>\$ 4,171,389</u>	<u>\$ 3,874,289</u>
<b>Total applicable net debt as a percentage of statutory debt limit</b>	21.9%	22.5%	21.9%	21.9%	21.2%

(\*) Debt limit calculation based on 2003 equalized assessed valuation since 2004 value is not yet available.



*Metropolitan Water Reclamation District of Greater Chicago*

<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
\$ 80,864,656	\$ 76,753,063	\$ 73,860,951	\$ 71,176,248	\$ 68,868,144
<u>4,649,718</u>	<u>4,413,301</u>	<u>4,247,005</u>	<u>4,092,634</u>	<u>3,959,918</u>
1,060,480	1,159,093	1,218,616	1,238,302	1,293,377
35,686	4,519	2,984	29,072	14,801
31,064	28,728	26,200	25,831	27,209
-	-	-	-	-
2,676	1,673	-	-	-
8,682	9,554	5,004	2,540	5,787
<u>1,138,588</u>	<u>1,203,567</u>	<u>1,252,804</u>	<u>1,295,745</u>	<u>1,341,174</u>
129,143	155,120	170,932	162,542	188,045
(55,836)	(60,458)	(64,659)	(69,579)	(73,577)
<u>73,307</u>	<u>94,662</u>	<u>106,273</u>	<u>92,963</u>	<u>114,468</u>
<u>1,065,281</u>	<u>1,108,905</u>	<u>1,146,531</u>	<u>1,202,782</u>	<u>1,226,706</u>
<u>\$ 3,584,437</u>	<u>\$ 3,304,396</u>	<u>\$ 3,100,474</u>	<u>\$ 2,889,852</u>	<u>\$ 2,733,212</u>
22.9%	25.1%	27.0%	29.4%	31.0%

## Exhibit G-13 Demographics and Economics Statistics

December 31, 2004-1995

Metropolitan Water Reclamation District of Greater Chicago

(population and dollars in thousands)

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Household Income</u>	<u>Unemployment Rate</u>
2004	5,364	\$137,820,341	\$ 25,692	\$ 50,093	5.7%
2003	5,425	140,930,862	25,977	51,585	6.8%
2002	5,383	189,054,081	35,121	57,214	6.7%
2001	5,398	187,091,937	34,659	54,490	5.4%
2000	5,377	182,393,699	33,921	40,292	4.1%
1999	5,189	169,932,439	32,749	49,081	4.1%
1998	5,074	165,072,174	32,533	45,668	4.3%
1997	5,090	154,215,540	30,298	40,864	4.5%
1996	5,153	146,782,078	28,485	40,827	5.0%
1995	5,105	139,818,250	27,388	38,351	5.1%

**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 G-14  
Principal Employers**

December 31, 2004 and 1995

Metropolitan Water Reclamation District of Greater Chicago

<u>Employer</u>	<u>2004</u>			<u>1995</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
U.S. Government	88,000	1	2.06%	73,506	1	1.72%
Chicago Public Schools	39,402	2	0.92%	43,605	2	1.02%
Jewel-Osco	36,749	3	0.86%	24,386	6	0.57%
City of Chicago	35,978	4	0.84%	41,312	3	0.97%
Cook County	26,505	5	0.62%	27,849	4	0.65%
Advocate Health Care	25,196	6	0.59%	-	-	-
United Parcel Service of America, Inc.	19,563	7	0.46%	-	-	-
State of Illinois	17,222	8	0.40%	22,563	8	0.53%
SBC Communications, Inc. *	17,000	9	0.40%	18,356	9	0.43%
United Airlines	15,830	10	0.37%	-	-	-
Sears, Roebuck and Co.	-	-	-	26,073	5	0.61%
Motorola	-	-	-	23,000	7	0.54%
Dominick's Finer Foods, Inc.	-	-	-	18,000	10	0.42%
Total	<u>321,445</u>		<u>7.51%</u>	<u>318,650</u>		<u>7.45%</u>

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

\* Previous to 2002 takeover by SBC, this was Ameritech.

**Exhibit G-15  
Budgeted Positions by Fund/Department**

*Years ended December 31, 2004-1995*

*Metropolitan Water Reclamation District of Greater Chicago*

<b>Fund/Department</b>	<b>Budgeted Positions</b>									
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
<b>Corporate Fund</b>										
Board of Commissioners	46	45	45	45	45	45	45	45	45	45
General Administration	147	140	131	128	127	123	122	118	115	123
Research & Development	326	337	347	352	355	353	357	353	353	373
Purchasing	75	71	77	82	79	78	74	75	75	81
Personnel	56	52	51	46	43	44	49	53	59	66
Information Technology (1)	64	64	75	75	73	69	63	61	59	44
Law	41	40	41	41	41	42	41	41	38	39
Finance	37	37	38	40	42	40	40	41	38	45
Engineering (Corporate Fund)	32	32	32	32	31	31	33	33	33	34
Maintenance & Operations	1,137	1,163	1,191	1,202	1,193	1,193	1,189	1,194	1,240	1,295
<b>Total Corporate Fund</b>	<b>1,961</b>	<b>1,981</b>	<b>2,028</b>	<b>2,043</b>	<b>2,029</b>	<b>2,018</b>	<b>2,013</b>	<b>2,014</b>	<b>2,055</b>	<b>2,145</b>
Engineering (Construction Fund)	117	120	130	231	223	227	226	225	238	258
Engineering (Capital Improvements Bond Fund) (2)	83	85	91	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>2,161</b>	<b>2,186</b>	<b>2,249</b>	<b>2,274</b>	<b>2,252</b>	<b>2,245</b>	<b>2,239</b>	<b>2,239</b>	<b>2,293</b>	<b>2,403</b>

(1) In fiscal year 1996, positions in various departments were transferred to the Information Technology Department.

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

## Exhibit G-16 Operating Indicators

Years ended December 31, 2004-1995

Metropolitan Water Reclamation District of Greater Chicago

	<b>Area Served (1)</b>	<b>Communities Served (2)</b>	<b>Number of people served</b>	<b>Commercial and Industrial population equivalent served</b>	<b>Number of local sewer connections to intercepting sewers</b>	<b>Pumping station maximum capacity (3)</b>	<b>Gallons of sewerage wastes processed per day (4)</b>	<b>Daily sewerage treatment capacity (3)</b>
2004	872	126	5,364,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
2003	872	126	5,425,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
2002	872	126	5,383,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
2001	872	126	5,398,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
2000	872	126	5,377,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
1999	872	126	5,189,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
1998	872	126	5,074,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
1997	872	126	5,090,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
1996	872	126	5,153,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000
1995	872	126	5,105,000	4,500,000	10,000	4,000,000	1,500,000	2,000,000

(1) In square miles.

(2) Including the City of Chicago.

(3) Gallons per day in thousands.

(4) In thousands.

**Exhibit G-17**  
**Capital Asset Statistics**

*Years ended December 31, 2004-1995*

*Metropolitan Water Reclamation District of Greater Chicago*

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
Miles of intercepting sewers and force mains operated	559	559	559	559	554	554	554	554	554	554
Miles of waterway water levels controlled	76	76	76	76	76	76	76	76	76	76
Acres of strip-mined land utilized for solids processing	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+
Number of water reclamation plants	7	7	7	7	7	7	7	7	7	7
Number of pumping stations	23	23	24	25	24	24	24	24	24	24
Miles of TARP tunnels constructed for pollution and flood control	101.5	101.5	93.4	93.4	93.4	93.4	93.4	84.7	84.7	84.7
Miles of TARP tunnels under construction	7.9	7.9	16.0	16.0	8.1	8.1	8.1	8.7	8.7	8.7
Number of TARP reservoirs constructed	1	1	1	1	1	1	-	-	-	-
Number of TARP reservoirs under construction	2	2	1	1	1	-	-	-	-	-
Number of flood control reservoirs	32	32	31	31	30	30	30	30	30	30
Instream aeration stations	2	2	2	2	2	2	2	2	2	2
Sidestream elevated pool aeration stations	5	5	5	5	5	5	5	5	5	5

# IV. SINGLE AUDIT SECTION



*Pollution Control boats patrol the inland waterways regularly, checking for sources of pollution and sampling the water for accurate counts of fish populations.*

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**KPMG LLP**  
303 East Wacker Drive  
Chicago, IL 60601-5212

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

The Board of Commissioners  
Metropolitan Water Reclamation  
District of Greater Chicago

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (the District) as of and for the year ended December 31, 2004, and have issued our report thereon dated May 4, 2005, which collectively comprise the District's basic financial statements. We did not audit the financial statements of the District's pension trust fund, which represents 97% of the total assets and 84% of total revenues (additions) of the aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, as it relates to the amounts included for the pension trust fund is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

**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*.



We noted certain matters that we reported to management of the District in a separate letter dated May 4, 2005.

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

KPMG LLP

May 4, 2005



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**INDEPENDENT AUDITORS' REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Commissioners of the  
Metropolitan Water Reclamation District of Greater Chicago

We have audited the accompanying Schedule of Expenditures of Federal Awards (the Schedule) of the Metropolitan Water Reclamation District of Greater Chicago (the District) for the year ended December 31, 2004. The Schedule is the responsibility of the District's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting of the Schedule as a basis for designing 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 over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the Metropolitan Water Reclamation District of Greater Chicago for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Benford Brown & Associates, LLC  
Chicago, IL  
April 29, 2005



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners of the  
Metropolitan Water Reclamation District of Greater Chicago

Compliance:

We have audited the compliance of Metropolitan Water Reclamation District of Greater Chicago (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the fiscal year ended December 31, 2004. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material aspects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance:

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

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

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

A handwritten signature in dark ink that reads "Benford Brown & Associates, LLC". The signature is written in a cursive, flowing style.

Benford Brown & Associates, LLC  
Chicago, IL  
April 29, 2005

# Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

<u>Federal CFDA Number(A)</u>	<u>Grant/ Identifying Number(B)</u>	<u>Award Date(C)</u>	<u>Project Description(D)</u>	<u>Total 2004 Federal Expenditures (E)</u>
<b>Major Programs:</b>				
<b>Federal Grantor: U.S. Environmental Protection Agency</b>				
<u>State Revolving Fund Loan Capitalization Grants (passed through Illinois Environmental Protection Agency)</u>				
66.458	L171152	May, 2001	Torrence Avenue TARP	\$ 1,730,848
66.458	L172127	October, 2003	Dixmoor/Lansing TARP	19,873,788
66.458	L172128	May, 2004	Dixmoor/Lansing TARP	<u>22,326,690</u>
Total U.S. Environmental Protection Agency Funding of State Revolving Fund Loan Capitalization Grants				<u>43,931,326</u>
<b>Non-Major Programs:</b>				
<b>Federal Grantor: U.S. Environmental</b>				
<u>Streambank Cleanup And Lakeshore Enhancement (SCALE) Program (passed through Illinois Environmental Protection Agency)</u>				
66.460	IEPA 9823	May, 2004	Streambank Cleanup	<u>1,000</u>
Total Expenditures of Federal Awards received under Non-Major Programs				<u>1,000</u>
Total Expenditures of Federal Awards				<u><u>\$ 43,932,326</u></u>

# Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

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

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

- (A) Catalog of Federal Domestic Assistance Number, if determinable.
- (B) Grant Number of pass-through entity identifying number.
- (C) Date of original award.
- (D) Description/location of project funded.
- (E) Total expenditures represent the lesser of actual expenditures incurred by the District of eligible expenditures, of which a percentage will be reimbursed via grants or loans.

**3. Program Descriptions** - Descriptions of federal programs, funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2004, are as follows:

## **CFDA #66.458 - Capitalization Grants for State Revolving Funds:**

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

## **CFDA #66.460 - Non-point Source Implementation Grants**

Grants made available through the states to support best management practice programs for non-point sources.

**4. Grant and Active Project Descriptions** - Descriptions of specific grants funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2004, are as follows:

## Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

### State Revolving Fund Loans:

**Loan #L171152** was awarded to the District, as amended on May 21, 2001 under PL 95-217. The loan provides for TARP Calumet System, Torrance Avenue Leg, Project #75-208-2H. The maximum SRF loan amount is \$22,834,507. Pass through federal funding is \$19,027,995.

**Loan#L172127** was awarded to the District, on September 29, 2003, under PL 95-217. The loan provides for Dixmoor/Lansing Branch Tarp Project #75-213-2H. The maximum SRF loan amount is \$58,000,000. Pass through federal funding is \$48,331,400.

**Loan#L172128** was awarded to the District, on June 14, 2004, under PL 95-217. The loan provides for Dixmoor/Lansing Branch Tarp Project #75-213-2H. The maximum SRF loan amount is \$57,162,399. Pass through federal funding is \$47,633,427.

### Other Federal Assistance:

#### Federal Grantor: U.S. Environmental Protection Agency

**IEPA 9823** was awarded in May, 2004 to assist in funding the District's participation in the 2004 Annual Chicago 47th Ward-Wide Spring Clean up.



# Schedule of Findings and Questioned Costs

Year ended December 31, 2004

Metropolitan Water Reclamation District of Greater Chicago

## A. Summary of Auditors' Results

### Reports

The type of report issued on the financial statements was:

unqualified;       qualified;       adverse;       disclaimer

The type of report issued on compliance for major programs was:

unqualified;       qualified;       adverse;       disclaimer

### Findings and Other Matters

Reportable conditions in internal control over financial reporting were disclosed:      None reported

Material weaknesses in internal control over financial reporting were disclosed:      No

Noncompliance which is material to the financial statements was disclosed:      No

Reportable conditions in internal control over major programs were disclosed:      None reported

Material weaknesses in internal control over major programs were disclosed:      No

Findings related to noncompliance for major programs, known or likely questioned costs greater than \$10,000, known fraud or audit follow-up procedures were disclosed:      No

The auditee qualified as a low-risk auditee:      Yes

The dollar threshold used to distinguish between Type A and Type B programs was \$1,317,970.

Listing of Major Programs – Title	CFDA No.	
		66.458

Capitalization Grants for State Revolving Funds

## B. Findings and Questioned Costs Relating to the Financial Statements:

None

## C. Findings and Questioned Costs Relating to Compliance with Federal Awards:

None

## D. Summary Schedule of Prior Audit Findings:

There were no findings in the prior year audit report.

