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

Chicago, Illinois

For the Year Ended
December 31, 2007

Finance Department
JACQUELINE TORRES, Director of Finance/Clerk

Incorporated May 29, 1889

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I.
INTRODUCTORY SECTION

The Lockport Powerhouse Centennial was celebrated in 2007. At the time of construction, the District Lock had the highest lift in the world: 38 feet. The Lockport Powerhouse is listed on the Illinois Register of Historic Places and is recognized by the Federal Energy Regulatory Commission as the oldest hydroelectric project in the State of Illinois.

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Metropolitan Water Reclamation District of Greater Chicago

Board of Commissioners and Principal Officers

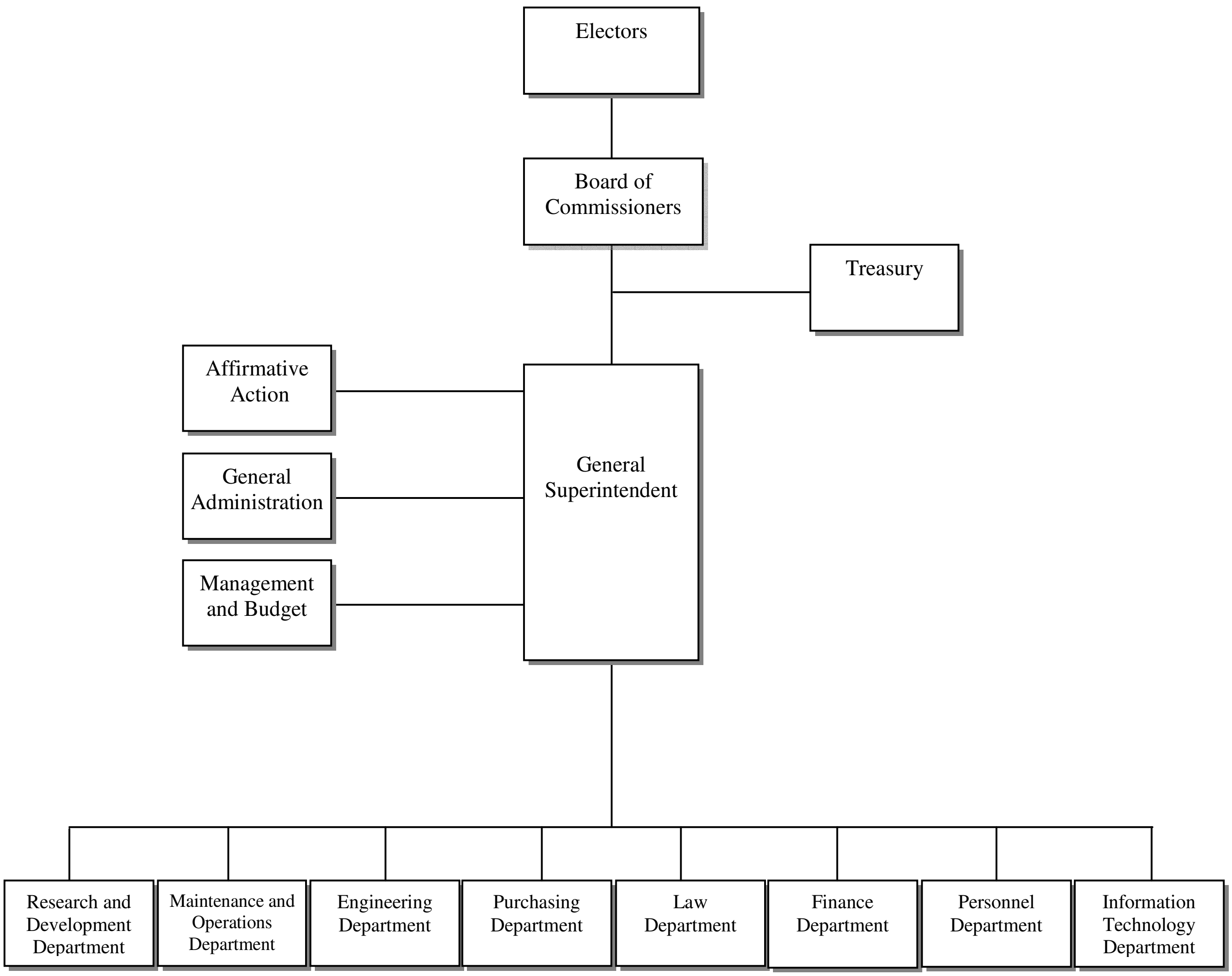
Board of Commissioners:
Honorable Terrence J. O'Brien, President
Honorable Kathleen Therese Meany, Vice President
Honorable Gloria Alitto Majewski, Chairman, Committee on Finance
Honorable Frank Avila
Honorable Patricia Horton
Honorable Barbara McGowan
Honorable Cynthia M. Santos
Honorable Debra Shore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

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

Main Office
100 East Erie Street
Chicago, Illinois 60611

Metropolitan Water Reclamation District of Greater Chicago

Organization Chart



2,094 Budgeted
Positions in 2007

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

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

Terrence J. O'Brien
President

312·751·5700 FAX 312·751·5670

April 28, 2008

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, 2007. This report clearly demonstrates the District's sustained excellent financial condition as reflected by the AAA bond rating received from all three rating agencies. Additionally, both the District and the Retirement fund received Government Finance Officers Awards for Excellence.

As 2007 marked the 118th year of service to the Greater Chicago Metropolitan area, the District once again offered leadership in all our core services at financially efficient and award winning levels. Major initiatives of the District continue to show impact and progress, both at our facilities and in our communities. The Cook County Stormwater Management Plan (CCSMP) was adopted by the District's Board and outlines the details for the preparation of individual watershed plans and a framework for countywide stormwater regulation.

The District completed the development of Infrastructure and Process Needs Feasibility Studies for the District's three largest water reclamation plants, Stickney, Calumet, and North Side. These studies, with the goal of reducing both costs and energy consumption, identified the major capital improvements needed to continue exceptional quality effluent into the year 2040.

The Tunnel and Reservoir Plan (TARP) has moved into the reservoir development phase. The Thornton Composite Reservoir is on schedule with approximately 56.8 million tons of rock having been mined. At the McCook Reservoir, site preparation and berm removal contracts have been completed. Also removal of the overburden from Stage I was substantially completed, and approximately 15% of the Stage II area overburden had been removed. Erection of the gyratory crusher and related conveyance facilities were completed and allowed for commencement of mining operations for construction of the "rough hole" for the McCook Quarry.

The District sponsored a number of community relations programs. We once again held our highly regarded Household Hazardous Waste Days programs in the spring and fall. At this year's autumn event, we offered low-tech, highly useful technology of rain barrels to the public at the reasonable cost of forty dollars per barrel. Use of these barrels allows consumers to become actively involved, contribute to and develop a higher awareness of stormwater management.

As we move forward in so many areas of technology for the 21st century, it was only appropriate that we took the time to honor the achievements of the District leadership and staff of the past. This year marked the 100th year anniversary of the Lockport Powerhouse. True to our legacy, in its day the locks at the powerhouse were the highest of its kind in the world. The system still operates as a testimony to the quality of the engineering services the District provides.

In March 2008, the Board of Commissioners approved an abatement of $7,100,000 in the 2007 tax levy resulting in a total adjusted 2007 tax levy of $135,730,343. In 2007, the District had abated $21,900,674. This action demonstrates the Board's commitment to the taxpayers to reduce tax levies when other resources are available.

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

Respectfully submitted,

Terrence J. O'Brien
President

Metropolitan Water Reclamation District of Greater Chicago

Multi-Year Awards

1975-2006
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting/Comprehensive Annual Financial Report

1993-2006
Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting Award for Retirement Fund's Comprehensive Annual Financial Report

1985-2007
Government Finance Officers Association of the United States and Canada
Award for Distinguished Budget Presentation

Individual Year Awards (partial listing)

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

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

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

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

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

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

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

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

2001
National Environmental Achievement Award for Excellence in Research and Technology

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

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

Illinois Safety Council
2001 Transportation Award for Outstanding Safety Performance

Individual Year Awards (continued)

2003

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

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

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

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

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

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

2004

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

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

2005

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

National Purchasing Institute
Achievement of Excellence in Procurement

Illinois Safety Council and Greater Chicago Safety Council
Safe Driving Award - District Wide

2006

National Institute of Government Purchasing
Outstanding Agency Accreditation Achievement Award

National Purchasing Institute
Achievement of Excellence in Procurement

Illinois Safety Council and Greater Chicago Safety Council
Health and Safety Award

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, 2006

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

President

Executive Director

Protecting Our Water Environment

Metropolitan Water Reclamation District of Greater Chicago

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

Jacqueline Torres
Director of Finance/Clerk

312-751-6500 FAX 312-751-5965 312-894-1104

April 28, 2008

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

The Comprehensive Annual Financial Report (CAFR), of which this transmittal letter is a component, has been prepared in accordance with Chapter 70, Illinois Compiled Statutes, Act 2605/5.13 for the fiscal year ended December 31, 2007. The Statutes require that the Director of Finance/Clerk prepare and publish the financial statements and any other data necessary to reflect the true financial condition and operations of the Metropolitan Water Reclamation District of Greater Chicago, (the "District,") within six months of the close of each fiscal year.

The CAFR's basic financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). In accordance with Chapter 70, ILCS 2605/5.12, of the Illinois Compiled Statutes, the District's basic financial statements for the period ended December 31, 2007, have been subject to an audit by independent accountants. The unqualified opinion of McGladrey & Pullen, LLP, has been included in the Financial Section of this report.

District's management assumes full responsibility for the completeness and reliability of all the information presented in this report. Management has established a comprehensive internal control structure designed to compile sufficient reliable information for the preparation of the District's financial statements. District management and its Internal Audit staff periodically evaluate the internal control structure.

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

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

MISSION STATEMENT

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

BACKGROUND

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

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

The multi-award winning Metropolitan Water Reclamation District of Greater Chicago is headed by the Board of Commissioners who determine its policies and procedures. As one of the world's largest wastewater treatment, flood control and stormwater management agencies, the MWRD commissioners direct the $1.4 billion taxpayer supported budget necessary to manage an economically efficient, and environmentally sound operation. The District's 876 square mile service area accommodates an effective equivalent of ten million residential and industrial constituents. Candidates vying for a seat on the board of commissioners are elected county-wide for six year terms. Every two years, one-third of the board is up for election.

REPORTING ENTITY

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

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

MAJOR INITIATIVES

Intercepting Sewers

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

The expected construction cost over the next five years for the sewer program is $86 million. This money will primarily be used in the rehabilitation of the 39th street conduit. Once the rehabilitation is completed, the tunnel will remain in service to provide additional storm relief.

Water Reclamation Plant (WRP) Expansions and Improvements

The District has a total secondary treatment capacity of approximately 2 billion gallons per day. To ensure that the District continues to provide high quality service in the future, master planning studies for the major treatment plants have been initiated. The Calumet, Central (Stickney) and North Side Master Plans have been completed. The studies were undertaken to determine the future needs of each plant and to establish a long range plan for each facility that will improve the air and water environment. Over the next five years, approximately $867 million in construction projects will be awarded.

Biosolids Management

The District collects biosolids from wastewater treatment. The effective dewatering and drying of these biosolids is a major District undertaking. As discussed in the Notes to Basic Financial Statements (Note 9), the District's Board of Commissioners authorized the District to enter into a long-term contract to build and operate a 150 dry ton per day biosolids processing facility at the Central (Stickney) WRP. Testing of the facility will commence in 2008. The projected cost over the next five years for the Biosolids Management program is $284 million.

District staff demonstrate extraordinary skills in time, efficiency and excellence in five key events at the "Operations Challenge" in San Diego, California. Teams from across the country compete to demonstrate the diverse expertise required for the operation and maintenance of wastewater treatment facilities, their collection systems and laboratories. In 2008, Chicago hosts the 21st Annual Water Environment Federation Technical Conference (WEFTEC) for 20,000 national and international professionals, where the District's Operations team will again show its prowess.

The District's 2007 purchase of 30 all-electric, low-speed cars as part of its strategy to slash fleet emissions was the largest all-electric vehicle purchase by a government agency in the United States. The vehicles will eliminate hundreds of thousands of pounds of greenhouse gas emissions each year of operation.

The District produces nearly 267,100 dry tons of biosolids each year, making its operation the largest in the country. The District has improved its final processing of biosolids to achieve over a 90% beneficial utilization of the product. Here, built next to a Sidestream Elevated Pool Aeration station, is Water's Edge Golf Course, developed with District biosolids.

The USEPA Region V and Chicago Wilderness organization awarded the District with a Native Prairie Landscaping Award. This honor helps MWRD demonstrate its recurring leadership on the cutting edge of sustainable technology, green strategy initiatives, and environmental protection. The District established native plantings at all of its facilities in 2007. Utilizing native plants aids stormwater management, reduces long-term grounds maintenance costs, increases biodiversity and wildlife habitat, sequesters carbon, and exhibits excellent land stewardship.

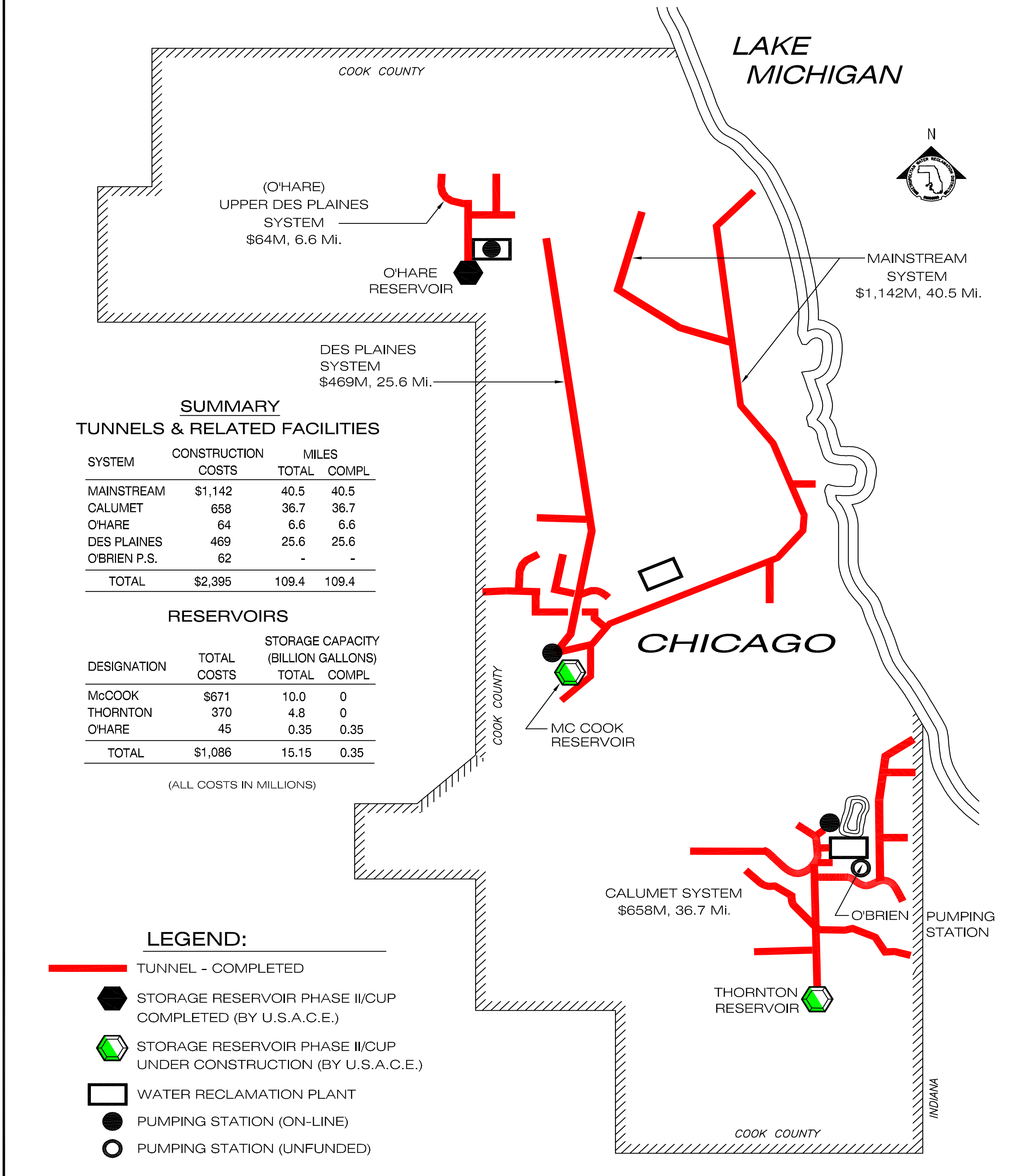
Tunnel and Reservoir Plan – Phase I

The District's Board of Commissioners adopted the Tunnel and Reservoir Plan (TARP) in 1972 as a comprehensive pollution and flood control program for its 375 square mile combined sewer area. This area comprises 52 communities, including the City of Chicago. The primary goals of TARP are as follows: protect Lake Michigan, the area's primary source of drinking water, from polluted backflows; clean up the area's waterways; and provide an outlet for floodwater and rainfall runoff by capturing wastewater before it enters streams and rivers from within the District's service area. TARP Phase I is composed of four tunnel systems that store polluted sewer overflows during wet weather. All 109.4 miles of Phase I tunnels have been constructed and are operational and the entire system has an approximate value of $2.33 billion.

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

Tunnel and Reservoir Plan – Phase II

Phase II is the flood control segment of TARP and consists of three storage reservoirs to serve as outlets for combined sewer overflows (CSOs). The three reservoirs – O'Hare, Thornton, and McCook – will provide 15.2 billion combined gallons of storage for CSOs that otherwise would spill into local waterways, degrading the water quality, and causing flooding. The District has executed Project Cooperation Agreements (PCA) with the Army Corps of Engineers, (the Corps), to construct all three reservoirs. However, the District has assumed responsibility for the design and construction of the Thornton Composite Reservoir from the Corps, and is seeking reimbursement of the federal cost sharing portion of the reservoir. The combined construction and land rights cost for all three reservoirs is estimated at $1,086 million, with the Corps and the District providing approximately $602 million and $484 million, respectively. The O'Hare Reservoir, the smallest of the three, was completed in 1998 at a cost of $45 million. Engineering design and construction for McCook and Thornton reservoirs are currently underway. Some construction contracts for the McCook Reservoir have been completed and others are currently in progress. Approximately 60% of the overburden removal for the McCook Reservoir has been completed and mining will begin in 2008. Mining of the Transitional Composite Reservoir began in 1998 and is 75% complete. The accompanying exhibit on page 17 shows the status and components of both phases of TARP.



SUMMARY

TUNNELS & RELATED FACILITIES

SYSTEM	CONSTRUCTION COSTS	MILES TOTAL	MILES COMPL
MAINSTREAM	$1,142	40.5	40.5
CALUMET	658	36.7	36.7
O'HARE	64	6.6	6.6
DES PLAINES	469	25.6	25.6
O'BRIEN P.S.	62	-	-
TOTAL	$2,395	109.4	109.4

RESERVOIRS

DESIGNATION	TOTAL COSTS	STORAGE CAPACITY (BILLION GALLONS) TOTAL	COMPL
McCOOK	$671	10.0	0
THORNTON	370	4.8	0
O'HARE	45	0.35	0.35
TOTAL	$1,086	15.15	0.35

(ALL COSTS IN MILLIONS)

LEGEND:

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

TUNNEL AND RESERVOIR PLAN PROJECT STATUS

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

Stormwater Management

The Cook County Stormwater Management Plan (CCSMP) was adopted by the District's Board of Commissioners on February 15, 2007. The CCSMP is a high level organizational plan wherein the overall framework for the countrywide program is established. The CCSMP includes technical guidance for performing Detailed Watershed Plans (DWPs). In 2007, the District continued work on the DWPs for the Little Calumet River, Calumet-Sag Channel, and Upper Salt Creek watersheds. DWPs were initiated for the Lower Des Plaines River, North Branch of the Chicago River, and Poplar Creek watersheds. The DWPs will ultimately result in comprehensive evaluations of the existing conditions and problems in each of Cook County's watersheds, and include recommendations as to the remedial measures that should be taken. The projects recommended in the DWPs will then be evaluated to determine the future capital improvement program for the Stormwater Management Fund. It is anticipated that the initial DWPs will be completed in 2008. Prior to the completion of the DWPs, the District will look to fund projects that have been approved for funding by agencies such as the U.S. Army Corps of Engineers and the Illinois Department of Natural Resources/Office of Water Resources.

Replacement and Maintenance of Facilities

Many of the District's plants and interceptors were placed in service over 50 years ago. In order to maintain continuous operations, physically deteriorating facilities must be replaced through rehabilitation, alteration, or expansion. The cost for the Master Plan improvements is estimated to average approximately $60 million per year. The expected construction cost for the remainder is $302 million.

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

Means of Financing

The Water Quality Control Act Amendments of 1987 authorized State Revolving Funds (SRF) nationally. The authorization was used to create State Revolving Funds, administered by state agencies, to provide loans to municipal agencies for wastewater construction programs. The TARP CUP reservoirs qualify for 75% funding by the Corps, while the remaining 25% funding will be provided by the District through bond sales and land acquisition.

BUDGET PROCESS

The Board of Commissioners is required to adopt an annual budget by no later than the close of the previous fiscal year. This annual budget serves as the foundation for the Metropolitan Water Reclamation District's financial planning and control. Annual budgets are prepared for the Corporate, Construction, Capital Improvements Bond Fund, Stormwater, and Reserve Claim Funds.

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

ECONOMIC BASE OUTLOOK

The District's service area is sizeable, encompassing 98% of the assessed valuation of Cook County. Property values continue to show growth in Cook County. The equalized assessed valuation for the District has experienced a 6.06% average growth rate over the last ten years and the current equalized assessed valuation of $141,468,642,565 is 8% higher than the previous year. Higher employment and a robust pace of new construction, including the residential market, are positive indicators that the local economy will remain strong. A strong fund balance, along with an emphasis on controlling expenditures, should allow the District to protect its operations from economically sensitive revenues stemming from fiscal constraints at the federal and state levels.

FINANCIAL POLICIES

The following policies were amended by the Board of Commissioners in 2007.

General Corporate Fund

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

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

- Reserve Claim Fund is to be kept at the maximum level permitted by statute, or 0.05% of the Equalized Assessed Valuation. This will be financed through tax levies. This level of funding will protect the District in the event of catastrophic failure of District operational infrastructure or other claims. As the District is primarily self-insured, adequate reserves are critical.

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

Capital Improvements Bond Fund Investment Income

Investment earnings from the Capital Improvements Bond Fund resulting from all future bond issues will fund an equity transfer to the Debt Service Funds and be used to abate property tax levies for other corporate needs. This practice will also limit the payment of arbitrage rebates.

Debt Service Funds Investment Income

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

Capital Improvements Bond Fund Accumulated Income

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Water Reclamation District of Greater Chicago for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2006. This was the 32nd consecutive year that the Metropolitan Water Reclamation District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District has been presented with the award for Distinguished Budget Presentation by the GFOA for the annual budget for the year beginning January 1, 2007. 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 23 consecutive years.

ACKNOWLEDGMENTS

Preparation of this report reflects the combined efforts of the dedicated professional and support personnel of the Finance Department. Their expertise, enthusiasm, and unswerving focus on excellence are gratefully acknowledged. The Board of Commissioners and the general citizenry, in our opinion, may fully rely on the 2007 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

Jacqueline Torres
Director of Finance/Clerk

Matt Glavas

Matthew Glavas
Comptroller

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

April 28, 2008

STATEMENT OF RESPONSIBILITY

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

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

- The statements fairly present the financial position and changes in financial position of the Metropolitan Water Reclamation District of Greater Chicago, and its component units, for the fiscal year ended December 31, 2007, in accordance with accounting principles generally accepted in the United States of America;
- The statements contain no untrue statement of material facts; and
- There are no omissions of material fact(s).

Terrence J. O'Brien
President

Richard Lanyon
General Superintendent

Jacqueline Torres
Director of Finance/Clerk

Matthew Glavas
Comptroller

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II.
FINANCIAL SECTION

All up and down the District's 76 miles of main waterways healthy activity is occurring. Nearly 600 recreational paddlers participated in the day long Flatwater Classic traveling the 7.25 mile course from North Shore Channel's Clark Park to the finish line at Ping Tom Memorial Park in Chinatown. In 2007, the largest Division-1 Women's Collegiate regatta since 1957 took place on the famous Cal Sag Channel.

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (District), as of and for the year ended December 31, 2007, 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 93% of the total assets, and 59% of total revenues (additions) of the aggregate remaining fund information of the District. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the pension trust fund is based solely on the report of the other auditors. The District's financial statements include partial prior-year comparative information. Such information does not include notes to the basic financial statements which are required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2006, from which such partial information was derived.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2007, and the respective changes in financial position and the respective budgetary comparison for the General Corporate Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, in fiscal year 2007 the District adopted the provisions of Government Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information which includes management's discussion and analysis (pages 27 – 42), the modified approach for eligible infrastructure (pages 88 – 91) and pension and OPEB related information (page 92) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metropolitan Water Reclamation District of Greater Chicago's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 28, 2008

Management's Discussion and Analysis (MD&A)

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

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

2007 FINANCIAL HIGHLIGHTS

- The District ended the 2007 fiscal year with assets exceeding liabilities by $5,234,078,000. This amount represents the District's net assets and it includes $70,431,000 of unrestricted net assets which may be used to meet the District's future obligations.

- The District's total net assets increased by $6,000,000 in 2007 as a result of revenues exceeding expenses.

- The District's combined fund balances for its governmental funds at December 31, 2007 totaled $866,246,000, a decrease of $128,921,000 from the prior year, based on expenditures and other financing uses exceeding revenues and other financing sources.

- The District's total long-term liabilities decreased by $40,540,000 in 2007, primarily due to the retirement of general obligation bonds.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

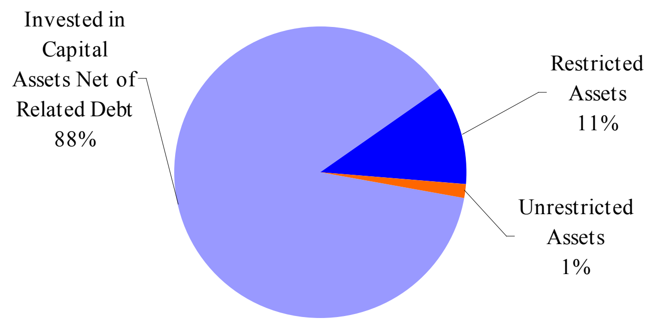
A condensed comparison of the Statements of Net Assets for December 31, 2007 and 2006 is presented in the following schedule (in thousands of dollars):

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Assets:				
Current and other assets	$ 1,291,852	$ 1,460,145	$ (168,293)	(11.5)%
Capital assets	5,691,890	5,565,932	125,958	2.3
Total assets	6,983,742	7,026,077	(42,335)	(0.6)
Liabilities:				
Current liabilities	125,246	133,041	(7,795)	(5.9)
Long-term liabilities	1,624,418	1,664,958	(40,540)	(2.4)
Total liabilities	1,749,664	1,797,999	(48,335)	(2.7)
Net Assests:				
Invested in capital assets, net of related debt	4,580,604	4,541,778	38,826	0.9
Restricted	583,043	569,237	13,806	2.4
Unrestricted	70,431	117,063	(46,632)	(39.8)
Total net assets	$ 5,234,078	$ 5,228,078	$ 6,000	0.1 %

The previous schedule reports that the District's net assets totaled $5,234,078,000 at December 31, 2007, which represents the amount by which the District's assets exceed its liabilities. The largest portion of the net assets, $4,580,604,000 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 $583,043,000 and represent resources that are subject to external or legal restrictions as to how they may be spent, such as federal grants or state loans, capital bond proceeds, or tax levies for working cash, and debt service. The remaining balance of net assets of $70,431,000 is unrestricted.

The chart on the right reports the percentage of net assets in the three categories as of December 31, 2007.

2007 Net Assets by Components



Investment in capital assets, net of related debt, increased by $38,826,000 in 2007 as a result of the following:

- Capital assets increased by $125,958,000 in 2007 due to new construction.
- Bonded debt related to capital assets increased by $87,132,000 in 2007 due to the issuance of new debt.

The increase in restricted net assets of $13,806,000 resulted from the following:

- Net assets restricted for Debt Service decreased by $16,650,000 due to the increase in General Obligation Bonds in 2007.
- Net assets restricted for working cash increased by $8,393,000 due to increases to the levy.
- Net assets restricted for capital projects increased by $17,612,000 due to a reclassification of unspent bond proceeds from the July 2006 bond issues.

The decrease in unrestricted net assets of $46,632,000 resulted from an excess expenditures over revenues in the Corporate accounts of the General Corporate Fund.

A comparison of the changes in net assets resulting from the District's operations for the years ended December 31, 2007 and 2006 is presented in the following schedule (in thousands of dollars):

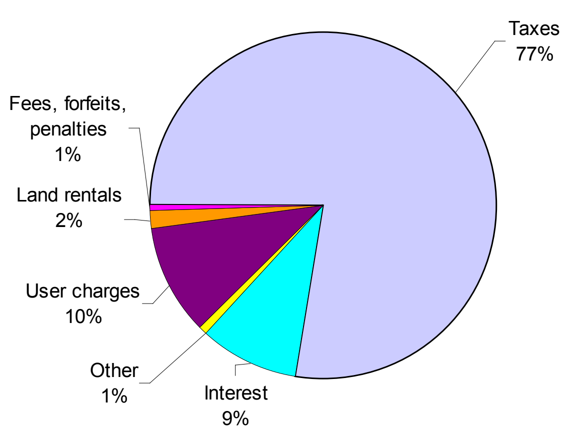
	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Revenues				
General Revenues:				
Taxes	$ 416,712	$ 430,518	$ (13,806)	(3.2)%
Interest	48,750	43,659	5,091	11.7
Other	4,163	4,365	(202)	(4.6)
Program Revenues:				
User charges	54,612	53,986	626	1.2
Land rentals	9,243	7,972	1,271	15.9
Fees, forfeits and penalties	3,383	4,693	(1,310)	(27.9)
Capital grants	253	-	253	100.0
Total revenues	537,116	545,193	(8,077)	(1.5)
Expenses				
Board of Commissioners	3,513	3,422	91	2.7
General Administration	16,875	17,293	(418)	(2.4)
Research and Development	26,178	25,317	861	3.4
Purchasing	6,631	5,480	1,151	21.0
Personnel	61,878	35,216	26,662	75.7
Information Technology	16,475	11,312	5,163	45.6
Law	6,147	5,748	399	6.9
Finance	3,109	3,218	(109)	(3.4)
Engineering	4,483	4,519	(36)	(0.8)
Maintenance and Operations	179,938	156,984	22,954	14.6
Pension costs	49,891	42,320	7,571	17.9
OPEB Trust Fund costs	7,405	-	7,405	100.0
Claims and judgments	17,606	876	16,730	1,909.8
Construction costs	56,914	70,594	(13,680)	(19.4)
Loss on disposal of capital assets	273	4,430	(4,157)	(93.8)
Unallocated depreciation	9,216	9,216	-	0.0
Interest	64,584	81,876	(17,292)	(21.1)
Total expenses	531,116	477,821	53,295	11.2
Increase in net assets	6,000	67,372	(61,372)	(91.1)
Total net assets, beginning of year as restated	5,228,078	5,160,706	67,372	1.3
Total net assets, end of year	$ 5,234,078	$ 5,228,078	$ 6,000	0.1 %

- Total revenues decreased by $8,077,000 in 2007 or 1.5% from the prior year. Property tax revenues decreased by $21,998,000 from 2006 to 2007 due to the collection of prior year taxes in 2006 was greater than prior year taxes collected in 2007. Personal property replacement taxes increased by $8,192,000 as a result of increased earnings by corporations in 2007. Interest on investments increased by $5,091,000 in 2007 and the increase can be attributed to more District funds held in investments that earned interest in 2007. Other general revenues decreased by $202,000 in 2007 due to a decrease in collections of claims and judgments. Program revenues increased by $840,000 as a result of increases to User Charge of $626,000, and rental revenues of $1,271,000 which were offset by a decrease of $1,310,000 in fees, forfeits, and penalties. Capital grants and contributions increased by $253,000 as a result of a storm water grant.

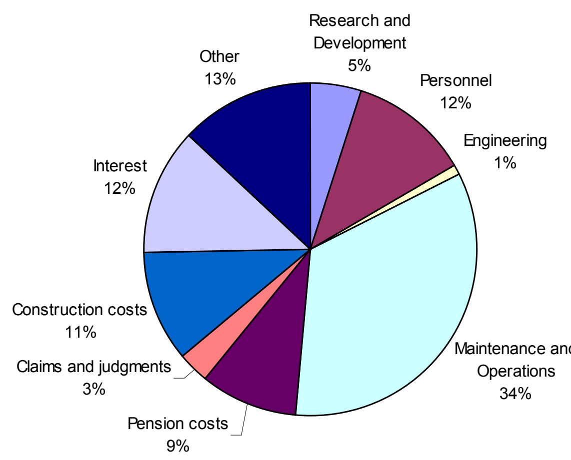
- Total expenses in 2007 were $531,116,000. This represents a $53,295,000, or 11.2%, increase from the previous year. Lower building and vehicle expenses are responsible for General Administration's decrease of $418,000, while higher- than-expected health care costs were responsible for the increase in Personnel's expenses of $26,662,000, compared to 2006 as well as the funding of OPEB trust in the amount of $25,000,000. The Information Technology Department expenses were $5,163,000 higher because of the increased computer and communication equipment purchases. Engineering expenses decreased in 2007 by $36,000 because of fewer repair projects scheduled for WRP facilities. The Maintenance and Operations Department expenses increased by $22,954,000 in 2007, due mostly to the increased cost of natural gas and electricity. The Research and Development Department expenses increased by $861,000 due to the continued monitoring of the District's waterways. The 2007 pension cost increase of $7,571,000 is based on the actuarial pension cost calculation. The OPEB Trust fund expenses increased by $7,405,000 as a result of the creation of the OPEB Trust. Claims and judgment expenses in 2007 were $16,730,000 higher than 2006 because of an increase in estimates for claims and contingent environmental liabilities. Construction expenses decreased in 2007 by $13,680,000 as a result of less new construction. Interest expense was lower by $17,292,000 due to retirement of general obligation debt. The decrease in the loss on disposal of capital assets of $4,157,000 was due to a change of policy on capitalization threshold for movable equipment from $5,000 to $20,000. All other expenses increased by $1,532,000 in 2007.

The following percentage charts show the major sources of revenue and expenses for the year ended December 31, 2007:

Revenue by Source



Expenses by Type



ANALYSIS OF DISTRICT'S GOVERNMENTAL FUND FINANCIAL STATEMENTS

As previously discussed, the focus of the District's governmental funds is on short-term inflows, outflows, and currently available resources. The difference between assets and liabilities in the governmental funds is fund balance, which is made up of reserved fund balance and unreserved fund balance. Reserved fund balance is not available for new discretionary spending, while the unreserved fund balance serves as a measure of a fund's net resources available for new spending at the end of the year. The emphasis in the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the governmental fund financial statements. For 2007, the District reports four major funds and two non-major funds. The four major governmental funds are the General Corporate Fund, the Construction Fund, the Capital Improvements Bond Fund, and the Debt Service Fund. The non-major governmental funds are the Special Revenue Retirement Fund and the Capital Projects Stormwater Management Fund.

The District finished the current fiscal year with combined governmental fund balances of $866,246,000 a decrease of $128,921,000 or 12.9%, from 2006. The decrease is a result of expenditures exceeding revenues by $173,522,000 offset by net financing sources of $44,601,000. A total of $536,816,000, or 62%, of the fund balances represent unreserved and undesignated fund balances that are available for current spending in accordance with the purposes of the specific funds. The remainder of the fund balances of $329,430,000 is reserved for the Working Cash accounts.

General Corporate Fund. The General Corporate Fund is the principal operating fund of the District and it includes annual property taxes and other revenues, which are used for the payment of general operating expenditures not chargeable to other funds. The General Corporate Fund's fund balance at the end of the current fiscal year totaled $234,510,000. The fund balance represented 71% 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 $10,468,000 in the current year, which was the amount by which expenditures exceeded revenues of $9,198,000 and a $1,270,000 net transfer of accumulated investment income to the Debt Service funds to the Corporate Working Cash Fund (see Note 3.) The deficit unreserved fund balance of $33,332,000 is a result of the reserve for working cash.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2007 and 2006 is shown in the following schedule (in thousands of dollars):

General Corporate Fund
Comparative Revenue Schedule

	2007		2006			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Increase (Decrease)
Revenues:						
Property taxes	$ 207,566	64.2%	$ 197,661	65.5%	$ 9,905	5.0 %
Personal property replacement tax	35,032	10.8	26,087	8.6	8,945	34.3
Total tax revenue	242,598	75.1	223,748	74.1	18,850	8.4
Interest on investments	11,473	3.6	10,061	3.3	1,412	14.0
Land sales	28	0.0	166	0.1	(138)	(83.1)
Tax increment financing distributions	644	0.2	1,167	0.4	(523)	(44.8)
Claims and damage settlements	64	0.0	614	0.2	(550)	(89.6)
Miscellaneous	2,824	0.9	2,183	0.7	641	29.4
User charges	53,817	16.7	52,104	17.3	1,713	3.3
Land rentals	9,243	2.9	7,972	2.6	1,271	15.9
Fees, forfeits and penalties	2,422	0.7	3,739	1.2	(1,317)	(35.2)
Total revenues	$ 323,113	100.0%	$ 301,754	100.0%	$ 21,359	7.1 %

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments, and rental income. In 2007, General Corporate Fund revenues totaled $323,113,000, an increase of $21,359,000, or 7.1%, from the 2006 revenues of $301,754,000. Total tax revenues increased by $18,850,000, or 8.4%, to $242,598,000 for the year 2007, as a result of increases in property taxes of $9,905,000, or 5.0%, and an increase in personal property replacement taxes of $8,945,000, or 34.3%. The increase in property taxes resulted from increased tax levies. The increase in personal property replacement tax collection resulted from an improvement in the State's economy.

Interest earned on General Corporate Fund investments for 2007 increased to $11,473,000 from $10,061,000 in 2006. The increase can be attributed to more District funds held in investments that earned interest in 2007. Revenues from user charges increased by $1,713,000 in 2007 due to an increase in rates and customer base. All other revenues, including miscellaneous revenue, decreased by $617,000 in 2007.

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

	2007		2006			Percent
	Amount	% of Total	Amount	% of Total	Increase (Decrease)	Increase (Decrease)
Expenditures:						
Employee cost	$ 200,803	60.4%	$ 170,291	62.8%	$ 30,512	17.9 %
Energy cost	42,910	12.9	31,695	11.7	11,215	35.4
Chemicals	5,605	1.7	4,958	1.8	647	13.0
Solids disposal	11,461	3.5	10,754	4.0	707	6.6
Repair to structures/equipment	24,776	7.5	20,011	7.4	4,765	23.8
Materials, parts, and supplies	16,289	4.9	10,405	3.8	5,884	56.5
Machinery and equipment	4,144	1.2	3,565	1.3	579	16.2
Land	467	0.1	-	-	467	0.0
Claims and judgments	9,353	2.8	4,954	1.8	4,399	88.8
All other	16,503	5.0	14,352	5.3	2,151	15.0
Total expenditures	$ 332,311	100.0%	$ 270,985	100.0%	$ 61,326	22.6 %

In 2007, General Corporate Fund expenditures totaled $332,311,000, an overall increase of $61,326,000, or 22.6%, over 2006 expenditures. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2007, accounting for 73.3% of total expenditures versus 74.5% in 2006.

Employee costs, which include salaries and wages, group life and health insurance, Medicare contributions, and tuition and training, increased by $30,512,000, or 17.9%, from 2006. Salaries and wages during 2007 amounted to $141,033,000, which was $3,894,000, or 3%, higher than 2006. This change resulted from cost of living and annual step increases. The District's contribution for employee health insurance increased by $26,020,000, or 91%, in 2007 to $54,528,000 due to the transfer of $25,000,000 into the newly created OPEB trust. The combination of all other employee related costs increased by $598,000.

Energy costs have increased by $11,215,000 in 2007, or 35.4%, due mainly to the higher cost of electricity. Prior to 2007 Commonwealth Edison was the sole supplier of electricity to the District in a regulated market which now needs to be purchased on the open market.

Repairs of structures and equipment increased by $4,765,000 in 2007, or 23.8%, due to the scheduling of more repair projects for District facilities.

Purchases of machinery and equipment were $579,000 higher in 2007 because of an increase in expenditures for vehicles, equipment in labs and process facilities, and computer software.

Expenditures for solids disposal were $707,000 higher in 2007 because of an increase in charges for waste material disposal. Higher demand for materials, parts, and supplies resulted in an increase of $5,884,000 in 2007 expenditures.

Expenditures for all other categories increased by $7,664,000 in 2007 mainly as a result of higher claims and judgements, and an increase in consulting and contractual services.

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 $97,492,000. The fund balance represented 61% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Bond Fund decreased by $27,048,000 in the current year, which represented the amount revenues were exceeded by debt service costs of $36,545,000 and net proceeds from refundings of $9,497,000. The decrease in the interest on bonds was primarily due to the debt refunding.

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

The Construction Fund's fund balance at the end of the current fiscal year totaled $50,502,000, including a reservation for working cash of $26,313,000. The fund balance represented 529.7% of the total Construction Fund expenditures. The fund balance for the Construction Fund increased by $8,237,000, because four construction awards were delayed into subsequent years resulting in lower than anticipated expenditures.

The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled $432,189,000. This amount will provide resources for the 2008 construction program. The fund balance represented 244% of the fund's expenditures, and decreased by $110,775,000 in the current year as a result of expenditures exceeding revenues by $149,879,000. Other financing sources totaled $39,104,000 as a result of $47,104,000 in state revolving fund loans as well as an equity transfer of $8,000,000 to the Reserve Claim Fund. Revenues increased by $6,246,000 due to higher investment income, while expenditures increased by $31,769,000, which reflects the progress of capital projects under construction.

GENERAL CORPORATE FUND BUDGET ANALYSIS

The General Corporate Fund budget includes the budgetary accounts of the Corporate Fund and Reserve Claim divisions. A comparison of the 2007 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 2007 budget and actual results at the appropriation line item level is presented in Combining and Individual Fund Statements and Schedules (Exhibit C-1).

A condensed summary of the 2007 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

	Budget		Actual	Actual Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Property and personal property replacement taxes	$ 258,558	$ 258,558	$ 258,478	$ (80)
Adjustment for working cash borrowing	(4,629)	(4,629)	(4,629)	-
Adjustment for estimated tax collections	-	-	1,571	1,571
Tax revenue available for current operations	253,929	253,929	255,420	1,491
User charges	47,600	47,600	51,950	4,350
Interest on investments	7,632	7,632	11,983	4,351
Land rentals	7,000	7,000	9,488	2,488
Other	6,224	6,224	7,558	1,334
Total revenues	322,385	322,385	336,399	14,014
Operating expenditures:				
Board of Commissioners	4,131	4,131	3,489	642
General Administration	28,143	27,343	25,707	1,636
Research and Development	27,550	26,585	25,335	1,250
Purchasing	8,984	8,984	8,146	838
Personnel	56,021	64,021	61,833	2,188
Information Technology	12,895	17,023	15,857	1,166
Law	7,202	7,502	6,114	1,388
Finance	3,779	3,729	3,089	640
Engineering	18,490	11,879	4,324	7,555
Maintenance and Operations	195,128	191,126	177,801	13,325
Claims and judgments	56,706	56,706	9,353	47,353
Total expenditures	419,029	419,029	341,048	77,981
Revenues over (under) expenditures	(96,644)	(96,644)	(4,649)	91,995
Other financing sources (uses)				
Transfers	8,000	8,000	8,000	-
Revenue and other financing sources (uses) over (under) expenditures	(88,644)	(88,644)	3,351	91,995
Fund balance at beginning of year	142,925	142,925	146,062	3,137
Net assets available for future use	(54,281)	(54,281)	-	54,281
Fund balance at beginning of year as adjusted	88,644	88,644	146,062	57,418
Fund balance at end of the year	$ -	$ -	$ 149,413	$ 149,413

Actual revenues on a budgetary basis for 2007 in the General Corporate Fund totaled $336,399,000 or $14,014,000 more than budgeted revenues, a 4.3% variation. Property taxes and personal property replacement taxes were $1,491,000 more than the budget because of the adjustment for estimated tax collections over and above the working cash borrowings. User charge receipts were $4,350,000 more than the budget because of several large commercial users increasing their loadings and associated expenses. Interest on investments had a $4,351,000 positive variance over budget because of more District funds held in investments earning interest. Land rentals increased by $2,488,000 due to new and updated lease terms. All other revenues had a $1,334,000 positive variance because of better-than-expected results for land sales, fines, and revenues from tax increment financing districts.

The 2007 General Corporate Fund final appropriation of $419,029,000 did not change from the original amount. Actual budgetary expenditures totaled $341,048,000, or 81.4%, of the total appropriation. The $77,981,000 excess of appropriations over actual expenditures was primarily due to claims and judgments being $47,353,000 less than appropriations. This is consistent with the Board of Commissioners' policy to accumulate sufficient reserves for payment of future claims without exposing the District to financial risk that could curtail normal operations. Expenditures for the Maintenance & Operations Department were $13,325,000 below appropriations, mainly because of variances for electricity, chemicals, waste disposal costs, repairs, and repair parts. The increase in the Personnel budget was due mainly to funding OPEB. Budget versus actual variances of $7,555,000 for Engineering Department were due to the scheduling of projects for repairs to process facilities and buildings. Management controls placed on staffing and other appropriation accounts also contributed to the total variance.

CAPITAL ASSETS AND MODIFIED APPROACH

Capital Assets. The District's reportable capital assets, net of accumulated depreciation, as of December 31, 2007, amounted to $5,691,890,000. Reportable capital assets, net of accumulated depreciation, for 2007 as compared to 2006 are as follows (in thousands of dollars):

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Land	$ 127,043	$ 126,434	$ 609	0.5 %
Buildings	8,835	9,020	(185)	(2.1)
Machinery and equipment	16,921	17,113	(192)	(1.1)
Depreciable infrastructure	1,705,172	1,714,349	(9,177)	(0.5)
Modified infrastructure	3,354,350	3,347,249	7,101	0.2
Construction in progress	479,569	351,767	127,802	36.3
Total	$ 5,691,890	$ 5,565,932	$ 125,958	2.3 %

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

- Modified infrastructure assets increased by $7,101,000 in 2007 as a result of completed infrastructure projects. Additions exceeded retirements by $125,958,000 in 2007.

- Construction in progress increased by $127,802,000 from 2006 to 2007 due to the ongoing construction of infrastructure projects. Major projects such as the McCook Reservoir accounted for $48,500,000 in 2007, the investment on the new Stickney Computer Center was an additional $20,000,000, and on going work on the Calumet Isolation Chamber and Central Boiler Facilities amounted to $23,900,000.

In addition to the above, commitments totaling $321,648,896 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

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

The Kirie, Hanover, Egan, Central (Stickney), North Side, and Waterways network assets had their initial condition assessments completed between 2002 and 2005. The Kirie network had a second condition assessment completed in 2005, the Hanover network had a second condition assessment completed in 2006, and Egan and Northside had second assessments in 2007 (see further discussion of the modified approach in the Required Supplementary Information Section).

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

DEBT ACTIVITY

Long-term Debt. The District's long-term liabilities as of December 31, 2007 totaled $ 1,624,418,000. The breakdown of this debt and changes from 2006 to 2007 are as follows (in thousands of dollars):

	2007	2006 (Restated)	Increase (Decrease)	Percent Increase (Decrease)
Bonds payable, net	$ 1,503,471	$ 1,590,675	$ (87,204)	(5.5) %
Bond anticipation notes including accrued interest	63,131	25,261	37,870	149.9
Claims payable	29,265	21,012	8,253	39.3
Compensated absences	28,551	28,010	541	1.9
Total	$ 1,624,418	$ 1,664,958	$ (40,540)	(2.4) %

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

- Bonds payable, net, decreased by $87,204,000 in 2007 as a result of the issuance of $382,020,000 in Capital Improvement bonds, the conversion to bonds of $9,234,000 in bond anticipation note principal and interest, the reduction of bond principal of $504,801,000, and the amortization of $26,343,000 for issuance costs, premiums, and refunding transactions.

- Bond anticipation notes increased by $37,870,000 in 2007 as a result of the issuance of $41,363,000 in notes, the accrual of $5,741,600 in interest converted to bonds, and the conversion of $9,234,000 from bond anticipation notes to bonds.

- Claims payable increased due to revised estimates for claims.The 2006 balance above has been adjusted to reflect the implementation of GASB 49.

- Compensated absences increased slightly.

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

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

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

Effective October 1, 1997, the District may fund up to 100% of the aggregate total of the estimated amount of taxes levied or to be levied for corporate purposes, plus the General Corporate Fund portion of the personal property replacement tax, through borrowing from the Corporate Working Cash Fund and issuance of tax anticipation notes or warrants. The policy of the District currently is to fund up to 95%. 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 $141,468,642,568 for the 2006 property tax levy. At December 31, 2007, the District's statutory debt limit of $8,134,447,000 exceeded the applicable net debt amount of $1,564,046,000 by $6,570,401,000.

The Illinois Compiled Statutes provide authorization for the funding of the District Capital Improvement Program by the issuance of non-referendum capital improvement bonds. Starting in 2003, bonds may be issued during any budget year in an amount not to exceed $150 million ($100 million in prior years), plus the amount of any bonds authorized and unissued during the three preceding budget years. The District has issued various series of bonds since the authorization. Bonds authorized and unissued from the budget years ended December 31, 2007 and 2006 are $400,000,000 and $250,000,000, respectively.

The District has non-referendum bonding authority until the year 2016. When the Property Extension Limitation Law was made applicable to Cook County, the legislature recognized that the completion of the Tunnel and Reservoir Plan (TARP) was such a high priority that it exempted TARP bonds from tax cap limits. In 1995, the Local Government Debt Reform Act was amended to allow governmental entities which already had non-referendum bonding authority to issue limited bonds. The amount which could be levied in any levy year to pay principal and interest on limited bonds was capped at $141,500,000, the amount of the debt service extension base for the 1994 levy year. The Property Tax Extension Limitation Law has been amended so that the issuance of bonds by the District to construct TARP will not reduce the District's ability to issue limited bonds for other major capital projects. The amount of outstanding non-referendum Capital Improvement Bonds may not exceed 3.35% of the last known equalized assessed valuation of taxable property within the District. At December 31, 2007, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding State Revolving Fund bonds) of $1,117,575,000 did not exceed the limitation of $4,739,200,000.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2007, are indicated in the following schedule (in millions of dollars):

Capital Improvement and Refunding Bonds
Outstanding and Remaining Authorization

Year of Issue	Total	Capital Improvement	Refunding
1992	$ 30	$ -	$ 30
1997	75	-	75
2002	93	93	-
2006	537	140	397
2007	382	-	382
Total bonds outstanding at December 31, 2007	1,117	$ 233	$ 884
Remaining bond authorization at December 31, 2007	3,622		
Total bond authorization at December 31, 2007	$ 4,739		

The amount of non-referendum Corporate Working Cash Fund bonds, when added to (a) proceeds from the sale of Working Cash Fund bonds previously issued, (b) any amounts collected from the Corporate Working Cash Fund levy, and (c) amounts transferred from the Construction Working Cash Fund, may not exceed 90% of the amount produced by multiplying the maximum general corporate tax rate permitted by the last known equalized assessed valuation of all property in the District at the time the bonds are issued, plus 90% of the District's last known entitlement of the Personal Property Replacement Tax. At December 31, 2007, the District's remaining Corporate Working Cash Fund bond authorization is $324,527,317.

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

ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT

The District is located in one of the strongest and most economically diverse areas of the country. The equalized assessed valuation for the District has experienced a 7.13% 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. Unemployment for the Chicago-Naperville-Joliet Metropolitan Division increased to 4.9% in December 2007 from 3.9% a year earlier.

Corporate Fund. The Corporate Fund is the District's General Fund and includes appropriation requests for all the day-to-day operational costs anticipated for 2008. The total appropriation for the Corporate Fund in 2008 is $397.2 million, an increase of $34.9 million, or 9.6 percent from 2007. The major reasons for this increase include additional funding of $12.0 million for the OPEB trust, the execution of the Information Technology Strategic Plan (ITSP) initiatives at $9.0 million, engineering projects required prior to Master Plan initiatives of $5.1 million, and approximately $4.5 million of equipment in Research & Development and Maintenance & Operations.

The 2008 tax levy for the Corporate Fund is $239.3 million, an increase of $6.2 million or 2.7 percent compared to 2007. It is the District's intent to maintain the fund balance, or net assets appropriable for the Corporate Fund in the $45 to $55 million range. This fund balance level balances the competing imperatives of minimizing the annual levy and providing for unexpected shortfalls in revenues. In order to draw down an unusually high fund balance and achieve the intended level, $66.2 million of the 2007 ending fund balance projected at $105.7 million will be appropriated to fund 2008 expenditures.

Continuing through 2008 economically sensitive non-property tax revenues are expected to increase moderately based on improving local and national economic indicators.

Property taxes and user charges are the primary funding sources for the District's Corporate Fund. Illinois law limits the tax rate of this fund to 41 cents per $100 of equalized assessed valuation. The estimated tax rate for the Corporate Fund in 2008 is 16.91 cents. User charges are collected from industrial, commercial, and non-profit organizations to recover operations, maintenance, and replacement costs proportional to their sewage discharges, in excess of property taxes collected. The major categories of payers, chemical manufacturers, food processors, and government services, are generally expected to maintain their recent level of discharges.

Capital Program, Construction Fund, and Capital Improvements Bond Fund. The District's overall Capital Program includes 2008 project awards, land, support, future projects, and projects under construction, with a total cost of approximately $2.5 billion. Capital projects involve the acquisition, improvement, replacement, remodeling, completing, altering, constructing, and enlarging of District facilities. Included are all fixtures which are permanently attached to and made a part of such structures and non–structural improvements, which cannot be removed without in some way impairing the facility or structure.

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

The District utilizes two funds for its Capital program, the Construction Fund and the Capital Improvements Bond Fund. The Construction Fund is utilized as a "pay as you go" capital rehabilitation and modernization program. Capital projects are financed by a tax levy sufficient to pay for project costs as they are constructed. As the District replaces, rehabilitates, and modernizes aged and less effective infrastructure, capital projects are assigned to the Corporate, Construction, or Capital Improvements Bond Fund based on the nature of the project, dollar magnitude, and useful life of the improvement. The Construction Fund is used for operations related projects, where the useful life of the improvement is less than 20 years or when the values are less than $1 million dollars.

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

The 1995 Tax Extension Limitation Law (Tax Cap), and subsequent amendments to the bill, dramatically impacted the methods available for financing the Capital Improvements Bond Fund. The original legislation required, in general, that all new debt be approved by referendum. However, an exemption for projects initiated before October 1, 1991 was granted to the District to enable completion of the Tunnel and Reservoir Plan (TARP). The bill was later amended to establish a "debt extension base," which allowed local governments, with no referendum authority, to continue to issue non-referendum debt in terms of "limited bonds," as long as their annual debt service levies did not exceed 1994 levels. This law was further amended in 1997 to exclude TARP project debt from this debt service extension base. These changes allow the District to effectively utilize "limited bonds" as a source of financing.

Construction Fund. The Construction Fund appropriation for 2008 totals $32.2 million, a decrease of $10.5 million from 2007. Five projects are budgeted for award in 2008, at a total contract cost of $17.2 million and requiring an appropriation of $2.5 million. The remaining $29.7 million appropriation is required for salaries, support, and projects under construction. In 2007, six new projects were appropriated for $18.7 million; and the appropriation for projects under construction, salaries, and support required $23.9 million.

Beginning in 2002, the budgeting of Engineering staff working on Capital projects was split between the Construction Fund and the Capital Improvements Bond Fund. For 2008, 45 positions are budgeted in the Construction Fund and 177 positions are budgeted in the Capital Improvements Bond Fund. Directly budgeting staff and personnel-related costs such as health care in the several funds avoids complicated interfund reimbursement procedures and accounting with no negative financial impact. The distribution of positions between the funds is re-evaluated annually to reflect current projects.

Capital projects in the Construction Fund are primarily supported by property taxes and thus subject to the Tax Cap limitation. The passage of legislation in 1997 allowing for expanded authority to issue "limited bonds" by excluding pre-existing TARP projects provides additional financing flexibility to proceed with our capital program. The 2008 tax levy for the Construction Fund is a decrease of $5.2 million, or 100.0 percent from 2007. This decrease in levy is due to a lower estimate of expenditures versus appropriations in 2007 thereby increasing net assets available for appropriation in 2008 and is sufficient to fund all planned expenditures.

Capital Improvements Bond Fund. The 2008 appropriation for the Capital Improvements Bond Fund is $743.4 million, an increase of $396.0 million, or 114.0 percent from 2007. The appropriation is based on the scheduled award of $623.3 million in projects. Capital Improvements Bond Fund projects scheduled for award in 2008 with estimated award values consist of two Tunnel and Reservoir Plan projects at $150.0 million, twelve process facilities projects at $223.9 million; four solids management projects at $130.4 million; four intercepting sewers projects at $107.9 million and one miscellaneous project at $11.1 million.

The increase in appropriation for the Capital Improvements Bond Fund of $396.0 million reflects the pattern in the award of major projects. An appropriation for the open value of existing contracts is also carried forward from the prior year.

The remaining $120.1 million appropriation for this Fund will provide for salaries, studies, services, and supplies to support District design and administration of proposed and ongoing construction activity, including the TARP reservoirs. A comprehensive narrative and exhibits detailing our entire Capital program is provided in the District's Budget document.

Other Post-Employment Benefits (OPEB) Trust. The District provides subsidized health care benefits for its retirees. The Government Accounting Standards Board (GASB) pronouncement 45, requires reporting of the future liability for maintaining these benefits in the Comprehensive Annual Financial Report (CAFR). The initial projection of the future liability to the District was estimated as being as large as $900 million, depending on the underlying assumptions and adoption of policies.

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

- 50 percent funded level target;
- 50 years to reach funding level;
- $10 million funding in each of the first 5 years beginning in 2007 from the Corporate Fund;
- An initial investment mixture of 50 percent equities and 50 percent bonds with a maximum limit of 65 percent equities that allows for investment growth.

The policy adopted by the District is cautious by design, and will provide ample opportunity for adjustment as experience is gained. Future direction may also be changed significantly by national health care policies and programs. The accumulated unfunded OPEB obligation was estimated at approximately $443 million when initially disclosed in the 2006 CAFR.

In 2006, the District proposed state legislation to give authority to establish an OPEB trust. Public Act 95-394 became effective on August 26, 2007. An initial contribution of $15 million was budgeted in 2007. Following establishment of the trust, additional funding of $10 million was placed in the OPEB trust for a total of $25 million. This additional funding was due to surpluses in the Personnel Department health insurance account and the deferral of projects and purchases in other departments.

Energy. In April 2006, the District accepted a proposal and entered into a three-year open market agreement with Peoples Energy for supplying electricity beginning January 1, 2007 for the District's major facilities. We are seeing an increase in overall rates for the electricity generation component of approximately 31 percent over existing rates, based on a mixture of daily and seasonally specific rates, plus an additional 5 percent for Com Ed's revised distribution tariffs. Revenue from the Lockport Powerhouse hydroelectric generation is estimated at $1.4 million in 2008.

Organized Labor. The District has six collective bargaining agreements that cover fifteen unions and include approximately 860 of the District's employees for purposes of determining wages and benefits. All six collective bargaining agreements were renegotiated in 2005 and will expire again in June 2008.

REQUESTS FOR ADDITIONAL INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

December 31, 2007 (with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund		Debt Service Fund		Capital Improvements Bond Fund	
	2007	2006	2007	2006	2007	2006
Assets						
Cash	$ 326	$ 347	$ 341	$ 79	$ 100	$ 6
Deposits with escrow agent	-	-	-	4,184	-	-
Certificates of deposit (note 4)	10,187	75,476	-	-	141,154	126,812
Investments (note 4)	187,226	135,415	77,258	104,552	314,062	464,964
Taxes receivable, net (note 5)	231,208	211,776	137,832	119,300	-	-
Other receivables, net (note 5)	6,735	4,885	-	20	5,741	9,736
Due from other funds (note 12)	475	338	-	-	-	-
Inventories	35,787	36,326	-	-	-	-
Restricted cash	1,851	1,821	-	3,463	553	1,083
Net pension asset	-	-	-	-	-	-
Capital assets not being depreciated (note 6)	-	-	-	-	-	-
Capital assets being depreciated, net (note 6)	-	-	-	-	-	-
Total assets	$ 473,795	$ 466,384	$ 215,431	$ 231,598	$ 461,610	$ 602,601
Liabilities, Fund Balances / Net assets						
Liabilities:						
Deferred tax revenue (note 5)	$ 196,695	$ 190,383	$ 117,939	$ 107,002	$ -	$ -
Other deferred/unearned revenue (note 5)	2,348	2,295	-	-	-	-
Accounts payable and other liabilities (note 5)	39,942	28,728	-	56	29,124	59,433
Due to Pension Trust Fund (note 12)	-	-	-	-	-	-
Due to other funds (note 12)	300	-	-	-	297	204
Accrued interest payable	-	-	-	-	-	-
Net OPEB obligation	-	-	-	-	-	-
Net pension liability	-	-	-	-	-	-
Long-term liabilities: (note 11)						
Due within one year	-	-	-	-	-	-
Due in more than one year	-	-	-	-	-	-
Total liabilities	239,285	221,406	117,939	107,058	29,421	59,637
Fund balances/net assets						
Fund balances:						
Reserved for working cash	267,842	263,216	-	-	-	-
Unreserved (note 1.p):						
General corporate fund	(33,332)	(18,238)	-	-	-	-
Debt service fund	-	-	97,492	124,540	-	-
Capital projects funds	-	-	-	-	432,189	542,964
Total fund balances	234,510	244,978	97,492	124,540	432,189	542,964
Total liabilities and fund balances	$ 473,795	$ 466,384	$ 215,431	$ 231,598	$ 461,610	$ 602,601
Net assets:						
Invested in capital assets, net of related debt						
Restricted for corporate working cash						
Restricted for reserve claim						
Restricted for debt service						
Restricted for capital projects						
Restricted for construction working cash						
Restricted for stormwater working cash						
Unrestricted						
Total net assets						

See accompanying notes to the basic financial statements.

Construction Fund		Other Governmental / Nonmajor Funds		Total Governmental Activities		Adjustments (Note 2a)		Statements of Net Assets	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
$ 17	$ 21	$ 11	$ 6	$ 795	$ 459	$ -	$ -	$ 795	$ 459
-	-	-	-	-	4,184	-	-	-	4,184
15,161	12,125	26,879	17,885	193,381	232,298	-	-	193,381	232,298
36,110	31,320	24,443	21,384	639,099	757,635	-	-	639,099	757,635
4,999	17,144	33,871	44,157	407,910	392,377	-	-	407,910	392,377
-	-	-	-	12,476	14,641	-	(495)	12,476	14,146
300	-	-	-	775	338	(775)	(338)	-	-
-	-	-	-	35,787	36,326	-	-	35,787	36,326
-	-	-	-	2,404	6,367	-	-	2,404	6,367
-	-	-	-	-	-	-	16,353	-	16,353
-	-	-	-	-	-	3,960,962	3,825,450	3,960,962	3,825,450
-	-	-	-	-	-	1,730,928	1,740,482	1,730,928	1,740,482
$ 56,587	$ 60,610	$ 85,204	$ 83,432	$ 1,292,627	$ 1,444,625	$ 5,691,115	$ 5,581,452	$ 6,983,742	$ 7,026,077
$ 3,317	$ 15,445	$ 22,572	$ 35,211	$ 340,523	$ 348,041	$ (340,523)	$ (348,041)	$ -	$ -
-	-	-	-	2,348	2,295	(23)	(29)	2,325	2,266
2,662	2,810	1,179	340	72,907	91,367	-	-	72,907	91,367
-	-	9,828	7,417	9,828	7,417	20,237	21,775	30,065	29,192
106	90	72	44	775	338	(775)	(338)	-	-
-	-	-	-	-	-	10,121	10,216	10,121	10,216
-	-	-	-	-	-	7,405	-	7,405	-
-	-	-	-	-	-	2,423	-	2,423	-
-	-	-	-	-	-	87,296	102,406	87,296	102,406
-	-	-	-	-	-	1,537,122	1,562,552	1,537,122	1,562,552
6,085	18,345	33,651	43,012	426,381	449,458	1,323,283	1,348,541	1,749,664	1,797,999
26,313	25,750	35,275	32,064	329,430	321,030	(329,430)	(321,030)		
-	-	-	-	(33,332)	(18,238)	33,332	18,238		
-	-	-	-	97,492	124,540	(97,492)	(124,540)		
24,189	16,515	16,278	8,356	472,656	567,835	(472,656)	(567,835)		
50,502	42,265	51,553	40,420	866,246	995,167	(866,246)	(995,167)		
$ 56,587	$ 60,610	$ 85,204	$ 83,432	$ 1,292,627	$ 1,444,625				
						4,580,604	4,541,778	4,580,604	4,541,778
						267,848	263,229	267,848	263,229
						31,295	26,844	31,295	26,844
						203,656	220,306	203,656	220,306
						18,656	1,044	18,656	1,044
						26,313	25,750	26,313	25,750
						35,275	32,064	35,275	32,064
						70,431	117,063	70,431	117,063
						$ 5,234,078	$ 5,228,078	$ 5,234,078	$ 5,228,078

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

Year ended December 31, 2007
(with comparative amounts for prior year)

(in thousands of dollars)

	General Corporate Fund 2007	General Corporate Fund 2006	Debt Service Fund 2007	Debt Service Fund 2006	Capital Improvements Bond Fund 2007	Capital Improvements Bond Fund 2006
Revenues						
General revenues:						
Property taxes	$ 207,566	$ 197,661	$ 116,574	$ 134,585	$ -	$ -
Personal property replacement tax	35,032	26,087	-	-	-	-
Interest on investments	11,473	10,061	5,266	8,807	27,214	20,968
Land sales	28	166	-	-	-	-
Tax increment financing distributions	644	1,167	-	-	-	-
Claims and damage settlements	64	614	-	-	-	-
Miscellaneous	2,824	2,183	229	461	-	-
Gain on sale of capital assets	-	-	-	-	-	-
Program revenues:						
Charges for services:						
User charges	53,817	52,104	-	-	-	-
Land rentals	9,243	7,972	-	-	-	-
Fees, forfeits and penalties	2,422	3,739	-	-	-	-
Capital grants and contributions:						
Federal grants	-	-	-	-	-	-
Total revenues	323,113	301,754	122,069	143,853	27,214	20,968
Expenditures/Expenses						
Operations:						
Board of Commissioners	3,496	3,401	-	-	-	-
General Administration	16,491	16,974	-	-	-	-
Research and Development	25,892	24,985	-	-	-	-
Purchasing	6,556	5,352	-	-	-	-
Personnel	61,841	35,162	-	-	-	-
Information Technology	16,125	11,034	-	-	-	-
Law	6,121	5,709	-	-	-	-
Finance	3,093	3,197	-	-	-	-
Engineering	4,331	4,318	-	-	-	-
Maintenance and Operations	179,012	155,899	-	-	-	-
Pension costs	-	-	-	-	-	-
OPEB costs	-	-	-	-	-	-
Claims and judgments	9,353	4,954	-	-	-	-
Construction costs	-	-	-	-	177,093	143,163
Loss on disposal of capital assets	-	-	-	-	-	-
Depreciation (unallocated)	-	-	-	-	-	-
Debt service:						
Redemption of bonds	-	-	90,466	83,692	-	-
Interest on bonds	-	-	68,148	86,016	-	2,161
Total expenditures/expenses	332,311	270,985	158,614	169,708	177,093	145,324
Revenues over (under) expenditures	(9,198)	30,769	(36,545)	(25,855)	(149,879)	(124,356)
Other financing sources (uses):						
Payment to escrow agent for refunded bonds	-	-	(437,621)	(416,000)	-	-
Bond anticipation notes issued	-	-	-	-	47,104	27,464
Refunding bonds issued	-	-	382,020	397,390	-	-
General obligation bonds issued	-	-	-	6,757	-	343,243
Premium on sale of bonds	-	-	53,098	13,328	-	11,266
Transfers	(1,270)	15,000	12,000	(20,000)	(8,000)	-
Total other financing sources (uses)	(1,270)	15,000	9,497	(18,525)	39,104	381,973
Revenues and other financing sources (uses) over (under) expenditures	(10,468)	45,769	(27,048)	(44,380)	(110,775)	257,617
Change in net assets	-	-	-	-	-	-
Fund balances/net assets:						
Beginning of the year as restated (note 1.p)	244,978	199,209	124,540	168,920	542,964	285,347
End of the year	$ 234,510	$ 244,978	$ 97,492	$ 124,540	$ 432,189	$ 542,964

See accompanying notes to the basic financial statements.

Construction Fund		Other Governmental / Nonmajor Funds		Total Governmental Activities		Adjustments (Note 2b)		Statements of Activities	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
$ 15,409	$ 16,209	$ 37,208	$ 32,220	$ 376,757	$ 380,675	$ (5,980)	$ 12,100	$ 370,777	$ 392,775
1,097	2,322	9,806	9,334	45,935	37,743	-	-	45,935	37,743
2,321	2,241	2,476	1,582	48,750	43,659	-	-	48,750	43,659
-	350	-	-	28	516	(28)	(516)	-	-
-	-	-	-	644	1,167	-	-	644	1,167
-	-	-	-	64	614	-	-	64	614
413	54	29	31	3,495	2,729	(61)	(145)	3,434	2,584
-	-	-	-	-	-	21	-	21	-
300	400	-	-	54,117	52,504	495	1,482	54,612	53,986
-	-	-	-	9,243	7,972	-	-	9,243	7,972
961	954	-	-	3,383	4,693	-	-	3,383	4,693
-	-	253	-	253	-	-	-	253	-
20,501	22,530	49,772	43,167	542,669	532,272	(5,553)	12,921	537,116	545,193
-	-	-	-	3,496	3,401	17	21	3,513	3,422
-	-	-	-	16,491	16,974	384	319	16,875	17,293
-	-	-	-	25,892	24,985	286	332	26,178	25,317
-	-	-	-	6,556	5,352	75	128	6,631	5,480
-	-	-	-	61,841	35,162	37	54	61,878	35,216
-	-	-	-	16,125	11,034	350	278	16,475	11,312
-	-	-	-	6,121	5,709	26	39	6,147	5,748
-	-	-	-	3,093	3,197	16	21	3,109	3,218
-	-	-	-	4,331	4,318	152	201	4,483	4,519
-	-	-	-	179,012	155,899	926	1,085	179,938	156,984
-	-	31,115	30,071	31,115	30,071	18,776	12,249	49,891	42,320
-	-	-	-	-	-	7,405	-	7,405	-
-	-	-	-	9,353	4,954	8,253	(4,078)	17,606	876
9,534	17,106	7,524	3,888	194,151	164,157	(137,237)	(93,563)	56,914	70,594
-	-	-	-	-	-	273	4,430	273	4,430
-	-	-	-	-	-	9,216	9,216	9,216	9,216
-	-	-	-	90,466	83,692	(90,466)	(83,692)	-	-
-	-	-	-	68,148	88,177	(3,564)	(6,301)	64,584	81,876
9,534	17,106	38,639	33,959	716,191	637,082	(185,075)	(159,261)	531,116	477,821
10,967	5,424	11,133	9,208	(173,522)	(104,810)	179,522	172,182		
-	-	-	-	(437,621)	(416,000)	437,621	416,000	-	-
-	-	-	-	47,104	27,464	(47,104)	(27,464)	-	-
-	-	-	-	382,020	397,390	(382,020)	(397,390)	-	-
-	-	-	-	-	350,000	-	(350,000)	-	-
-	-	-	-	53,098	24,594	(53,098)	(24,594)	-	-
(2,730)	-	-	5,000	-	-	-	-	-	-
(2,730)	-	-	5,000	44,601	383,448	(44,601)	(383,448)	-	-
8,237	5,424	11,133	14,208	(128,921)	278,638	128,921	(278,638)	-	-
-	-	-	-	-	-	6,000	67,372	6,000	67,372
42,265	36,841	40,420	26,212	995,167	716,529	-	-	5,228,078	5,160,706
$ 50,502	$ 42,265	$ 51,553	$ 40,420	$ 866,246	$ 995,167	$ -	$ -	$ 5,234,078	$ 5,228,078

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

Year ended December 31, 2007

(in thousands of dollars)

	Budget			Actual Variance With Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Property taxes:				
Gross levy	$ 233,065	$ 233,065	$ 233,065	$ -
Allowance for uncollectible taxes	(8,157)	(8,157)	(8,157)	-
Net property tax levy	224,908	224,908	224,908	-
Property tax collections	5,779	5,779	5,273	(506)
Personal property replacement tax:				
Entitlement	23,421	23,421	23,421	-
Collections	4,450	4,450	4,876	426
Total tax revenue	258,558	258,558	258,478	(80)
Adjustment for working cash borrowing	(4,629)	(4,629)	(4,629)	-
Adjustment for estimated tax collections	-	-	1,571	1,571
Tax revenue available for current operation	253,929	253,929	255,420	1,491
Interest on investments	7,632	7,632	11,983	4,351
Land sales	2	2	19	17
Tax increment financing distributions	925	925	699	(226)
Miscellaneous	2,315	2,315	3,866	1,551
User charges	47,600	47,600	51,950	4,350
Land rentals	7,000	7,000	9,488	2,488
Claims and damage settlements	5	5	-	(5)
Fees, forfeits and penalties	2,977	2,977	2,974	(3)
Total revenues	322,385	322,385	336,399	14,014
Operating expenditures:				
Board of Commissioners	4,131	4,131	3,489	642
General Administration	28,143	27,343	25,707	1,636
Research and Development	27,550	26,585	25,335	1,250
Purchasing	8,984	8,984	8,146	838
Personnel	56,021	64,021	61,833	2,188
Information Technology	12,895	17,023	15,857	1,166
Law	7,202	7,502	6,114	1,388
Finance	3,779	3,729	3,089	640
Engineering	18,490	11,879	4,324	7,555
Maintenance and Operations	195,128	191,126	177,801	13,325
Claims and judgments	56,706	56,706	9,353	47,353
Total expenditures	419,029	419,029	341,048	77,981
Revenues over (under) expenditures	(96,644)	(96,644)	(4,649)	91,995
Other financing sources (uses)				
Transfers	8,000	8,000	8,000	-
Fund balances at beginning of year	142,925	142,925	146,062	3,137
Net assets available for future use	(54,281)	(54,281)	-	54,281
Fund balances at beginning of the year as adjusted	88,644	88,644	146,062	57,418
Fund balances at end of year	$ -	$ -	$ 149,413	$ 149,413

See accompanying notes to the basic financial statements.

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

December 31, 2007
(with comparative amounts for prior year)

(in thousands of dollars)

	Pension Trust Fund		OPEB Trust Fund	Total Fiduciary Funds	
	2007	2006	2007*	2007	2006
Assets					
Cash	$ 112	$ 157	$ -	$ 112	$ 157
Receivables					
Employer contributions-taxes (net of allowance for uncollectibles of $5,554 in 2007; $3,123 in 2006)	30,067	30,824	-	30,067	30,824
Securities sold	7,391	30,246	-	7,391	30,246
Accrued interest and dividends	1,757	1,668	-	1,757	1,668
Accounts receivable	51	42	-	51	42
Total receivables	39,266	62,780	-	39,266	62,780
Investments at fair value					
U.S. Treasuries	27,888	25,433	-	27,888	25,433
U.S. Agencies	19,285	32,497	-	19,285	32,497
Corporate bonds and notes	34,590	29,935	-	34,590	29,935
Mortgage backed securities	34,375	5,807	-	34,375	5,807
Asset backed securities	8,275	5,669	-	8,275	5,669
Collateralized mortgage obligations	18,725	1,214	-	18,725	1,214
Pooled funds and mutual funds	549,383	630,356	25,025	574,408	630,356
Common and preferred stocks	488,380	449,589	-	488,380	449,589
Short-term investments	14,517	12,492	-	14,517	12,492
Total investments	1,195,418	1,192,992	25,025	1,220,443	1,192,992
Securities lending capital	171,496	-	-	171,496	-
Total assets	$ 1,406,292	$ 1,255,929	25,025	1,431,317	1,255,929
Liabilities					
Accounts payable	$ 713	$ 642	-	713	642
Securities lending collateral	171,496	-	-	171,496	-
Securities purchased	2,015	31,990	-	2,015	31,990
Total liabilities	174,224	32,632	-	174,224	32,632
Net assets held in trust for pension and OPEB benefits	$ 1,232,068	$ 1,223,297	$ 25,025	$ 1,257,093	$ 1,223,297

See accompanying notes to the basic financial statements.

* The OPEB Trust Fund was established in 2007.

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

Year ended December 31, 2007
(with comparative amounts for prior year)

(in thousands of dollars)

	Pension Trust Fund		OPEB Trust Fund	Total Fiduciary Funds	
	2007	2006	2007*	2007	2006
Additions:					
Contributions:					
Employer contributions	$ 27,947	$ 34,476	$ 25,000	$ 52,947	$ 34,476
Employee contributions	15,628	14,955	-	15,628	14,955
Total contributions	43,575	49,431	25,000	68,575	49,431
Investment income:					
Net appreciation in fair value of investments	51,318	95,849	-	51,318	95,849
Interest on fixed income investments	5,399	5,702	-	5,399	5,702
Interest on short-term investments	822	1,127	25	847	1,127
Dividend income	7,487	6,009	-	7,487	6,009
Total investment income	65,026	108,687	25	65,051	108,687
Less investment expenses	(2,563)	(2,175)	-	(2,563)	(2,175)
Investment income net of expenses	62,463	106,512	25	62,488	106,512
Security lending activities					
Security lending income	1,860	-	-	1,860	-
Borrower rebates	(1,655)	-	-	(1,655)	-
Bank fees	(51)	-	-	(51)	-
Net income from securities lending activities	154	-	-	154	-
Other	54	3	-	54	3
Total additions	106,246	155,946	25,025	131,271	155,946
Deductions:					
Annuities and benefits					
Employee annuitants	79,417	74,887	-	79,417	74,887
Surviving spouse annuitants	13,961	12,905	-	13,961	12,905
Child annuitants	126	105	-	126	105
Ordinary disability benefits	1,100	988	-	1,100	988
Duty disability benefits	242	194	-	242	194
Total annuities and benefits	94,846	89,079	-	94,846	89,079
Refunds of employee contributions	1,164	1,411	-	1,164	1,411
Administrative expenses	1,465	1,472	-	1,465	1,472
Total deductions	97,475	91,962	-	97,475	91,962
Net increase	8,771	63,984	25,025	33,796	63,984
Net assets held in trust for pension and OPEB benefits					
Beginning of year	1,223,297	1,159,313	-	1,223,297	1,159,313
End of year	$ 1,232,068	$ 1,223,297	$ 25,025	$ 1,257,093	$ 1,223,297

See accompanying notes to the basic financial statements.

* The OPEB Trust Fund was established in 2007.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Notes to the Basic Financial Statements

Year ended December 31, 2007

Index to Notes

Note **Page Number**

1. Summary of Significant Accounting Policies

The significant accounting policies of the Metropolitan Water Reclamation District of Greater Chicago ("District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and are described below.

a. Financial Reporting Entity - The District is a municipal corporation governed by an elected nine-member board. As required by GAAP, these financial statements present the District (the primary government) and its component units, the Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund - Note 7) and the Metropolitan Water Reclamation District Retiree Health Care Trust Fund (OPEB Trust Fund - Note 8). The Board of Trustees for the Pension Trust Fund is composed of 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 and OPEB Trust Fund are legally separate entities for which the primary government is not financially accountable, they are included in the District's basic financial statements as fiduciary funds. The nature and significance of the Pension Trust Fund and OPEB Trust Fund's relationship with the primary government is such that exclusion would render the District's financial statements incomplete or misleading. Complete financial statements of the Pension Trust Fund can be obtained from their administrative office at 111 East Erie Street, Chicago, Illinois, 60611-2898. Complete financial statements of the OPEB Trust Fund can be obtained from the Treasurer of the Metropolitan Water Reclamation District at 100 East Erie Street, Chicago, Illinois 60611-5498.

b. Government-wide and Fund Financial Statements - The District's basic financial statements include government-wide financial statements and fund financial statements.

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

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

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

The District reports the following major governmental funds:

General Corporate Fund

Established to account for an annual property tax levy and certain other revenues, which are to be used for the payments of general expenditures of the District not specifically chargeable to other funds. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the Corporate Fund. These accounts were established under Chapter 70, ILCS 2605/9b of the Illinois Compiled Statutes, which refers to these accounts as a "Working Cash Fund." Amounts borrowed from the Working Cash Fund in one year are generally repaid by the Corporate Fund from tax collections received during the subsequent year. Also included in this fund are accounts of the "Reserve Claim Fund," established under Chapter 70, ILCS 2605/12 of the Illinois Compiled Statutes, which was established for the payment of claims, awards, losses, judgments or liabilities which might be imposed against the District, and for the repair or replacement of certain property maintained by the District. The assets, liabilities, and fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions at December 31, 2007, are as follows (in thousands of dollars):

	Total General Corporate Fund	Reclass-ification	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Assets					
Cash	$ 326	$ -	$ 311	$ 14	$ 1
Certificates of deposit	10,187	-	10,055	-	132
Investments	187,226	-	121,113	12,397	53,716
Receivables:					
Property taxes receivable	278,455	-	270,714	187	7,554
Allowance for uncollectible taxes	(47,247)	-	(45,807)	(187)	(1,253)
Net property taxes receivable	231,208	-	224,907	-	6,301
Personal property replacement tax	-	-	-	-	-
User charges	6,257	-	6,257	-	-
Miscellaneous	478	-	478	-	-
Due from Capital Improvements Bond Fund	297	-	297	-	-
Due from Construction Fund	106	-	106	-	-
Due from Stormwater Management Fund	72	-	72	-	-
Due from Corporate Fund	-	-	(255,437)	255,437	-
Inventories	35,787	-	35,787	-	-
Restricted cash	1,851	-	1,851	-	-
Total assets	$ 473,795	$ -	$ 145,797	$ 267,848	$ 60,150
Liabilities and Fund Balances					
Liabilities:					
Deferred tax revenue	$ 196,695	$ -	$ 191,327	$ 6	$ 5,362
Other deferred revenue	2,348	-	2,348	-	-
Accounts payable and other liabilities	39,942	-	38,699	-	1,243
Due to other funds	300	-	300	-	-
Total liabilities	239,285	-	232,674	6	6,605
Fund balances-reserved:					
Working cash	267,842	-	-	267,842	-
Fund balances-unreserved:					
Designated for pmnt of future claims (note 13)	-	(53,545)	-	-	53,545
Undesignated	(33,332)	53,545	(86,877)	-	-
Total fund balances	234,510	-	(86,877)	267,842	53,545
Total liabilities and fund balances	$ 473,795	$ -	$ 145,797	$ 267,848	$ 60,150

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, 2007, are as follows (in thousands of dollars):

	Total General Corporate Fund	Corporate Division	Corporate Working Cash Division	Reserve Claim Division
Revenues:				
Property taxes	$ 207,566	$ 201,984	$ (50)	$ 5,632
Personal property replacement tax	35,032	25,663	4,494	4,875
Total tax revenue	242,598	227,647	4,444	10,507
Interest on investments	11,473	8,724	182	2,567
Land sales	28	28	-	-
Tax increment financing distributions	644	644	-	-
Claims and damage settlements	64	(81)	-	145
Miscellaneous	2,824	2,813	-	11
User charges	53,817	53,817	-	-
Land rentals	9,243	9,243	-	-
Fees, forfeits and penalties	2,422	2,422	-	-
Total revenues	323,113	305,256	4,626	13,230
Current expenditures:				
Board of Commissioners	3,496	3,496	-	-
General Administration	16,491	16,491	-	-
Research and Development	25,892	25,892	-	-
Purchasing	6,556	6,556	-	-
Personnel	61,841	61,841	-	-
Information Technology	16,125	16,125	-	-
Law	6,121	6,121	-	-
Finance	3,093	3,093	-	-
Engineering	4,331	4,331	-	-
Maintenance and Operations	179,012	179,012	-	-
Claims and judgments	9,353	-	-	9,353
Total expenditures	332,311	322,957	-	9,353
Revenues over (under) expenditures	(9,198)	(17,701)	4,626	3,877
Other financing sources (uses):				
Transfer to Debt Service Fund	(9,270)	(9,270)	-	-
Transfer from Capital Improvement Bond	8,000	-	-	8,000
Net Change in Fund Balance	(10,468)	(26,971)	4,626	11,877
Fund balance at the beginning of year	244,978	(59,906)	263,216	41,668
Fund balance at the end of year	$ 234,510	$ (86,877)	$ 267,842	$ 53,545

Debt Service Fund

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

Capital Improvements Bond Fund

A capital projects fund established to account for the proceeds of bonds authorized by the Illinois General Assembly, bond anticipation notes net of redemptions, government grants, and certain other revenues, all to be used in connection with improvements, replacements, and additions to designated environmental improvement projects.

Construction Fund

A capital projects fund established to account for the annual property tax levy and certain other revenues to be used for the acquisition of capital assets used in the principal functions of the District. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the Construction Fund. These accounts were established under Chapter 70, ILCS 2605/9c of the Illinois Compiled Statutes, which refers to these accounts as a "Construction Working Cash Fund." Amounts borrowed in one year are generally repaid by the Construction Fund from tax collections received during the subsequent year. The assets, liabilities, and fund balances of the Construction Fund, detailed as to the Working Cash and Construction account divisions at December 31, 2007, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Assets			
Cash	$ 17	$ 5	$ 12
Certificates of deposit	15,161	336	14,825
Investments	36,110	31,087	5,023
Receivables:			
Property taxes receivable	9,422	9,422	-
Allowance for uncollectible taxes	(4,423)	(4,423)	-
Net property taxes receivable	4,999	4,999	-
Interfund receivable - Corporate Fund	300	300	-
Total assets	$ 56,587	$ 36,727	$ 19,860
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 3,317	$ 3,317	$ -
Accounts payable and other liabilities	2,662	2,662	-
Due to Corporate Fund	106	106	-
Due to Construction Fund	-	6,453	(6,453)
Total liabilities	6,085	12,538	(6,453)
Fund balances-reserved:			
Working cash	26,313	-	26,313
Fund balances-unreserved:			
Undesignated	24,189	24,189	-
Total fund balances	50,502	24,189	26,313
Total liabilities and fund balances	$ 56,587	$ 36,727	$ 19,860

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, 2007, are as follows (in thousands of dollars):

	Total Construction Fund	Construction Division	Construction Working Cash Division
Revenues:			
Property taxes	$ 15,409	$ 15,409	$ -
Personal property replacement tax	1,097	1,097	-
Total tax revenue	16,506	16,506	-
Interest on investments	2,321	1,758	563
Miscellaneous	413	413	-
User charge	300	300	-
Fees, forfeits and penalties	961	961	-
Total revenues	20,501	19,938	563
Capital expenditures:			
Personal services	6,632	6,632	-
Contractual services	542	542	-
Materials and supplies	59	59	-
Machinery and equipment	192	192	-
Capital projects	2,109	2,109	-
Total expenditures	9,534	9,534	-
Revenues over (under) expenditures	10,967	10,404	563
Other financing sources (uses):			
Transfers to the Debt Service Fund	(2,730)	(2,730)	-
Total other financing sources (uses)	(2,730)	(2,730)	-
Net change in fund balance	8,237	7,674	563
Fund balance at the beginning of year	42,265	16,515	25,750
Fund balance at the end of year	$ 50,502	$ 24,189	$ 26,313

The District reports the following non-major governmental funds:

Retirement Fund

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

Stormwater Management Fund

A capital projects fund established to account for the annual property taxes which are specifically levied to finance all activities associated with stormwater management, including construction projects. Included in this fund are accounts maintained by the District for the sole purpose of making temporary loans to the Stormwater Management Fund. These accounts were established under Chapter 70, ILCS 2605/9e of the Illinois Compiled Statutes, which refers to these accounts as a “Stormwater Working Cash Fund.” Amounts borrowed in one year are generally repaid by the

Stormwater Management Fund from tax collections received during the subsequent year. The assets, liabilities, and fund balances of the Stormwater Management Fund, detailed as to the Working Cash and Stormwater Management account divisions at December 31, 2007, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Assets			
Cash	$ 11	$ 3	$ 8
Certificates of deposit	26,879	265	26,614
Investments	24,443	20,575	3,868
Receivables:			
Property taxes receivable	5,904	5,904	-
Allowance for uncollectible taxes	(2,099)	(2,099)	-
Net property taxes receivable	3,805	3,805	-
Total assets	$ 55,138	$ 24,648	$ 30,490
Liabilities and Fund Balances			
Liabilities:			
Deferred tax revenue	$ 2,334	$ 2,334	$ -
Accounts payable and other liabilities	1,179	1,179	-
Due to Corporate Fund	72	72	-
Due to Stormwater Management Fund	-	4,785	(4,785)
Total liabilities	3,585	8,370	(4,785)
Fund balances-reserved:			
Working cash	35,275	-	35,275
Fund balances-unreserved:			
Undesignated	16,278	16,278	-
Total fund balances	51,553	16,278	35,275
Total liabilities and fund balances	$ 55,138	$ 24,648	$ 30,490

The revenues, expenditures, and changes in fund balances of the Stormwater Management Fund, detailed as to the Stormwater Management and Working Cash account divisions for the year ended December 31, 2007, are as follows (in thousands of dollars):

	Total Stormwater Management Fund	Stormwater Management Division	Stormwater Working Cash Division
Revenues:			
Property taxes	$ 13,817	$ 13,817	$ -
Personal property replacement tax	2,082	-	2,082
Total tax revenue	15,899	13,817	2,082
Interest on investments	2,476	1,347	1,129
Government grants	253	253	-
Miscellaneous	29	29	-
Total revenues	18,657	15,446	3,211
Capital expenditures:			
Personal services	6,181	6,181	-
Contractual services	1,253	1,253	-
Materials and supplies	10	10	-
Machinery and equipment	80	80	-
Total expenditures	7,524	7,524	-
Revenues over (under) expenditures	11,133	7,922	3,211
Fund balance at beginning of year	40,420	8,356	32,064
Fund balance at end of year	$ 51,553	$ 16,278	$ 35,275

In addition, the District reports the following fiduciary funds:

Pension Trust Fund

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

OPEB Trust Fund

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

c. Basis of Accounting and Measurement Focus

Government-wide and Fiduciary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

Grants from Federal and State agencies are recorded as revenues in the fund financial statements when reimbursable expenditures are incurred, or other eligibility requirements imposed by the provider are met, and the grant resources are measurable and available.

Property taxes attach as an enforceable lien on property as of January 1 of the levy year. They are levied and recorded as a receivable as of January 1 and are due in two installments in the following year.

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

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

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

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

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

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

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

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

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

(9) Budgets are adopted on a basis not consistent with generally accepted accounting principles. In the General Corporate Fund budget, revenues are recognized on a cash basis except for property and personal property replacement taxes, which are recognized based on working cash borrowing plus an estimate of collections of property and property replacement taxes over and above the working cash borrowing. Expenditures are recognized on a GAAP basis except for inventory expenditures, which are accounted for on the purchase method for budgetary purposes and on the consumption method for GAAP financial reporting purposes. Transfers out to other funds are budgeted as expenditures, while transfers in are considered other financing sources. The Capital Improvements Bond Fund is budgeted on an "obligation" basis of accounting, which records total expenditures and grant revenues in the period in which contracts or grants are awarded. Appropriations lapse at year-end for the General Corporate, Retirement, Construction, Stormwater Management, and Debt Service Funds. Appropriations for the Capital Improvements Bond Fund lapse at the end of the year to the extent of the unencumbered balances. Encumbered balances are not reported as reservations of fund balances, as the amounts are re-appropriated in the following year;

(10) All governmental funds have legally adopted budgets;

(11) As authorized by the bond ordinance dated February 1, 2007, the District paid certain costs related to the issuance of General Obligation Refunding Bonds Unlimited and Limited Tax Series. The bond ordinance provided the authorization necessary for the payment of said costs and no separate supplemental appropriation ordinance was required.

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

f. **Certificates of deposit** are stated at cost plus accrued interest.

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

h. **Inventory**, consisting mainly of materials, supplies, and repair parts which extend the life of the District's treatment facilities, is reported on the Balance Sheet of the General Corporate Fund and the government-wide Statements of Net Assets. The District maintains a perpetual record-keeping system and uses a moving-average method, based on cost, for pricing its storeroom inventories. Materials, supplies, and repair parts are recorded as expenditures/expenses when consumed. The District has elected not to reserve a portion of the fund balance for inventory, since the full inventory is available for use (National Council on Governmental Accounting Statement 1). The 2007 inventory balance of $35,787,000 includes a $891,000 writedown of obsolete inventory as identified by the Purchasing Department.

i. **Restricted assets** represent cash and investments set aside pursuant to real estate escrow and intergovermental agreements.

j. **Interfund transactions** represent governmental fund transactions for: a) loans between funds reported as due to /due from other funds; b) reimbursements between funds reported in the fund financials as expenditures in the reimbursing fund and a corresponding reduction in expenditures in the reimbursed fund; and c) transfers between funds. All interfund transactions are eliminated in the government-wide financial statements. See note 12 for further disclosure of interfund transactions.

k. **Capital assets** including land (and land improvements), buildings, equipment, infrastructure, and construction in progress are recorded at historical cost or estimated historical cost in the government-wide financial statements. Retirements of capital assets are recorded at historical cost. Interest costs are not capitalized. Infrastructure assets include the District's sewers, water reclamation plants (WRP), waterway assets, TARP deep tunnels, and drop shafts. The thresholds for reporting capital assets are as follows:

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

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

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

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

In compliance with Governmental Accounting Standards Board (GASB) Statement 34, existing infrastructure assets accounted for with the modified approach are not reported in the government-wide financial statements until an initial condition assessment is completed for the assets' network. Pursuant to GASB 34, the District had until its 2006 fiscal year to complete the initial condition assessments of its networks and report existing assets in its government-wide financial statements. Condition assessments of eligible infrastructure assets must be completed at least every three years following the initial assessments. The Kirie, Central (Stickney), Hanover, North Side, Egan, Calumet, Lemont WRPs, and Waterways had their initial condition assessments completed between 2002 and 2006. Subsequent condition assessments were completed at Kirie WRP in 2005, Hanover WRP in 2006 and Egan and Northside WRPs in 2007. Currently, all the District's WRPs infrastructure assets are reported as infrastructure under the modified approach in the government-wide financial statements.

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

l. Compensated Absences for accumulated unpaid vacation, holiday, overtime, severance, and sick leave are paid to employees at retirement or termination. An employee is paid one hundred percent of accumulated vacation, holiday, overtime, and severance pay, and fifty percent of accumulated sick pay up to a maximum of sixty days. Compensated absences are accrued as they are earned in the government-wide financial statements. Expenditures and liabilities for compensated absences are recorded in the fund financial statements when due and payable. Included in the long-term liabilities of the Statements of Net Assets at December 31, 2007, are liabilities for compensated absences of \$2,168,000, due within one year, and \$26,383,000, due in more than one year.

m. Long-term Obligations – Long-term debt and other long-term obligations are reported in the government-wide Statements of Net Assets. Bond premiums and issuance costs are reported with bonds payable and amortized over the life of the bonds, using the straight-line method, in the government-wide financial statements. In addition, the refunding transaction cost, representing the excess of the amount required to refund debt over the book value of the old debt, is reported with bonds payable and amortized over the shorter of the life of the old debt or new debt in the government-wide financial statements.

The face amounts of the debt and bond premiums are recognized as other financing sources during the issuance period in the fund financial statements, while bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, and refunding costs are recognized as debt service expenditures in the fund financial statements.

The District enters into interest rate swap agreements to modify interest rates on outstanding, variable rate debt. Net payments under such agreements are reported as interest expenditures/expenses in the financial statements. The District terminated all outstanding swap agreements in March 2007, and has no variable rate debt outstanding at December 31, 2007.

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

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

- Restricted - This consists of net assets that are legally restricted by outside parties, or by law through constitutional provisions or enabling legislation. Net assets restricted for working cash are based on legal restrictions, while net assets restricted for debt service and capital projects are based on legal restrictions and/or outside parties. The government-wide statement of net assets reports \$583,043,000 of restricted net assets, none of which is restricted by enabling legislation.

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

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

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

p. Comparative data, reclassifications and restatements – The basic financial statements present comparative data for the prior year to provide an understanding of the changes in financial position and results of operations. Certain reclassifications and restatements have been made to the prior period financial statements in order to conform to the current period presentation. The government-wide net asset balances at the beginning of 2006 were restated by an increase of $48,550,000. This increase represents the restatement of the environmental remediation liability at December 31, 2006 to reflect the implementation of GASB 49.

q. Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reported period. Actual results could differ from those estimates.

r. New Accounting Pronouncements - GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The District's OPEB Trust Fund implemented this Statement for the year ending December 31, 2007.

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The District implemented this Statement for the year ending December 31, 2007.

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The District implemented this Statement for the year ending December 31, 2007.

Issued in 2007, GASB Statement No. 50, Pension Disclosures – an amendment to GASB Statements No. 25 and No. 27. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and enhances information disclosed in the notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The District is required to implement this Statement for the year ending December 31, 2008.

Issued in 2007, GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, which establishes accounting and financial reporting requirements for intangible assets. All intangible assets not specifically excluded by the scope of this Statement should be classified as capital assets. All existing authoritative guidance for capital assets should be applied to these intangible assets, as applicable. The District is required to implement this Statement for the year ending December 31, 2010.

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, 2007 (in thousands of dollars):

Total fund balances of governmental funds	$ 866,246
Amounts reported for governmental activities in the Statements of Net Assets are different because:	
Capital assets are not current financial resources and therefore are not reported as assets in governmental funds. However, capital assets are reported in the Statements of Net Assets. The cost of the remaining capital assets and accumulated depreciation is as follows:	
Capital assets	5,849,036
Accumulated depreciation	(157,146)
Capital assets, net	5,691,890
Long-term liabilities are not due and payable in the current period and accordingly are not reported as liabilities in governmental funds. However, long-term liabilities are reported in the Statements of Net Assets. The long-term liabilities consist of:	
Compensated absences	(28,551)
Claims and judgments	(29,265)
Bond anticipation notes	(63,131)
General obligation debt	(1,465,854)
Total long-term liabilities	(1,586,801)
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	(73,538)
Deferral of bond issuance costs and refunding transactions	35,921
Total deferrals	(37,617)
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 2007 amount is:	
Accrued interest	(10,121)
Some assets reported in governmental funds do not increase fund balance because the assets are not "available" to pay for current-period expenditures. These assets are offset by deferred revenues (liabilities) in the governmental funds. However, these assets increase net assets in the Statements of Net Assets. They consist of:	
Property taxes and personal property replacement tax deferrals	340,523
Adjustment for pension trust fund	(20,237)
Installment sale	23
Adjustment to deferred revenues	320,309
Some liabilities are not due and payable in the current period and accordingly are not reported as liabilities in governmental funds. However, these liabilities are reported in the Statement of Net Assets. They consist of:	
Net pension liability	(2,423)
Net OPEB obligation	(7,405)
Adjustment to liabilities	(9,828)
Interfund transactions are eliminated for Government-wide reporting. These transactions consist of:	
Due from other funds	775
Due to other funds	(775)
Total interfund	-
Total net assets of governmental activities	$ 5,234,078

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, 2007 (in thousands of dollars):

Net change in fund balances of governmental funds	$ (128,921)
Amounts reported for governmental activities in the Statements of Activities are different because:	
Construction costs for capital outlays are reported as expenditures in governmental funds. However, in the Statements of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense except for those assets under the modified approach. In the current period, these amounts are:	
Construction costs for capital outlays	137,237
Depreciation expense-allocated to various departments	(1,728)
Depreciation expense-unallocated	(9,216)
Excess of construction costs over depreciation expense	126,293
Debt proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statements of Net Assets. In the current period, debt proceeds and related items were:	
General obligation bonds issued	(382,020)
Bond issuance premium	(53,098)
Bond issuance costs	2,610
Bond anticipation notes issued	(47,104)
Debt proceeds total	(479,612)
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	504,801
Bond principal retirement total	504,801
Some expenses reported in the Statements of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Change in compensated absences-allocated to various departments	(541)
Change in claims and judgments	(8,253)
Change in bond interest	894
Change in bond anticipation notes interest	(799)
Change in net pension asset/obligation	(18,776)
Amortization of bond issuance /refunding costs	10,125
Amortization of bond premium	14,020
Change in OPEB Costs	(7,405)
Total additional expenses	(10,735)
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	(341)
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	(5,980)
User charge adjustment	495
Total adjustments	(5,485)
Change in net assets of governmental activities	$ 6,000

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 which differ from GAAP. In order to reconcile the budetary cash basis financials to the GAAP fund basis financials, the following schedule was prepared (in thousands of dollars):

		General Corporate Fund
Revenues and other sources (uses) over (under) expenditures on a budgetary basis	$	(4,649)
Adjustment from Budget to GAAP for:		
Tax revenues		(12,822)
Transfers from other sources (uses)		
Transfer from Capital Improvement Bond Fund to Reserve Claim Fund		8,000
Transfer from Corporate Fund to Debt Service Fund		(9,270)
Cash basis other revenues		(464)
GAAP versus budgetary expenditure differences		8,737
Revenues and other sources (uses) over (under) expenditures on GAAP Basis	$	(10,468)

4. Deposits and Investments

Deposits

As of December 31,2007, both the District and the Pension Trust Fund deposits were fully insured and collateralized.

Investments (excluding Trust Funds)

The investments which the District may purchase are limited by Illinois law to the following: (1) securities which are fully guaranteed by the U.S. Government as to principal and interest; (2) certain U.S. Government Agency securities; (3) certificates of deposit or time deposits of banks and savings and loan associations which are insured by a Federal corporation; (4) short-term discount obligations of the Federal National Mortgage Association; (5) certain short-term obligations of corporations (commercial paper) rated in the highest classifications by at least two of the major rating services; (6) fully collateralized repurchase agreements; (7) the State Treasurer's Illinois 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, 2007 (in thousands of dollars):

			Investment Maturities (in Years)			
Investment Type		Fair Value		Less Than 1 Year		1- 3 Years
U.S. Agencies	$	318,332	$	229,710	$	88,622
Commercial Paper		215,768		215,768		-
State Treasurer's Illinois Funds and Prime Funds		14,636		14,636		-
Treasury Bills		90,363		90,363		-
Total Investments	$	639,099	$	550,477	$	88,622

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

Interest Rate Risk

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

Credit Risk

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

Credit ratings for the District's investments in debt securities as described by Standard & Poor's and Moody's at December 31, 2007 (excluding investments in U.S. Treasuries, if any, which are not considered to have credit risk), are as follows:

Investment Type	Credit Ratings	% of Investment Type	% of Total Investments
U.S. Agencies	AAA/Aaa	100%	58.0%
Commercial Paper	A-1/P-1	100%	39.3%
State Treasurer's Illinois Funds and Prime Funds	AAAm	100%	2.7%

Concentration of Credit Risk

The District limits the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than 20% of the amount invested in commercial paper can be invested in any one entity. As of December 31, 2007, the following investments were greater than 5% of total investments:

Investment	Market Value
Federal National Mortgage Association	$ 95,168,565
Federal Home Loan Banks	$ 112,931,839
Federal Home Loan Mortgage Corporation	$ 57,364,827

Custodial Credit Risk

The District's investments are not exposed to custodial credit risk since its investment policy requires all investments and investment collateral to be held in safekeeping by a third party custodial institution, as designated by the Treasurer, in the District's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities which are in the possession of the outside party. All cash and certificates of deposit are adequately insured or collateralized at year-end.

Trust Fund's Investments

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

The following illustrates the terms of investments that are highly sensitive to interest rate fluctuations and reports the fair values and maturities (using the segmented time distribution method) for the Pension Trust Fund's investments at December 31, 2007 (in thousands of dollars):

		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**0 - 5 Years**	**6 - 10 Years**	**Greater than 10 Years**
Fixed income:				
U.S. Treasuries	$ 27,889	$ 7,754	$ 7,289	$ 12,846
U.S. Agencies	19,284	9,547	8,998	739
Corporate Bonds and Notes	34,590	20,344	11,066	3,180
Mortgage Backed Securities	34,375	15,634	15,848	2,893
Asset Backed Securities	8,275	6,483	1,186	606
Collateralized Mortgage Obligations	18,725	10,019	3,469	5,237
Pooled Funds and Mutual Funds	391,957	391,957	-	-
Totals	535,095	$ 461,738	$ 47,856	$ 25,501
Equities:				
Common and Preferred Stock	488,380			
Pooled Funds and Mutual Funds	171,943			
Total Investments	$ 1,195,418			

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

The OPEB Trust investments are part of the Illinois Funds Prime Fund. Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price the investments could be sold.

The Trust is authorized under State Statute 70 ILCS 2605/9.6d to direct the investment of its assets in any manner, subject only to the prudent investor standard and any requirements of applicable federal law. The limitations of any statute affecting the investment allocation of District funds shall not apply to the OPEB Trust.

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 OPEB Trust Fund's investments at December 31, 2007 (in thousands of dollars):

		Investment Maturities (in Years)		
Investment Type	**Fair Value**	**0 - 5 Years**	**6 - 10 Years**	**Greater than 10 Years**
Fixed Income				
Pooled funds and mutual funds	$ 25,025	$ 25,025	-	-
Total Investments	$ 25,025	$ 25,025	$ -	$ -

Interest Rate Risk

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

The OPEB Trust Fund does not have a written investment policy. The Trust's investments in the Illinois Funds have a weighted average maturity of less than 60 days.

Credit Risk

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

The following reports the credit ratings for the Fund's debt securities at December 31, 2007; excluded are U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government which are classified under the headings U.S. Treasuries and U.S. Agencies:

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

	AAA / Aaa	AA / Aa	A / A	BBB / Baa	BB/Bb
Corporate Bonds and Notes	0.55%	1.57%	2.21%	1.78%	0.17%
Mortgage Backed Securities	6.02%	0.23%	0.10%	0.03%	0.00%
Asset Backed Securities	0.97%	0.08%	0.09%	0.06%	0.25%
Collateralized Mortgage Obligations	2.39%	0.82%	0.29%	0.15%	0.01%
Pooled Funds and Mutual Funds	57.97%	12.91%	6.00%	5.35%	0.00%

The OPEB Trust Fund does not have a written investment policy. As of December 31, 2007, the credit rating for the Illinois Funds Prime Fund was AAA by Standard & Poor's.

Disclosure Ratings for Debt Securities (Standard & Poor's)
(As a percentage of total fair value for debt securities)

	AAA	AA	A	BBB	BB
Pooled funds and mutual funds	100.00%	0.00%	0.00%	0.00%	0.00%

5. Receivables, Deferred Revenues and Payables

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

Receivables

Receivables as of December 31, 2007 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improvements Bond	Construction	Other Governmental /	Total Governmental /	Statement of Net Assets
Receivables at December 31, 2007:							
Property taxes:	$ 278,454	$ 167,761	$ -	$ 9,422	$ 35,431	$ 491,068	$ 491,068
Allowance for uncollectible taxes	(47,246)	(29,929)	-	(4,423)	(7,653)	(89,251)	(89,251)
Net property taxes	231,208	137,832	-	4,999	27,778	401,817	401,817
Personal property replacement tax	-	-	-	-	6,093	6,093	6,093
Total taxes receivable, net	231,208	137,832	-	4,999	33,871	407,910	407,910
Other receivables:							
User charges	6,257	-	-	-	-	6,257	6,257
State revolving fund loans	-	-	5,741	-	-	5,741	5,741
Miscellaneous	478	-	-	-	-	478	478
Total other receivables, net	6,735	-	5,741	-	-	12,476	12,476
Total net receivables, December 31, 2007	$ 237,943	$ 137,832	$ 5,741	$ 4,999	$ 33,871	$ 420,386	$ 420,386

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

Deferred Revenues

Deferred tax revenue is reported in the Governmental Funds Balance Sheets in connection with receivables for property taxes that are not considered to be available to liquidate liabilities of the current period. In addition, other deferred revenue is reported in the Governmental Funds Balance Sheets and the government-wide Statements of Net Assets for rental resources that have been received, but not earned. A summary of deferred revenue as of December 31, 2007 is as follows (in thousands of dollars).

	General Corporate	Debt Service	Construction	Other Governmental	Total Governmental	Adjustments	Statement of Net Assets
Deferred revenue at December 31, 2007							
Deferred tax revenue	$ 196,695	$ 117,939	$ 3,317	$ 22,572	$ 340,523	$ (340,523)	$ -
Other deferred revenue:							
Rental income	2,348	-	-	-	2,348	(23)	2,325
Total deferred revenue at December 31, 2007	$ 199,043	$ 117,939	$ 3,317	$ 22,572	$ 342,871	$ (340,546)	$ 2,325

Payables

Payables reported as "Accounts payable and other liabilities" as of December 31, 2007 in the District's governmental funds and government-wide financial statements are detailed as follows (in thousands of dollars):

	General Corporate	Debt Service	Capital Improve-ments Bond	Construc-tion	Other Govern-mental	Total Govern-mental	Adjust-ments	Statement of Net Assets
Accounts payable and other liabilities at December 31, 2007								
Vouchers payable and other liabilities	$ 32,756	$ -	$ 29,124	$ 2,662	$ 1,179	$ 65,721	$ -	$ 65,721
Accrued payroll and withholdings	4,519	-	-	-	-	4,519	-	4,519
Bid deposits	2,667	-	-	-	-	2,667	-	2,667
Total accounts payable and other liabilities as of December 31, 2007	$ 39,942	$ -	$ 29,124	$ 2,662	$ 1,179	$ 72,907	$ -	$ 72,907

6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2007 are as follows (in thousands of dollars):

	Balances January 1, 2007	Additions	Retirements	Balances December 31, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 126,434	$ 610	$ 1	$ 127,043
Construction in progress	351,767	136,635	8,833	479,569
Infrastructure under modified approach	3,347,249	8,794	1,693	3,354,350
Total capital assets not being depreciated	3,825,450	146,039	10,527	3,960,962
Capital assets being depreciated:				
Buildings	13,226	-	-	13,226
Equipment	31,654	1,685	1,725	31,614
Infrastructure	1,843,195	39	-	1,843,234
Total capital assets being depreciated	1,888,075	1,724	1,725	1,888,074
Less accumulated depreciation:				
Buildings	4,206	185	-	4,391
Equipment	14,541	1,543	1,391	14,693
Infrastructure	128,846	9,216	-	138,062
Total accumulated depreciation	147,593	10,944	1,391	157,146
Total capital assets being depreciated, net	1,740,482	(9,220)	334	1,730,928
Governmental activities capital assets, net	$ 5,565,932	$ 136,819	$ 10,861	$ 5,691,890

Depreciation expense in the government-wide Statements of Activities, for the year ended December 31, 2007, was charged to the District's governmental functions as follows (in thousands of dollars):

Department	Amount
Board of Commissioners	$ 11
General Administration	350
Research and Development	211
Purchasing	61
Personnel	17
Information Technology	325
Law	11
Finance	10
Engineering	70
Maintenance and Operations	662
Total allocated depreciation	1,728
Unallocated infrastructure depreciation	9,216
Total depreciation	$ 10,944

7. Pension Plan

Plan Description

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

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

Basis of Accounting

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

Annual Pension Cost and Net Pension Asset (Obligation)

The annual pension cost and net pension asset (obligation) of the Plan for the year ended December 31, 2007 were as follows:

Annual required contribution	$	47,090,445
Interest on net pension obligation		(1,267,331)
Adjustment to annual required contribution		899,639
Annual pension cost		46,722,753
Contributions made		27,947,096
Increase in net pension obligation		18,775,657
Net pension asset beginning of year		16,352,652
Net pension obligation end of year	$	(2,423,005)

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

Funding Status and Progress

The annual required contribution for the current year was determined as part of the December 31, 2007 actuarial valuation, using the Entry Age Normal actuarial cost method and the Level Dollar amortization method. The actuarial assumption includes: (a) 7.75% per year rate of return on investments, net of investment expense, compounded annually; (b) projected salary increases of 5.0% per year compounded annually, attributable to inflation as well as seniority and merit increases; (c) post-retirement benefit compound increases of 3.0% per year for employee and surviving spouse annuitants; and (d) 4.00% inflation rate. The actuarial value of assets was determined by using the five-year Smoothed Market method. The unfunded actuarial accrued liability is being amortized as a level percent of payroll on an open basis. The amortization period at December 31, 2007, was 30 years. A schedule of the progress in funding the Pension Trust Fund can be found in Required Supplementary Information immediately following the notes.

Trend Information

The annual pension cost, percentage of annual pension contributed and net pension asset (obligation) for the past three years ending December 31, 2007, are presented below:

	Employer Contributions		
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset (Obligation)
12/31/2007	$ 46,722,753	59.81%	$ (2,423,005)
12/31/2006	46,725,756	73.78%	16,352,652
12/31/2005	42,161,862	62.08%	28,602,076

8. OPEB - Other Post-Employment Benefits

Plan Description

The Metropolitan Water Reclamation District Retiree Health Care Trust (OPEB Trust) administers the financing of OPEB and the payment of benefits for the Metropolitan Water Reclamation District of Greater Chicago (District). Pursuant to Illinois Statute 70 ILCS 2605/9.6d, the District adopted the Metropolitan Water Reclamation District Retiree Health Care Plan (the "Plan") effective December 6, 2007. The purpose of the "Plan" is to provide postretirement medical and prescription drug coverage benefits to retirees as well as spouses and dependants of retirees that fulfill certain eligibility requirements. Retirees and annuitants receiving a pension through the Pension Trust Fund are eligible for District-sponsored health insurance. As of December 31, 2007, there are 2,002 active employees and 2,276 retirees and beneficiaries currently receiving health care coverage.

The OPEB 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 Retiree Health Care Trust Fund, 100 E. Erie, Chicago, IL, 60611-2898 or calling 312-751-5150.

Basis of Accounting

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

Contributions

The District has not entered into any long-term contracts for contributions to the plan as of the date of this report. State Statute 70 ILCS 2605/9.6d is the legislation establishing the Trust and gives the District Board of Commissioners discretionary authority to determine contribution amounts to be paid by the District. In accordance with the legislation, the Board of Commissioners has established an initial pre-funding policy for the OPEB liability that includes $15,000,000 funding in each of the first two years and $10,000,000 for the next three years beginning in 2007 from the Corporate Fund. Subsequent funding will be based on a percentage of payroll expenditure. In 2007, an initial contribution of $25,000,000 was placed in the OPEB trust. The additional $10,000,000 funded was due to surplus in the Personnel Department health insurance account and deferral of projects and purchases of other departments. Plan participants do not contribute to the plan other than providing premium contributions as discussed below.

The District allows employees who retire and meet certain eligibility requirements to continue medical coverage as participants in the Metropolitan Water Reclamation District Retiree Health Care Plan. The plan allows for subsidized health care benefits for its retirees. Retirees contribute 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. The amount of OPEB expenditure recognized during 2007 by the District was $37,333,865, which includes $25,000,000 for the initial funding of the Trust and $12,333,865 of claims paid (net of participant contributions).

Annual OPEB Cost and Net OPEB Obligation (*)

The following OPEB cost and net OPEB obligation was determined for the year ended December 31, 2007.

Net OPEB obligation as of December 31, 2006	$ -
Annual OPEB cost for the year 2007	44,739,006
Claims paid in 2007	(12,333,865)
Contributions made in 2007	(25,000,000)
Net OPEB obligation as of December 31, 2007	$ 7,405,141

(*) The trust was established in 2007.

Funding Status and Progress (*)

The funding status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Acutarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Projected Unit Credit (b)	Assets in Excess of AAL/ (AAL in Excess of Assets) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01/01/2007	$ -	$ 442,682,586	$ (442,682,586)	0.00%	$ 154,900,000	(286%)

(*) The trust was established in 2007.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The OPEB Trust Fund was established in 2007 and had no plan assets at the time of the actuarial evaluation. As a result, the trend information in the schedule of funding progress currently presents the most recent actuarial valuation.

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

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

The annual required contribution for the current year was determined as part of the 01/01/2007 actuarial valuation using the Project Unit Credit actuarial cost method and the Closed Level Dollar amortization method. Additional assumptions are summarized in the following table:

Valuation date	01/01/2007
Actuarial cost method	Projected unit Credit
Amortization method	Level dollar Closed
Remaining amortization period	30 Years
Asset valuation method	*
Investment rate of return	*
Discount rate	5.5% Compounded Annually
Health care cost trend rate	10% Initial 5% Ultimate

*As of the date of the initial actuarial valuation, the Trust had no assets.

Trend Information

The OPEB annual required contribution, percentage of annual required contributions contributed and net OPEB obligation for the year ending December 31, 2007, are presented below:

Schedule of Employer Contributions (*)

Period Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2007	$ 44,739,006	83.4%	$ 7,405,141

(*) The trust was established in 2007.

9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund has existing purchase order encumbrances of $8,884,743 at December 31, 2007. Construction, Stormwater Management, and Capital Improvements Bond Funds' contract commitments (encumbrances) were $321,648,896 at December 31, 2007. State Revolving Fund Loan commitments of $56,142,800 at December 31, 2007, are also collectible as contract expenditures are incurred.

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

Construction of the project was substantially completed in 2007. The District anticipates acceptance testing of the process to begin May 1, 2008. Once completed and accepted for operation by the District, a 20-year operational contract will follow. The District will begin payment on the contract only after the facility is completed and accepted for operation.

The payment to the contractor will be divided into two parts. The first is a facility fee estimated at $1.8 million for the first year and approximately $4.4 million for the remaining 19 years to pay for the facility. The facility will become the property of the District at the end of the contract. The second payment is a dollar per ton cost for the processing and disposal of biosolids. The first year's estimated cost is $4.7 million (based on 150 tons of biosolids). This cost is subject to annual adjustments based on the Consumer Price Index and the Producer Price Index.

The District has an option to purchase the facility at the end of the fifth, tenth, and fifteenth year of operation for the remaining principal portion of the debt. Payments under the contract are estimated at $283,517,186. The District expects the facility fee will be paid from the Capital Improvements Bond Fund, while the processing and disposal costs will be paid from the General Corporate Fund. Under Illinois law this contract will constitute indebtedness includible within the District's 5.75% general debt limit once the facility is completed, but it will not be includible in the District's 3.35% non-referendum bonded debt limit.

The Internal Revenue Code requires that an issuer of tax-exempt bonds rebate to the United States any excess investment earnings made with the gross proceeds of an issue over the amount which would have been earned had such proceeds been invested at a rate equal to the yield on the issue. The Internal Revenue Code offers certain "safe harbors" permitting qualified governments to keep extra earnings that result from arbitrage. The District has made a determination of their probable liability for amounts potentially due to the United States government. As of December 31, 2007, the District owes an arbitrage rebate of $1,654,039. As such, the District has recorded a long-term liability for arbitrage in the financial statements.

10. Risk Management and Claims

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

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

Under current environmental protection laws, the District may be ultimately responsible for the environmental remediation of some of its leased-out properties. The District has developed a preliminary estimate of environmental remediation costs for major lease sites. The range of such estimated costs at December 31, 2007, is between $12.5 million and $36.0 million. The District is of the opinion that the tenants (except for those who are bankrupt, out of business, or otherwise financially unable to perform) would ultimately be liable for the bulk, if not all, of these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and cost liability issues. As a result of the implementation of GASB Statement No. 49, it was determined that current estimated cost to be $24,000,000 with a estimated cost recoverable of $16,000,000 resulting in $8,000,000 being recognized at December 31, 2007 in the long-term liabilities of the government-wide financial statements. These estimates are subject to changes as a result of price increases, changes in technology and new laws and regulations. These estimates were generated using the expected cash flows technique. In addition this implementation resulted in a decrease of $48,550,000 from the previous year (see restatement Note 1.p.). GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset.

The District provides health insurance benefits to employees through a fully insured health maintenance organization and a self-insured comprehensive indemnity/PPO plan. The District provides dental insurance benefits through a fully insured dental maintenance organization and a self-insured dental indemnity plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO plan. The District provides life insurance benefits for active employees through an insured life insurance program. The District estimated a liability of $3,059,000 in the government-wide financial statement at December 31, 2007, for its self-insured plans. This amount is based on claims incurred in prior periods. There was a $697,000 increase in the estimate from 2006.

Additional insurance policies in effect at December 31, 2007, are listed below. There were no reductions in insurance coverage from the prior year. Settled claims have not exceeded this coverage in any of the past four fiscal years.

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

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

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

	2007	2006
Claims Payable at January 1	$ 21,012	$ 73,640
Claims incurred	9,353	4,954
Changes in prior years' claims estimate	8,253	(52,628)
Claim payments	(9,353)	(4,954)
Claims Payable at December 31	$ 29,265	$ 21,012

11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2007 (in thousands of dollars):

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due Within One Year
Governmental long-term liabilities:					
Bonds and notes payable:					
General obligation debt	$ 1,579,401	$ 382,020	$ (504,801)	$ 1,456,620	$ 68,877
Converted bond anticipation notes	-	9,234	-	9,234	-
Total general obligation debt	1,579,401	391,254	(504,801)	1,465,854	68,877
Deferred amounts:					
Issuance costs	(3,799)	-	2,486	(1,313)	(2,486)
Premium	34,460	53,098	(14,020)	73,538	14,020
Refunding transactions	(19,387)	(18,075)	2,854	(34,608)	(2,854)
Bonds payable, net	1,590,675	426,277	(513,481)	1,503,471	77,557
Bond anticipation notes	25,261	47,104	(9,234)	63,131	-
Net bonds and notes payable	1,615,936	473,381	(522,715)	1,566,602	77,557
Other liabilities:					
Claims and judgments	21,012	17,606	(9,353)	29,265	7,571
Compensated absences	28,010	869	(328)	28,551	2,168
Total governmental long-term liabilities	$ 1,664,958	$ 491,528	$ (532,068)	$ 1,624,418	$ 87,296

Liabilities for the Bonds and Bond Anticipation Notes are paid from the Debt Service Fund. Liabilities for Compensated Absences are primarily paid from the General Corporate, Capital Improvements Bond, Construction, and Stormwater Management Funds. Most claims resulting from construction projects are paid from either the Capital Improvements Bond or the Construction Funds, while all other claims are paid from the Reserve Claim Fund accounts in the General Corporate Fund.

As of December 31, 2007, the annual debt service requirements for general obligation bonds are shown below.

Bonds Payable Maturity Table
(in thousands of dollars)

Maturing	Capital Improvement Bond Series (3.0-5.375%) (Issued 12/02 to 07/06)	Refunding (4.00-6.05%) (Issued 08/92 to 03/07)	State Revolving Funds Series (2.5-3.745%) (Issued 08/90 to 03/07)	Total Principal	Total Interest
2008	$ 13,800	$ 30,300	$ 24,778	$ 68,878	$ 65,716
2009	14,400	31,600	25,443	71,443	62,563
2010	29,730	200	26,128	56,058	59,341
2011	28,795	200	26,831	55,826	57,171
2012	28,880	200	26,474	55,554	55,036
2013-2017	52,060	120,075	115,584	287,719	239,435
2018-2022	64,900	111,340	74,538	250,778	186,065
2023-2027	-	206,985	28,503	235,488	131,707
2028-2032	-	244,055	-	244,055	74,421
2033-2035	-	140,055	-	140,055	14,583
	$ 232,565	$ 885,010	$ 348,279	$ 1,465,854	$ 946,038

Expenditures for principal and interest made on January 1, 2008 approximated $12,306,600 and $4,589,700 respectively.

2007 Bond Issues

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

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

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

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

The District refunded the 2002 Series and 2006 Series to further reduce its total debt service payments and to eliminate the risk associated with variable rate debt and interest rate swaps while retaining the majority of the levy savings generated by the 2002 Series. The aggregate difference in debt service between the refunding debt and refunded debt was $36,297,824. The economic gain (difference between the present values of the debt service payments on the old and new debt) was $16,862,855.

2006 Bond Issues

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

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

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

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

In July 2006, the District issued $100,000,000 of General Obligation Capital Improvement Bonds, Unlimited Tax Series, with a maturity date of 2035. The bonds were issued at a premium of $1,943,000. Interest accrues on the bonds at a rate of 5.0%, payable December 1 and June 1. These bonds were fully refunded in March 2007.

In July 2006, the District issued $250,000,000 of General Obligation Capital Improvement Bonds, Limited Tax Series, with maturity dates from 2010 to 2033. The bonds were issued at a premium of $9,323,100. Interest accrues on the bonds at a rate of 5.0%, payable December 1 and June 1. $110,435,000 of these bonds were maturing in the years 2027 to 2033 and were refunded in March 2007.

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. These bonds were fully refunded in 2007.

2002 Bond Issues

In December 2002, the District issued $64,000,000 of Fixed Rate General Obligation Capital Improvement Bonds, Unlimited Tax Series C, with maturity dates from 2013 to 2016. The bonds were issued at a premium of $5,896,955. Interest on the bonds accrues at a rate of 5.375%, payable June 1 and December 1. Also in December 2002, the District issued $100,000,000 of Fixed Rate General Obligation Capital Improvement Bonds, Limited Tax Series D, with maturity dates from 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. The outstanding balances of Unlimited Tax Series C and Limited Tax Series D at December 31, 2007 were $6,100,000 and $86,900,000, respectively.

Capital Improvement Bonds, IEPA Series

In 2007, the District authorized the issuance of $160,000,000 of Capital Improvement Bonds, 2007 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The Illinois Environmental Protection Agency (IEPA) has approved partial funding of the costs through the State Water Pollution Control Revolving Fund (SRF). Under the terms of the SRF, the District will issue bond anticipation notes in the amount of interim project loan advances to pay project costs. When advances equal the loan amount (or the project has been completed) the District will refinance the bond anticipation notes, plus accrued interest thereon. As of December 31, 2007, there were no IEPA loans approved under this authority.

In 2004 the District authorized the issuance of $150,000,000 of Capital Improvement Bonds, 2004 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The terms and conditions are similar to the 2007 IEPA Series. Under this authority, the IEPA has subsequently approved the following loan amounts:

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

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

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

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

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

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

The District refinances bond anticipation notes through the issuance of its Capital Improvement Bonds in the amount of the bond anticipation notes, plus accrued interest thereon. As a result, there is no debt service required until these notes are converted into bonds. The District has accrued principal and interest through the balance sheet date on bond anticipation notes. In addition, the District has included the interest accrued on these bond anticipation notes in the long-term liability reported in the government-wide Statements of Net Assets.

The converted amount of $9,234,000 in 2007 represented the sum of bond anticipation note principal of $9,170,000 and interest of $64,000.

Bond issues and adjustments to existing issues under the IEPA 1997, 2001 and 2004 authority, included:

- March 2007 – The District issued $2,652,000 of Capital Improvement Bonds – IEPA Series 04C, through the conversion of the sum of bond anticipation note principal of $2,648,000 and interest of $4,000 with maturity dates from January 1, 2008 to January 1, 2027. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.

- January 2007 – The District issued $2,543,000 of Capital Improvement Bonds – IEPA Series 04D, through the conversion of the sum of bond anticipation note principal of $2,509,000 and interest of $34,000 with maturity dates from January 1, 2008 to January 1, 2027. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July1.

- January 2007 – The District issued $4,039,000 of Capital Improvement Bonds – IEPA Series 04G, through the conversion of the sum of bond anticipation note principal of $4,013,000 and interest of $26,000 with maturity dates from January 1, 2008 to January 1, 2027. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July1.

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

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

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

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

Beginning in 1991, the District's Board of Commissioners adopted ordinances providing for the issuance of bond anticipation notes. The bond anticipation notes are issued exclusively to cover interim project loan advances from the Illinois Environmental Protection Agency. Principal and interest liabilities related to the bond anticipation notes was $63,929,398 at December 31, 2006. Of the bond anticipation notes outstanding at December 31, 2006, $5,033,853 will be refinanced through IEPA Series 2001 bonds. The remaining $56,756,689 will be refinanced through IEPA series 2004 bonds. The conversion of these bond anticipation notes to Capital Improvement Bonds is not expected to occur within the next calendar year; therefore, the notes will be reported as a part of long term-debt.

Refunding Transactions

In prior years, the District defeased certain obligations and other bonds by placing the proceeds of new bonds and additional cash in trust to provide for all future debt service requirements of the refunded debt. Accordingly, the trust account assets and the liability for the refunded bonds are not included in the accompanying financial statements, as the District defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transactions. Bonds outstanding in the amount of $642,625,000 were considered defeased at December 31, 2007.

12. Interfund Transactions

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

Individual interfund receivable and payable balances at December 31, 2007 are as follows (in thousands of dollars):

	Interfund	
	Receivables	Payables
General Corporate Fund	$ 475	$ 300
Capital Projects Funds:		
Capital Improvements Bond Fund	-	297
Construction Fund	300	106
Stormwater Management Fund	-	72
	$ 775	$ 775

In addition to the above, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2007 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, 2007, the Board of Commissioners authorized net transfers from the Corporate Fund of $1,270,000 - $9,270,000 from the Corporate Fund to the Debt Service Fund and $8,000,000 from the Capital Improvement Fund to the Reserve Claim Fund. In addition, the Board authorized a transfer of $2,730,000 from the Construction Fund to the Debt Service Fund. The purpose of the transfer of $12,000,000 to the Debt Service is to reduce property taxes.

13. Designated Fund Balances

The Reserve Claim account division of the General Corporate Fund reports a fund balance designation for payment of future claims liabilities in the amount of $53,545,000 at December 31, 2007. This designation provides resources to meet potential claims liabilities without detrimental impact on future years' operating budgets.

14. Property Tax Extension Limitation Act

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

In addition, the individual tax levies of the Corporate, Construction, Reserve Claim, Corporate Working Cash, and Construction Working Cash Funds have statutory limitations. The Corporate levy cannot exceed .41% of the equalized assessed valuation, while the Construction levy cannot exceed .10% of the equalized assessed valuation and the Corporate Working Cash and Construction Working Cash levies individually cannot exceed .005% of the equalized assessed valuation. The Reserve Claim levy cannot exceed .005% of the equalized assessed valuation and the aggregate amount which may accumulate in the Reserve Claim Fund shall not exceed .05% of the equalized assessed valuation. The new Stormwater Management Fund levy cannot exceed .05% of the equalized assessed valuation as a result of statutory changes.

15. Operating Leases

The District leases land to governmental and commercial tenants for periods of up to 99 years. There were no contingent lease rentals for the period. The commercial leases are considered non-cancelable and the following is a summary of the minimum future rentals for these leases at December 31, 2007 (in thousands of dollars):

2008	$ 5,813
2009	5,682
2010	5,628
2011	5,599
2012	5,555
Later Years	160,168

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

16. Subsequent Events

In March 2008, the Board of Commissioners approved an ordinance providing for a partial abatement of 2007 tax levies for four Bond Redemption and Interest Funds in the aggregate amount of $7,100,000. These amounts will be reflected in the District's financial statements as of December 31, 2008.

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REQUIRED SUPPLEMENTARY INFORMATION (RSI) OTHER THAN MD&A

Modified Approach for Eligible Infrastructure Assets

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

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

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

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

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

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

Initial condition assessments of the Kirie, Hanover, Egan, North Side, Central (Stickney), Calumet, Lemont and Waterways WRP networks were completed between 2002 and 2006.

Condition assessments of each network will continue at least every three years following the initial assessment. The Kirie WRP was re-assessed in 2005, Hanover was re-assessed in 2006 as well as Northside and Egan were re-assessed in 2007.

Required Supplementary Information (RSI) Other than MD&A

Year ended December 31, 2007

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

	Collection Processes System	Treatment Processes System	Solids Processing System	Flood and Pollution Control System	Solids Drying/ Utilization System
Condition Assessment Ratings					
Kirie WRP Network					
Initial Condition Assessment - 2002	3	3	2	NA	NA
Subsequent assessments - 2005	3	2	3	NA	NA
Hanover WRP Network					
Initial Condition Assessment - 2003	2	2	2	NA	2
Subsequent assessments - 2006	3	2	2	NA	2
Egan WRP Network					
Initial Condition Assessment - 2004	2	2	2	2	NA
Subsequent assessments - 2007	3	2	2	NA	NA
North Side WRP Network					
Initial Condition Assessment - 2004	3	3	3	2	NA
Subsequent assessments - 2007	3	3	3	NA	NA
Central (Stickney) WRP Network					
Initial Condition Assessment - 2005	3	3	2	NA	2
Waterways WRP Network					
Initial Condition Assessment - 2005	NA	NA	NA	2	NA
Calumet WRP Network					
Initial Condition Assessment - 2006	3	3	3	NA	3
Lemont WRP Network					
Initial Condition Assessment - 2006	2	3	2	NA	NA
Maintenance/Preservation Costs					
Kirie WRP Network					
Estimated 2007	$ 387,569	$ 6,957,162	$ 158,200	NA	NA
Actual 2007	623,569	3,611,678	47,587	NA	NA
Estimated 2006	$ 339,148	$ 7,354,372	$ 72,650	NA	NA
Actual 2006	313,452	3,579,654	43,089	NA	NA
Estimated 2005	$ 294,300	$ 3,779,522	$ 1,456,050	NA	NA
Actual 2005	319,306	2,524,861	1,080,823	NA	NA
Estimated 2004	$ 497,904	$ 2,542,711	$ 16,500	NA	NA
Actual 2004	630,803	1,902,280	13,269	NA	NA
Estimated 2003	$ 840,592	$ 1,073,965	$ 56,215	NA	NA
Actual 2003	621,688	622,847	28,338	NA	NA
Estimated 2002	$ 535,283	$ 2,222,180	$ 10,805	NA	NA
Actual 2002	566,934	1,639,330	10,975	NA	NA
Hanover WRP Network					
Estimated 2007	$ 119,500	$ 851,062	$ 291,000	NA	$ 82,600
Actual 2007	147,885	750,227	275,058	NA	79,862
Estimated 2006	$ 161,550	$ 740,550	$ 177,350	NA	$ 96,525
Actual 2006	165,853	781,741	188,604	NA	97,414

(continued)

Hanover WRP Network *(continued)*					
Estimated 2005	$ 130,450	$ 1,150,850	$ 154,550	NA	$ 40,925
Actual 2005	121,250	767,602	116,440	NA	46,520
Estimated 2004	$ 172,682	$ 1,346,374	$ 179,246	NA	$ 46,700
Actual 2004	176,831	1,106,536	154,638	NA	52,622
Estimated 2003	$ 163,423	$ 680,542	$ 189,289	NA	$ 83,405
Actual 2003	167,317	741,499	168,123	NA	62,570
Egan WRP Network					
Estimated 2007	$ 395,121	$ 7,084,810	$ 704,115	$ 55,200	NA
Actual 2007	499,403	7,271,168	813,324	159,168	NA
Estimated 2006	$ 587,466	$ 3,280,167	$ 713,447	$ 83,700	NA
Actual 2006	589,661	1,524,100	731,626	76,342	NA
Estimated 2005	$ 471,071	$ 2,022,631	$ 816,384	$ 71,900	NA
Actual 2005	470,620	2,035,112	673,924	48,386	NA
Estimated 2004	$ 1,103,505	$ 1,767,877	$ 473,487	$ 72,800	NA
Actual 2004	765,214	1,637,495	676,192	65,681	NA
North Side WRP Network					
Estimated 2007	$ 5,646,911	$ 5,634,418	$ 600,944	$ 32,500	NA
Actual 2007	4,715,211	5,148,533	564,643	34,332	NA
Estimated 2006	$ 4,620,150	$ 4,837,668	$ 801,569	$ 35,415	NA
Actual 2006	4,144,520	4,559,225	835,542	20,655	NA
Estimated 2005	$ 4,208,167	$ 4,600,789	$ 793,796	$ 39,674	NA
Actual 2005	3,946,173	4,953,214	852,700	25,827	NA
Estimated 2004	$ 3,683,361	$ 4,898,752	$ 783,180	$ 27,600	NA
Actual 2004	3,618,074	4,627,969	881,502	27,358	NA
Central (Stickney) WRP Network					
Estimated 2007	$ 17,171,976	$ 12,916,324	$ 8,075,458	NA	$ 6,414,560
Actual 2007	13,549,178	15,427,294	12,873,386	NA	7,350,596
Estimated 2006	$ 14,094,070	$ 16,606,449	$ 13,624,331	NA	$ 10,849,650
Actual 2006	11,725,879	14,280,229	12,097,382	NA	8,702,241
Estimated 2005	$ 14,369,199	$ 22,514,878	$ 14,566,168	NA	$ 16,002,887
Actual 2005	12,398,675	24,588,624	14,252,397	NA	13,612,168
Waterways WRP Network					
Estimated 2007	$ 80,000	$ -	NA	$ 1,739,312	NA
Actual 2007	1,369	9,054	NA	1,534,846	NA
Estimated 2006	$ 118,060	$ 492,618	NA	$ 1,941,405	NA
Actual 2006	103,452	25,635	NA	1,527,290	NA
Estimated 2005	NA	NA	NA	$ 3,322,428	NA
Actual 2005	NA	NA	NA	2,558,953	NA

Progress in Funding the Pension Trust Fund

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

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
12/31/2007	$ 1,256,890	$ 1,795,177	$ 538,287	70.00%	$ 158,832	338.90%
12/31/2006	1,209,604	1,724,705	515,101	70.10%	152,767	337.20%
12/31/2005	1,171,845	1,654,188	482,344	70.80%	149,246	323.19%

Progress in Funding Other Post Employment Trust Funds

The following schedule presents the progress in funding the OPEB Trust Fund:

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2007	$ -	$ 442,683	$ 442,683	0.00%	$ 154,900	285.79%

Note: The Trust was established in 2007.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

CAPITAL PROJECTS FUND

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

Exhibit B-1

Combining Balance Sheets - Nonmajor Governmental Funds

December 31, 2007
(with comparative amounts for prior year)

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund		Total Non-major Governmental Funds	
	2007	2006	2007	2006	2007	2006
Assets						
Cash	$ -	$ -	$ 11	$ 6	$ 11	$ 6
Certificates of deposit	-	-	26,879	17,885	26,879	17,885
Investments	-	-	24,443	21,384	24,443	21,384
Taxes receivable, net	30,066	29,193	3,805	14,964	33,871	44,157
Total assets	$ 30,066	$ 29,193	$ 55,138	$ 54,239	$ 85,204	$ 83,432
Liabilities, Fund Balances						
Liabilities:						
Deferred tax revenue	$ 20,238	$ 21,776	$ 2,334	$ 13,435	$ 22,572	$ 35,211
Accounts payable and other liabilities	-	-	1,179	340	1,179	340
Due to Pension Trust Fund	9,828	7,417	-	-	9,828	7,417
Due to other funds	-	-	72	44	72	44
Total liabilities	30,066	29,193	3,585	13,819	33,651	43,012
Fund balances:						
Reserved for working cash	-	-	35,275	32,064	35,275	32,064
Unreserved						
Undesignated	-	-	16,278	8,356	16,278	8,356
Total fund balances	-	-	51,553	40,420	51,553	40,420
Total liabilities and fund balances	$ 30,066	$ 29,193	$ 55,138	$ 54,239	$ 85,204	$ 83,432

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

Year ended December 31, 2007
(with comparative amounts for prior year)

(in thousands of dollars)

	Retirement Fund		Stormwater Management Fund		Total Non-major Governmental Funds	
	2007	2006	2007	2006	2007	2006
Revenues						
General revenues:						
Property taxes	$ 23,391	$ 22,020	$ 13,817	$ 10,200	$ 37,208	$ 32,220
Personal property replacement tax	7,724	8,051	2,082	1,283	9,806	9,334
Interest on investments	-	-	2,476	1,582	2,476	1,582
Miscellaneous	-	-	29	31	29	31
Government grants	-	-	253	-	253	-
Total revenues	31,115	30,071	18,657	13,096	49,772	43,167
Expenditures						
Current Operations:						
Pension costs	31,115	30,071	-	-	31,115	30,071
Construction costs	-	-	7,524	3,888	7,524	3,888
Total expenditures	31,115	30,071	7,524	3,888	38,639	33,959
Revenues over expenditures	-	-	11,133	9,208	11,133	9,208
Other financing sources:						
Transfers	-	-	-	5,000	-	5,000
Total other financing sources	-	-	-	5,000	-	5,000
Revenues and other financing sources over expenditures	-	-	11,133	14,208	11,133	14,208
Fund balances:						
Beginning of the year	-	-	40,420	26,212	40,420	26,212
End of the year	$ -	$ -	$ 51,553	$ 40,420	$ 51,553	$ 40,420

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GENERAL CORPORATE FUND

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

Exhibit C-1
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Board of Commissioners:					
Personal services					
Salaries of regular employees	$ 3,228	$ -	$ 3,228	$ 2,892	$ 336
Compensation plan adjustments	56	-	56	9	47
Tuition and training payments	12	-	12	6	6
Payment for professional services	468	-	468	349	119
Personal services n.o.c.*	273	(6)	267	173	94
Total personal services	4,037	(6)	4,031	3,429	602
Contractual services					
Travel	7	2	9	7	2
Meals and lodging	12	5	17	15	2
Postage, freight and delivery charges	1	(1)	-	-	-
Motor vehicle operating services	1	-	1	1	-
Subscriptions and membership dues	33	-	33	30	3
Total contractual services	54	6	60	53	7
Materials and supplies					
Office, printing and photographic supplies	20	-	20	7	13
Materials and supplies n.o.c.	20	-	20	-	20
Total materials and supplies	40	-	40	7	33
Board of Commissioners total	4,131	-	4,131	3,489	642
General Administration:					
Personal Services					
Salaries of regular employees	10,979	(526)	10,453	10,416	37
Compensation plan adjustments	708	480	1,188	1,187	1
Tuition and training payments	106	(30)	76	74	2
Payment for professional services	559	(116)	443	352	91
Personal services n.o.c.	149	60	209	200	9
Total personal services	12,501	(132)	12,369	12,229	140
Contractual services					
Travel	25	(10)	15	8	7
Meals and lodging	51	(7)	44	40	4
Postage, freight, and delivery charges	209	-	209	185	24
Compensation for personally owned autos	16	5	21	21	-
Motor vehicle operating expenses	156	12	168	160	8

(continued)

**n.o.c. = not otherwise classified*

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
General Administration (continued):					
Reprographic services	$ 95	$ -	$ 95	$ 82	$ 13
Electrical energy	500	-	500	366	134
Natural gas	52	-	52	45	7
Water and water services	3	-	3	3	-
Communications services	5	-	5	3	2
Subscriptions and membership dues	383	20	403	401	2
Rental charges	25	14	39	27	12
Administration building operation	753	40	793	768	25
Administrative building operation annex	626	(17)	609	589	20
Contractual services n.o.c	230	11	241	207	34
Waste material disposal charges	88	4	92	72	20
Repairs to buildings	163	(106)	57	21	36
Safety repairs and services	336	(243)	93	80	13
Repairs to office furniture and equipment	225	(20)	205	168	37
Computer software maintenance	17	(15)	2	2	-
Repairs to vehicle equipment	460	24	484	441	43
Repairs n.o.c.	5	-	5	2	3
Total contractual services	4,423	(288)	4,135	3,691	444
Materials and supplies					
Electrical parts and supplies	9	2	11	9	2
Plumbing accessories and supplies	3	-	3	2	1
Hardware	8	-	8	7	1
Buildings, grounds, paving materials and supplies	1	-	1	-	1
Mechanical and repair parts	-	1	1	-	1
Office, printing and photographic supplies	201	-	201	180	21
Wearing apparel	40	-	40	24	16
Books, maps and charts	40	7	47	43	4
Safety and medical supplies	176	(50)	126	112	14
Computer software	253	(230)	23	6	17
Computer supplies	137	(101)	36	23	13
Materials and supplies n.o.c.	75	(9)	66	23	43
Total materials and supplies	943	(380)	563	429	134
Machinery and equipment					
Office furniture and equipment	231	(150)	81	69	12
Computer software	35	-	35	-	35
Vehicle equipment	700	150	850	-	850

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
General Administration (continued):					
Machinery and equipment n.o.c.	$ 40	$ -	$ 40	$ 19	$ 21
Total machinery and equipment	1,006	-	1,006	88	918
Fixed and other charges					
Equity transfer	9,270	-	9,270	9,270	-
Total fixed and other charges	9,270	-	9,270	9,270	-
General Administration total	28,143	(800)	27,343	25,707	1,636
Research and Development:					
Personal services					
Salaries of regular employees	21,804	(17)	21,787	21,786	1
Compensation plan adjustments	791	-	791	632	159
Salaries of non-budgeted employees	10	-	10	-	10
Tuition and training payments	90	-	90	71	19
Payment for professional services	1,048	5	1,053	704	349
Personal services n.o.c.	269	15	284	283	1
Total personal services	24,012	3	24,015	23,476	539
Contractual services					
Travel	24	-	24	17	7
Meals and lodging	77	-	77	64	13
Postage, freight and delivery charges	19	-	19	9	10
Compensation for personally owned autos	32	20	52	48	4
Motor vehicle operating services	3	-	3	1	2
Reprographic services	7	-	7	1	6
Electrical energy	12	(12)	-	-	-
Natural gas	3	-	3	1	2
Water and water services	8	-	8	3	5
Communication services	2	-	2	-	2
Rental charges	55	(12)	43	15	28
Governmental services charges	64	(27)	37	18	19
Contractual services n.o.c.	775	(187)	588	391	197
Repairs to marine equipment	110	-	110	78	32
Computer software maintenance	221	(126)	95	95	-
Communication equipment maintenance	5	-	5	-	5
Repairs to testing and laboratory equipment	574	(113)	461	394	67
Repairs to n.o.c.	9	-	9	-	9
Total contractual services	2,000	(457)	1,543	1,135	408

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts: Original	Budget Amounts: Net Transfers	Budget Amounts: Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Research and Development (continued):					
Materials and supplies					
Office, printing and photographic supplies	$ 55	$ (13)	$ 42	$ 36	$ 6
Farming supplies	11	-	11	8	3
Laboratory testing supplies and small equipment	592	(243)	349	288	61
Wearing apparel	34	(7)	27	16	11
Books, maps and charts	4	-	4	-	4
Computer software	1	2	3	2	1
Computer supplies	26	(20)	6	5	1
Fuel	46	-	46	26	20
Communications supplies	5	-	5	1	4
Materials and supplies n.o.c.	99	(30)	69	38	31
Total materials and supplies	873	(311)	562	420	142
Machinery and equipment					
Marine equipment	10	-	10	-	10
Testing and laboratory equipment	655	(200)	455	304	151
Total machinery and equipment	665	(200)	465	304	161
Research and Development total	27,550	(965)	26,585	25,335	1,250
Purchasing:					
Personal services					
Salaries of regular employees	4,888	-	4,888	4,509	379
Compensation plan adjustments	246	(5)	241	134	107
Tuition and training payments	9	-	9	8	1
Personal services n.o.c.	59	5	64	62	2
Total personal services	5,202	-	5,202	4,713	489
Contractual services					
Travel	2	-	2	-	2
Meals and lodging	4	(1)	3	-	3
Postage, freight and delivery charges	1	-	1	-	1
Compensation for personally owned autos	1	4	5	3	2
Motor vehicle operating services	1	-	1	-	1
Testing and inspection services	3	(2)	1	-	1
Subscriptions and membership dues	5	-	5	-	5
Advertising	191	(2)	189	146	43
Contractual services n.o.c.	6	-	6	-	6
Repairs to buildings	2	1	3	3	-
Repairs to office furniture and equipment	5	-	5	2	3
Computer software maintenance	5	-	5	4	1
Communication equipment maintenance	2	-	2	1	1

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Purchasing (continued):					
Repairs to vehicle equipment	$ 9	$ -	$ 9	$ 3	$ 6
Repairs n.o.c.	1	-	1	-	1
Total contractual services	238	-	238	162	76
Materials and supplies					
Metals	134	15	149	147	2
Electrical parts and supplies	344	(30)	314	279	35
Plumbing accessories and supplies	240	54	294	283	11
Hardware	75	20	95	81	14
Buildings, grounds, paving materials and supplies	125	-	125	119	6
Fiber, paper and insulation materials	38	10	48	45	3
Paints, solvents, and related materials	40	25	65	63	2
Vehicle parts and supplies	7	5	12	10	2
Mechanical and repair parts	130	10	140	126	14
Office, printing and photographic supplies	190	(37)	153	146	7
Laboratory testing supplies and small equipment	493	75	568	557	11
Cleaning supplies	280	30	310	290	20
Tools and supplies	135	-	135	127	8
Wearing apparel	130	19	149	143	6
Safety and medical supplies	60	(20)	40	32	8
Computer supplies	165	(35)	130	115	15
Fuel	650	(165)	485	424	61
Gas (in containers)	45	10	55	39	16
Communications supplies	6	8	14	13	1
Lubricants	200	30	230	206	24
Materials and supplies n.o.c.	57	(24)	33	26	7
Total materials and supplies	3,544	-	3,544	3,271	273
Purchasing total	8,984	-	8,984	8,146	838
Personnel:					
Personal services					
Salaries of regular employees	3,815	-	3,815	3,534	281
Compensation plan adjustments	256	-	256	131	125
Social security and medicare contributions	1,852	200	2,052	1,984	68
Salaries of non-budgeted employees	10	-	10	-	10
Employee claims	110	-	110	26	84
Tuition and training payments	569	20	589	356	233
Payment for professional services	1,640	(32)	1,608	959	649

(continued)

(in thousands of dollars)

Corporate Division	**Budget Amounts** Original	Net Transfers	Final	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
Personnel (continued):					
Health and life insurance premiums	$ 47,325	$ 7,795	$ 55,120	$ 54,528	$ 592
Personal services n.o.c.	31	2	33	33	-
Total personal services	55,608	7,985	63,593	61,551	2,042
Contractual services					
Travel	8	-	8	5	3
Meals and lodging	15	-	15	7	8
Postage, freight and delivery charges	9	-	9	2	7
Compensation for personally owned autos	6	1	7	6	1
Court reporting services	50	(7)	43	9	34
Medical services	188	-	188	141	47
Rental charges	10	-	10	9	1
Contractual services n.o.c	18	7	25	12	13
Computer software maintenance	9	4	13	8	5
Communication equipment maintenance	3	-	3	-	3
Total contractual services	316	5	321	199	122
Materials and supplies					
Vehicle parts and supplies	-	1	1	-	1
Office, printing and photographic supplies	9	1	10	9	1
Books, maps, and charts	15	-	15	7	8
Computer software	25	6	31	31	-
Computer supplies	2	2	4	4	-
Materials and supplies n.o.c.	21	(4)	17	6	11
Total materials and supplies	72	5	77	57	20
Machinery and equipment					
Office furniture and equipment	25	5	30	26	4
Total machinery and equipment	25	5	30	26	4
Personnel total	56,021	8,000	64,021	61,833	2,188
Information Technology:					
Personal services					
Salaries of regular employees	6,141	-	6,141	5,986	155
Compensation plan adjustments	224	(18)	206	147	59
Tuition and training payments	92	25	117	87	30
Payment for professional services	950	59	1,009	592	417

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Information Technology (continued):					
Personal services n.o.c.	$ 24	$ 9	$ 33	$ 33	$ -
Total personal services	7,431	75	7,506	6,845	661
Contractual services					
Travel	12	1	13	13	-
Meals and lodging	17	13	30	30	-
Compensation for personally owned autos	6	2	8	7	1
Communication services	915	(125)	790	768	22
Subscription and membership dues	5	(5)	-	-	-
Rental charges	1	(1)	-	-	-
Contractual services n.o.c.	3	20	23	20	3
Computer equipment maintenance	541	196	737	701	36
Computer software maintenance	1,526	(139)	1,387	1,273	114
Communication equipment maintenance	482	50	532	448	84
Repairs n.o.c.	1	(1)	-	-	-
Total contractual services	3,509	11	3,520	3,260	260
Materials and supplies					
Office, printing and photographic supplies	6	-	6	1	5
Books, maps and charts	3	-	3	1	2
Computer software	157	1,511	1,668	1,609	59
Computer supplies	885	(238)	647	626	21
Communication supplies	90	1,419	1,509	1,495	14
Materials and supplies, n.o.c.	1	-	1	1	-
Total materials and supplies	1,142	2,692	3,834	3,733	101
Machinery and equipment					
Computer equipment	568	(22)	546	539	7
Computer software	45	1,432	1,477	1,341	136
Communication equipment	200	(60)	140	139	1
Total machinery and equipment	813	1,350	2,163	2,019	144
Information Technology total	12,895	4,128	17,023	15,857	1,166
Law:					
Personal Services					
Salaries of regular employees	4,268	-	4,268	4,080	188
Compensation plan adjustments	227	-	227	215	12
Tuition and training payments	75	-	75	6	69
Payment for professional services	1,454	300	1,754	1,024	730

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Law (continued):					
Personal services n.o.c.	$ 31	$ -	$ 31	$ 22	$ 9
Total personal services	6,055	300	6,355	5,347	1,008
Contractual services					
Travel	6	-	6	6	-
Meals and lodging	2	5	7	4	3
Compensation for personally owned autos	3	-	3	2	1
Reprographic services	40	-	40	14	26
Communication services	2	-	2	-	2
Court reporting services	80	(5)	75	11	64
Insurance premiums	196	-	196	169	27
Contractual services n.o.c.	110	-	110	59	51
Computer equipment maintenance	1	-	1	-	1
Communication equipment maintenance	3	-	3	2	1
Total contractual services	443	-	443	267	176
Materials and supplies					
Office, printing and photographic supplies	3	-	3	2	1
Books, maps and charts	55	-	55	35	20
Materials and supplies n.o.c.	6	-	6	2	4
Total materials and supplies	64	-	64	39	25
Fixed and other charges					
Taxes on real estate	640	-	640	461	179
Total fixed and other charges	640	-	640	461	179
Law total	7,202	300	7,502	6,114	1,388
Finance:					
Personal services					
Salaries of regular employees	2,717	-	2,717	2,596	121
Compensation plan adjustments	173	(7)	166	39	127
Tuition and training payments	27	16	43	42	1
Payment for professional services	643	(9)	634	306	328
Personal services n.o.c.	38	-	38	23	15
Total personal services	3,598	-	3,598	3,006	592
Contractual services					
Travel	6	-	6	2	4

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Finance (continued):					
Meals and lodging	$ 14	$ -	$ 14	$ 2	$ 12
Postage, freight and delivery charges	1	2	3	3	-
Compensation for personally owned autos	2	-	2	1	1
Reprographic services	4	(1)	3	-	3
Communication services	1	-	1	-	1
Court reporting services	70	-	70	55	15
Contractual services n.o.c.	5	(1)	4	1	3
Repairs to office furniture and equipment	6	-	6	4	2
Computer software maintenance	50	(50)	-	-	-
Total contractual services	159	(50)	109	68	41
Materials and supplies					
Office, printing and photographic supplies	21	-	21	14	7
Computer supplies	1	-	1	1	
Total materials and supplies	22	-	22	15	7
Finance total	3,779	(50)	3,729	3,089	640
Engineering:					
Personal services					
Salaries of regular employees	2,764	-	2,764	2,572	192
Compensation plan adjustments	180	-	180	84	96
Salaries of nonbudgeted employees	50	-	50	-	50
Tuition and training payments	46	-	46	17	29
Payments for professional services	1,832	(1,500)	332	45	287
Personal services n.o.c.	35	-	35	26	9
Personal service expenditure - preliminary engineering reports and studies	575	-	575	-	575
Personal services expenditure - construction drawings, specifications and cost estimates	850	-	850	418	432
Total personal services	6,332	(1,500)	4,832	3,162	1,670
Contractual services					
Travel	4	-	4	1	3
Meals and lodging	13	-	13	5	8
Compensation for personally owned autos	1	2	3	2	1
Reprographic services	5	-	5	-	5
Testing and inspection services	50	-	50	12	38

(continued)

(in thousands of dollars)

Corporate Division	**Budget Amounts** Original	**Budget Amounts** Net Transfers	**Budget Amounts** Final	**Actual Amounts**	**Actual Variance with Final Budget - Positive (Negative)**
Engineering (continued):					
Soil and rock mechanics investigation	$ 100	$ -	$ 100	$ 6	$ 94
Governmental service charges	-	50	50	50	-
Contractual services n.o.c.	221	(2)	219	6	213
Repairs to collection facilities	1,430	(1,300)	130	-	130
Repairs to waterway facilities	3,474	(1,749)	1,725	3	1,722
Repairs to process facilities	3,010	(100)	2,910	258	2,652
Repairs to buildings	3,102	(2,000)	1,102	342	760
Communications equipment maintenance	2	-	2	-	2
Repairs to testing and laboratory equipment	1	-	1	-	1
Total contractual services	11,413	(5,099)	6,314	685	5,629
Materials and supplies					
Office, printing and photographic supplies	21	-	21	7	14
Wearing apparel	7	-	7	2	5
Books, maps and charts	1	-	1	1	-
Communication supplies	1	-	1	-	1
Materials and supplies n.o.c.	2	-	2	-	2
Total materials and supplies	32	-	32	10	22
Machinery and equipment					
Testing and laboratory equipment	13	-	13	-	13
Total machinery and equipment	13	-	13	-	13
Land	700	(12)	688	467	221
Engineering total	18,490	(6,611)	11,879	4,324	7,555
Maintenance and Operations:					
Personal services					
Salaries of regular employees	78,707	(2,487)	76,220	75,682	538
Compensation plan adjustments	4,422	71	4,493	4,374	119
Salaries of non-budgeted employees	75	(5)	70	26	44
Tuition and training payments	168	(40)	128	71	57
Payment for professional services	465	136	601	334	267
Personal services n.o.c.	544	13	557	443	114
Total personal services	84,381	(2,312)	82,069	80,930	1,139

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Maintenance and Operations (continued):					
Contractual services					
Travel	$ 23	$ 4	$ 27	$ 20	$ 7
Meals and lodging	54	21	75	66	9
Compensation for personally owned autos	261	12	273	235	38
Motor vehicle operating services	4	2	6	5	1
Electrical energy	37,014	5,860	42,874	40,564	2,310
Natural gas	3,409	(923)	2,486	1,937	549
Water and water services	679	75	754	733	21
Communications services	305	115	420	385	35
Testing and inspection services	215	(19)	196	108	88
Rental charges	104	1	105	90	15
Governmental service charges	2,552	92	2,644	2,639	5
Maintenance of grounds and pavements	3,305	(460)	2,845	2,475	370
Contractual services n.o.c.	1,249	(188)	1,061	664	397
Waste material disposal charges	14,567	(2,154)	12,413	11,389	1,024
Farming services	12	13	25	25	-
Sludge disposal	4,735	(4,050)	685	-	685
Repairs to collection facilities	7,020	123	7,143	6,052	1,091
Repairs to waterway facilities	111	(41)	70	42	28
Repairs to process facilities	8,912	140	9,052	7,900	1,152
Repairs to railroads	421	-	421	214	207
Repairs to buildings	6,883	(504)	6,379	5,754	625
Repairs to material handling and farm equipment	267	-	267	234	33
Safety repairs and services	164	(51)	113	104	9
Repairs to office furniture and equipment	5	-	5	-	5
Computer software maintenance	49	-	49	24	25
Communication equipment maintenance	85	(6)	79	49	30
Repairs to vehicle equipment	80	(6)	74	56	18
Repairs to testing and laboratory equipment	5	-	5	-	5
Repairs n.o.c.	71	-	71	31	40
Total contractual services	92,561	(1,944)	90,617	81,795	8,822
Materials and supplies					
Metals	82	7	89	64	25
Electrical parts and supplies	1,593	(86)	1,507	1,344	163
Plumbing accessories and supplies	814	190	1,004	807	197
Hardware	49	1	50	34	16

(continued)

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Maintenance and Operations (continued):					
Buildings, grounds, paving materials, supplies	$ 266	$ 2	$ 268	$ 176	$ 92
Fiber, paper and insulation materials	9	-	9	-	9
Paints, solvents, and related materials	7	-	7	6	1
Vehicle parts and supplies	217	(67)	150	109	41
Mechanical repair parts	3,991	570	4,561	3,992	569
Manhole materials	117	-	117	113	4
Office, printing and photographic supplies	75	23	98	75	23
Farming supplies	5	-	5	5	-
Processing chemicals	7,265	(520)	6,745	5,578	1,167
Laboratory testing supplies and small equipment	18	-	18	14	4
Cleaning supplies	42	-	42	26	16
Tools and supplies	313	(7)	306	219	87
Wearing apparel	3	-	3	1	2
Books, maps and charts	9	-	9	4	5
Safety and medical supplies	276	(15)	261	142	119
Computer software	26	(9)	17	7	10
Computer supplies	43	2	45	28	17
Fuel	374	(1)	373	326	47
Gas (in containers)	50	-	50	2	48
Communication supplies	89	(10)	79	56	23
Lubricants	25	5	30	18	12
Materials and supplies n.o.c.	147	83	230	174	56
Total materials and supplies	15,905	168	16,073	13,320	2,753
Machinery and equipment					
Equipment for collection facilities	69	2	71	52	19
Equipment for waterway facilities	-	10	10	9	1
Equipment for process facilities	375	(23)	352	320	32
Material handling and farming equipment	253	110	363	124	239
Vehicle equipment	1,437	11	1,448	1,176	272
Testing and laboratory equipment	72	(24)	48	15	33
Machinery and equipment n.o.c.	75	-	75	60	15
Total machinery and equipment	2,281	86	2,367	1,756	611
Maintenance and Operations total	195,128	(4,002)	191,126	177,801	13,325

(continued)

Exhibit C-1 (continued)
General Corporate Fund - Corporate and Reserve Claim Divisions
Schedule of Appropriations and Expenditures on a Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Corporate Division	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Corporate Division Total					
Total all departments:					
Personal services	$ 209,157	$ 4,413	$ 213,570	$ 204,688	$ 8,882
Contractual services	115,116	(7,816)	107,300	91,315	15,985
Materials and supplies	22,637	2,174	24,811	21,301	3,510
Machinery and equipment	4,803	1,241	6,044	4,193	1,851
Fixed and other charges	9,910	-	9,910	9,731	179
Land	700	(12)	688	467	221
Total Corporate Division	362,323	-	362,323	331,695	30,628
Reserve Claim Division					
Employee claims	10,000	-	10,000	6,156	3,844
General claims and emergency repair and replacement cost over $10,000	46,706	-	46,706	3,197	43,509
Total Reserve Claim Division	56,706	-	56,706	9,353	47,353
Total General Corporate Fund	$ 419,029	$ -	$ 419,029	$ 341,048	$ 77,981

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

Year ended December 31, 2007
(with comparative amounts for prior year)

	(in thousands of dollars) 2007	2006	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2007
Personal services:					
Salaries and wages	$ 141,033	$ 137,139	$ 3,894	3 %	43 %
Employee health and life insurance premiums	54,528	28,508	26,020	91	16
Payment for professional services	4,666	3,255	1,411	43	1
Social security and medicare contributions	1,984	1,883	101	5	1
Tuition and training payments	737	537	200	37	0
Other	1,742	1,706	36	2	1
Total personal services	204,690	173,028	31,662	18	63
Contractual services:					
Electrical energy	40,928	29,807	11,121	37	12
Natural gas	1,982	1,888	94	5	1
Postage freight and delivery charges	198	254	(56)	(22)	0
Waste material disposal charges	11,461	10,754	707	7	3
Administration building operation	1,357	1,329	28	2	0
Communication services	1,156	1,113	43	4	0
Farming services	25	12	13	108	0
Court reporting services	74	61	13	21	0
Water and water services	740	571	169	30	0
Motor vehicle operating services	167	119	48	40	0
Employee travel and transportation	638	524	114	22	0
Medical services	141	108	33	31	0
Rental charges	141	169	(28)	(17)	0
Maintenance of grounds and pavements	2,475	2,168	307	14	1
Governmental service charges	2,709	2,450	259	11	1
Repairs to process facilities	8,145	8,848	(703)	(8)	2
Other repairs	12,430	11,163	1,267	11	4
Other contractual services	6,533	2,228	4,305	193	2
Total contractual services	91,300	73,566	17,734	24	27
Materials and supplies:					
Processing chemicals	5,605	4,958	647	13	2
Laboratory testing supplies	811	866	(55)	(6)	0
Mechanical repair parts	3,693	2,464	1,229	50	1
Fuels and lubricants	1,019	988	31	3	0
Electrical parts and supplies	1,414	1,605	(191)	(12)	0
Plumbing accessories and supplies	1,030	443	587	133	0
Office, printing and photographic supplies	447	329	118	36	0

(continued)

	(in thousands of dollars) 2007	2006	Increase (Decrease)	Percent Increase (Decrease)	Percent of Total 2007
Materials and supplies (continued)					
Buildings, grounds, paving materials and supplies	$ 298	$ 288	$ 10	3 %	0 %
Cleaning supplies	295	270	25	9	0
Metals	198	150	48	32	0
Computer supplies	995	1,143	(148)	(13)	1
Other materials and supplies	6,090	1,859	4,231	228	2
Total materials and supplies	21,895	15,363	6,532	43	6
Machinery and equipment:					
Material handling and farming equipment	124	53	71	134	0
Vehicle equipment	1,177	1,217	(40)	(3)	1
Office furniture and equipment	95	402	(307)	(76)	0
Testing and laboratory equipment	320	375	(55)	(15)	0
Equipment for collection facilities	37	114	(77)	(68)	0
Equipment for process facilities	285	643	(358)	(56)	0
Computer equipment	540	690	(150)	(22)	0
Computer software	1,341	47	1,294	2,753	0
Communication equipment	139	-	139	100	0
Other machinery and equipment	86	24	62	258	0
Total machinery and equipment	4,144	3,565	579	16	1
Land	467	-	467	100	0
Fixed other charges:					
Taxes on real estate	463	490	(27)	(6)	0
Charges, n.o.c.	-	19	(19)	(100)	-
Total fixed other charges	463	509	(46)	(9)	0
Claims and judgments	9,353	4,954	4,399	89	3
Total expenditures	$ 332,311	$ 270,985	$ 61,326	23 %	100 %

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SPECIAL REVENUE FUND

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

Retirement Fund

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

Exhibit D-1
Special Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Including Comparison of Budget and Actual on Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

Retirement Fund	**Final Budget**	**Actual on Budgetary Basis**	**Actual Variance with Final Budget - Positive (Negative)**
Revenues:			
Property taxes	$ 24,261	$ 22,075	$ (2,186)
Personal property replacement tax	6,629	6,629	-
Total tax revenue	30,890	28,704	(2,186)
Current expenditures:			
Pension costs	30,890	28,704	2,186
Total expenditures	30,890	28,704	2,186
Revenues over (under) expenditures	-	-	-
Fund balances at beginning of the year	-	-	-
Fund balances at end of the year	$ -	$ -	$ -

DEBT SERVICE FUND

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

Exhibit E-1
Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Including Comparison of Budget and Actual on Budgetary Basis
Year ended December 31, 2007

	Final Budget	Actual on Budgetary Basis	Actual Variance with Final Budget - Positive (Negative)
Revenues:			
Property taxes	$ 119,282	$ 108,979	$ (10,303)
Total tax revenue	119,282	108,979	(10,303)
Interest on investments	6,074	5,198	(876)
Miscellaneous	208	305	97
Total revenues	125,564	114,482	(11,082)
Expenditures:			
Debt service	158,653	158,670	17
Revenues over (under) expenditures	(33,089)	(44,188)	(11,099)
Other financing sources (uses):			
Equity transfer from Corporate Fund	9,270	9,270	-
Equity transfer from Construction Fund	2,730	2,730	-
Sale of refunding bonds	382,020	382,020	-
Transfers to escrow agent	(437,621)	(437,621)	-
Premium	53,098	53,098	-
Total other financing sources (uses)	9,497	9,497	-
Revenues and other financing sources (uses) over (under) expenditures	(23,592)	(34,691)	(11,099)
Fund balances at beginning of year	111,405	111,405	-
Fund balances at end of the year	$ 87,813	$ 76,714	$ (11,099)

CAPITAL PROJECTS FUNDS

Construction Fund

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

Stormwater Management Fund

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

Capital Improvements Bond Fund

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

Exhibit F-1
Capital Projects Funds
Schedule of Appropriations and Expenditures on Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

	Budget Amounts				Actual Variance with Final Budget -
	Original	Net Transfers	Final	Actual Amounts	Positive (Negative)
Construction Fund:					
Personal services					
Salaries of regular employees	$ 4,235	$ -	$ 4,235	$ 4,028	$ 207
Compensation plan adjustments	185	-	185	72	113
Salaries of non-budgeted employees	20	-	20	-	20
Tuition and training payments	123	-	123	71	52
Payment for professional services	1,502	400	1,902	480	1,422
Health and life insurance	639	-	639	590	49
Personal services n.o.c.	78	20	98	86	12
Preliminary engineering reports and studies	1,927	(420)	1,507	329	1,178
Construction drawings, specifications and cost estimates	1,719	-	1,719	875	844
Aerial surveys and post construction awards	20	-	20	-	20
Post-award engineering for construction projects	1,163	-	1,163	101	1,062
Total personal services	11,611	-	11,611	6,632	4,979
Contractual services					
Travel	15	-	15	10	5
Meals and lodging	30	-	30	21	9
Postage and delivery charges	2	-	2	1	1
Compensation for personally owned autos	7	-	7	5	2
Motor vehicle operating services	2	-	2	-	2
Reprographic services	173	-	173	19	154
Water and water services	4	-	4	2	2
Testing and inspection services	226	-	226	11	215
Court reporting services	5	-	5	4	1
Rental charges	1	1	2	1	1
Soil and rock mechanics investigation	108	-	108	-	108
Contractual services n.o.c.	562	(11)	551	398	153
Computer software maintenance	46	-	46	46	-
Repairs to testing and laboratory equipment	4	-	4	1	3
Repairs n.o.c.	18	10	28	22	6
Total contractual services	1,203	-	1,203	541	662
Materials and supplies					
Office, printing and photo supplies	85	-	85	36	49
Books, maps and charts	5	-	5	3	2
Computer software	4	-	4	-	4
Communication supplies	5	-	5	2	3
Materials and supplies n.o.c.	18	-	18	1	17
Total materials and supplies	117	-	117	42	75

(continued)

(in thousands of dollars)

	Budget Amounts Original	Net Transfers	Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Construction Fund (continued):					
Machinery and equipment					
Computer software	$ 277	$ -	$ 277	$ 160	$ 117
Machinery and equipment n.o.c.	45	-	45	32	13
Total machinery and equipment	322	-	322	192	130
Capital Projects					
Collection facilities structures	848	-	848	14	834
Process facilities structures	2,973	-	2,973	329	2,644
Buildings	2,115	-	2,115	912	1,203
Preservation of collection facility structures	4,800	-	4,800	26	4,774
Preservation of process facility structures	13,488	-	13,488	828	12,660
Preservation of buildings	2,423	-	2,423	-	2,423
Total capital projects	26,647	-	26,647	2,109	24,538
Fixed and other charges:					
Equity transfer	2,730	-	2,730	2,730	-
Total fixed and other charges	2,730	-	2,730	2,730	-
Construction Fund Summary:					
Personal services	11,611	-	11,611	6,632	4,979
Contractual services	1,203	-	1,203	541	662
Materials and supplies	117	-	117	42	75
Machinery and equipment	322	-	322	192	130
Capital projects	26,647	-	26,647	2,109	24,538
Fixed and other charges	2,730	-	2,730	2,730	-
Construction Fund total	42,630	-	42,630	12,246	30,384
Stormwater Management Fund:					
Personal services					
Salaries of regular employees	3,256	(2)	3,254	2,944	310
Compensation plan adjustments	105	-	105	27	78
Salaries of non-budgeted employees	50	-	50	-	50
Tuition and training payments	11	-	11	9	2
Payment for professional services	690	-	690	180	510
Health and life insurance	426	-	426	391	35
Personal services, n.o.c.	8	-	8	4	4
Preliminary engineering reports and studies	4,265	-	4,265	2,625	1,640
Construction drawings, specifications and cost estimates	2,700	-	2,700	-	2,700
Post-award engineering for construction projects	200	-	200	-	200
Total personal services	11,711	(2)	11,709	6,180	5,529

(continued)

Exhibit F-1 (continued)
Capital Projects Fund
Schedule of Appropriations and Expenditures on Budgetary Basis
Year ended December 31, 2007

(in thousands of dollars)

	Budget Amounts Original	Budget Amounts Net Transfers	Budget Amounts Final	Actual Amounts	Actual Variance with Final Budget - Positive (Negative)
Stormwater Management Fund (continued):					
Contractual services					
Travel	$ 4	$ -	$ 4	$ 2	$ 2
Meals and lodging	8	-	8	5	3
Postage and delivery charges	5	-	5	-	5
Compensation for personally owned autos	34	14	48	47	1
Motor vehicle operating services	1	-	1	1	-
Reprographic services	150	(12)	138	7	131
Water and water services	1	-	1	-	1
Court reporting services	26	-	26	7	19
Rental charges	1	-	1	-	1
Soil and rock mechanics investigation	80	-	80	1	79
Maintenance of grounds and pavements	11	-	11	6	5
Contractual services n.o.c	400	-	400	119	281
Repairs to collection facilities	4	-	4	-	4
Repairs to waterways facilities	840	200	1,040	1,000	40
Repairs to marine equipment	56	-	56	56	-
Computer software maintenance	22	-	22	-	22
Repairs to vehicle equipment	4	-	4	2	2
Total contractual services	1,647	202	1,849	1,253	596
Materials and supplies					
Office, printing and photo supplies	4	-	4	-	4
Tools and supplies	7	-	7	2	5
Wearing apparel	4	-	4	3	1
Books, maps and charts	2	-	2	1	1
Computer software	10	-	10	-	10
Computer supplies	5	-	5	-	5
Communication supplies	1	-	1	-	1
Materials and supplies n.o.c.	1	-	1	1	-
Total materials and supplies	34	-	34	7	27
Machinery and equipment					
Marine equipment	40	-	40	40	-
Computer equipment	100	-	100	-	100
Computer software	130	-	130	40	90
Vehicle equipment	315	80	395	-	395
Total machinery and equipment	585	80	665	80	585
Capital Projects					
Waterways facilities structure	4,723	(280)	4,443	-	4,443
Army corps of engineers services	800	-	800	-	800
Total capital projects	5,523	(280)	5,243	-	5,243

(continued)

(in thousands of dollars)

	Budget Amounts: Original	Budget Amounts: Net Transfers	Budget Amounts: Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Stormwater Management Fund (continued):					
Fixed and other charges:					
Payments for easements	$ 5,000	$ -	$ 5,000	$ -	$ 5,000
Total fixed and other charges	5,000	-	5,000	-	5,000
Stormwater Management Fund Summary:					
Personal services	11,711	(2)	11,709	6,180	5,529
Contractual services	1,647	202	1,849	1,253	596
Material and supplies	34	-	34	7	27
Machinery and equipment	585	80	665	80	585
Capital projects	5,523	(280)	5,243	-	5,243
Fixed and other charges	5,000	-	5,000	-	5,000
Stormwater Management Fund total	24,500	-	24,500	7,520	16,980
Capital Improvements Bond Fund:					
Personal services	93,135	-	93,135	48,711	44,424
Contractual services	404	-	404	33	371
Machinery and equipment	3,105	3,200	6,305	1,705	4,600
Capital projects	241,502	(3,200)	238,302	50,631	187,671
Land	300	-	300	-	300
Fixed and other charges	9,000	-	9,000	8,000	1,000
Capital Improvements Bond Fund total *	347,446	-	347,446	109,080	238,366
Capital Projects Funds total	$ 414,576	$ -	$ 414,576	$ 128,846	$ 285,730

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

Levy Years 2007-2002

(in thousands of dollars)

	Cumulative as of December 31, 2007		2007		2006	
Gross property tax levy	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
General Corporate Fund:						
Corporate	$ 1,200,755	49.6	$ 233,065	56.0	$ 213,860	53.2
Corporate Working Cash	8,921	0.4	-	-	-	-
Reserve Claim	32,062	1.3	6,529	1.6	5,957	1.5
Total General Corporate Funds	1,241,738	51.3	239,594	57.5	219,817	54.6
Other Governmental Funds:						
Storm Water Management	29,901	1.2	3,942	0.9	15,508	4.0
Retirement Fund	152,543	6.3	24,843	6.0	25,072	6.2
Debt Service Fund	886,374	36.7	142,830	34.3	123,608	30.8
Construction Fund	111,606	4.6	5,181	1.2	17,766	4.4
Total Other Governmental Funds	1,180,424	48.7	176,796	42.5	181,954	45.4
Total Gross Levy - All Funds	2,422,162	100.0	416,390	100.0	401,771	100.0
Less allowance for uncollectible taxes at December 31, 2007	88,015	3.6	14,573	3.5	46,970	11.7
Estimated property taxes to be collected	2,334,147	96.4	401,817	96.5	354,801	88.3
Collections by year (percent shown is percent of estimated property taxes to be collected):						
First year	1,897,377	81.3	-	-	354,801	100.0
Second year	46,709	2.0	-	-	-	-
Third year	(6,231)	(0.3)	-	-	-	-
Fourth year	(2,579)	(0.1)	-	-	-	-
Fifth year	(2,946)	(0.1)	-	-	-	-
Total collections through December 31, 2007	1,932,330	82.8	-	-	354,801	100.0
Property taxes receivable, net	$ 401,817	17.2	$ 401,817	100.0	$ -	-
Property taxes receivable, net - by fund						
General Corporate Fund:						
Corporate	$ 224,907		$ 224,907		$ -	
Reserve Claim	6,301		6,301		-	
Total General Corporate Fund	231,208		231,208		-	
Other Governmental Fund:						
Storm Water Management	3,805		3,805		-	
Retirement Fund	23,973		23,973		-	
Debt Service Fund	137,832		137,832		-	
Construction Fund	4,999		4,999		-	
Property taxes receivable, net	$ 401,817		$ 401,817		$ -	

Levy Years							
2005		2004		2003		2002	
Amount	%	Amount	%	Amount	%	Amount	%
$ 206,565	50.2	$ 198,676	48.1	$ 180,310	45.3	$ 168,279	44.1
-	-	-	-	4,645	1.2	4,276	1.1
5,513	1.4	5,142	1.2	4,645	1.2	4,276	1.1
212,078	51.7	203,818	49.4	189,600	47.6	176,831	46.3
10,451	2.6	-	-	-	-	-	-
23,598	5.7	28,247	6.8	25,958	6.5	24,825	6.5
147,281	35.8	166,152	40.2	157,334	39.5	149,169	39.1
17,940	4.4	14,847	3.6	25,170	6.3	30,702	8.0
199,270	48.5	209,246	50.6	208,462	52.4	204,696	53.7
411,348	100.0	413,064	100.0	398,062	100.0	381,527	100.0
4,118	1.0	5,747	1.4	7,054	1.8	9,553	2.5
407,230	96.5	407,317	98.6	391,008	98.2	371,974	97.5
398,343	97.8	399,017	98.0	375,549	96.0	369,667	99.4
8,887	2.2	11,002	2.7	19,361	5.0	7,459	2.1
-	-	(2,702)	(0.7)	(1,898)	(0.5)	(1,631)	(0.4)
-	-	-	-	(2,004)	(0.5)	(575)	(0.2)
-	-	-	-	-	-	(2,946)	(0.8)
407,230	100.0	407,317	100.0	391,008	100.0	371,974	100.0
$ -	-	$ -	-	$ -	-	$ -	-
$ -		$ -		$ -		$ -	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
-		-		-		-	
$ -		$ -		$ -		$ -	

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III. STATISTICAL AND DEMOGRAPHICS SECTION

The National Association of Clean Water Agencies honored all of the District's treatment plants for outstanding permit compliance in 2007. This perfect feat required an incredible 12,375 chemical standard measurements at or below limits in a single year across the MWRD system.

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Statistical and Demographics Section (Unaudited)

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

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

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

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

Exhibit H-1
Net Assets by Component

Years ended December 31, 2007 - 2003

(in thousands of dollars)

	2007	2006	2005	2004	2003
Invested in capital assets, net of related debt (1)	$ 4,580,604	$ 4,541,778	$ 3,728,581	$ 1,921,730	$ 1,373,683
Restricted					
Restricted for corporate working cash	267,848	263,229	244,319	236,294	236,068
Restricted for reserve claim	31,295	26,844	-	-	-
Restricted for debt service	203,656	220,306	278,218	297,800	290,794
Restricted for capital projects	18,656	1,044	12,287	16,268	53,931
Restricted for construction working cash	26,313	25,750	25,642	50,132	49,880
Restricted for stormwater working cash	35,275	32,064	25,227	-	-
Restricted for pension	-	-	28,602	44,590	-
Unrestricted	70,431	117,063	56,196	53,452	27,441
Total net assets	$ 5,234,078	$ 5,228,078	$ 4,370,470	$ 2,575,676	$ 2,031,797

(1) Infrastructure under the modified approach is reported in the period the initial condition assessment was completed.

Exhibit H-2
Changes in Net Assets

Years ended December 31, 2007 - 2003

(accrual basis of accounting)

(in thousands of dollars)

	2007	2006	2005	2004	2003
Revenues					
General Revenues:					
Property taxes	$ 370,777	$ 392,775	$ 405,423	$ 395,108	$ 373,811
Personal property replacement tax	45,935	37,743	36,031	25,961	23,461
Interest on investments	48,750	43,659	19,693	9,943	13,163
Tax increment financing distributions	644	1,167	1,634	604	1,097
Claims and damage settlements	64	614	77	450	113
Miscellaneous	3,434	2,584	2,300	1,716	777
Gain on sale	21	-	93	2,677	233
Adjustments for non-financial assets	-	-	-	35,865	-
Total general revenues	469,625	478,542	465,251	472,324	412,655
Program Revenues:					
Charges for services					
User charges	54,612	53,986	46,576	46,981	48,038
Land rentals	9,243	7,972	6,310	6,166	5,023
Fees, forfeits, and penalties	3,383	4,693	4,748	3,800	3,892
Capital grants and contributions					
Federal grants	253	-	867	774	4,460
Total program revenues	67,491	66,651	58,501	57,721	61,413
Total revenues	537,116	545,193	523,752	530,045	474,068
Expenses					
Board of Commissioners	3,513	3,422	3,341	3,578	3,333
General Administration	16,875	17,293	17,807	15,969	15,183
Research and Development	26,178	25,317	25,230	24,599	24,669
Purchasing	6,631	5,480	5,170	6,095	4,659
Personnel	61,878	35,216	32,941	35,931	30,947
Information Technology	16,475	11,312	11,111	10,885	11,626
Law	6,147	5,748	6,199	5,064	4,667
Finance	3,109	3,218	3,124	3,065	3,047
Engineering	4,483	4,519	10,160	6,169	2,986
Maintenance and Operations	179,938	156,984	158,802	161,903	160,309
Pension costs	49,891	42,320	47,549	35,354	29,511
OPEB Trust Fund costs	7,405	-	-	-	-
Claims and judgments (1)	17,606	876	4,466	12,175	(1,340)
Construction costs	56,914	70,594	51,145	38,057	34,794
Loss on sale of capital assets	273	4,430	676	172	440
Depreciation (unallocated)	9,216	9,216	7,596	7,596	7,596
Interest on bonds	64,584	81,876	61,872	65,398	67,958
Total expenses	531,116	477,821	447,189	432,010	400,385
Change in Net Assets	$ 6,000	$ 67,372	$ 76,563	$ 98,035	$ 73,683

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

Exhibit H-3
Fund Balances: Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(in thousands of dollars)

	2007	2006	2005	2004	2003
General Corporate Fund					
Reserved	$ 267,842	$ 263,216	$ 244,322	$ 236,332	$ 231,982
Unreserved	(33,332)	(18,238)	(45,113)	(68,321)	(45,066)
Total General Corporate Fund	234,510	244,978	199,209	168,011	186,916
All Other Governmental Funds					
Reserved	61,588	57,814	50,869	50,121	49,868
Unreserved, reported in:					
Capital projects funds	472,656	567,835	297,531	385,352	427,941
Debt service funds	97,492	124,540	168,920	164,185	174,249
Total All Other Governmental Funds	631,736	750,189	517,320	599,658	652,058
Total Governmental Funds	$ 866,246	$ 995,167	$ 716,529	$ 767,669	$ 838,974

2002	2001	2000	1999	1998
$ 191,967	$ 200,317	$ 183,296	$ 178,649	$ 174,467
(40,902)	(61,204)	(16,187)	(21,198)	(22,452)
151,065	139,113	167,109	157,451	152,015
84,482	84,116	79,270	73,590	68,889
336,606	266,720	150,355	204,170	277,762
157,957	126,973	134,663	142,210	169,846
579,045	477,809	364,288	419,970	516,497
$ 730,110	$ 616,922	$ 531,397	$ 577,421	$ 668,512

Exhibit H-4
Changes in Fund Balances: Governmental Funds

Years ended December 31, 2007 - 1998

(modified accrual basis of accounting)

(in thousands of dollars)

	2007	2006	2005	2004	2003
Revenues					
General Revenues:					
Property taxes	$ 376,757	$ 380,675	$ 423,941	$ 360,326	$ 397,751
Personal property replacement tax	45,935	37,743	36,031	25,961	24,048
Interest on investments	48,750	43,659	19,693	9,943	13,163
Land sales	28	516	100	3,608	239
Tax increment financing distributions	644	1,167	1,634	604	1,097
Claims and damage settlements	64	614	77	450	113
Miscellaneous	3,495	2,729	2,573	1,872	1,003
Program Revenues:					
Charges for services					
User charges	54,117	52,504	45,983	47,757	50,222
Land rentals	9,243	7,972	6,310	6,160	5,023
Fees, forfeits, and penalties	3,383	4,693	4,748	3,800	3,892
Capital grants and contributions					
Government grants	253	-	867	1	4,836
Total revenues	542,669	532,272	541,957	460,482	501,387
Expenditures					
Current:					
Board of Commissioners	3,496	3,401	3,323	3,552	3,315
General Administration	16,491	16,974	17,259	15,538	14,987
Research and Development	25,892	24,985	24,787	24,030	24,172
Purchasing	6,556	5,352	5,023	5,932	4,510
Personnel	61,841	35,162	32,900	35,877	30,916
Information Technology	16,125	11,034	10,811	10,574	11,417
Law	6,121	5,709	6,168	5,018	4,646
Finance	3,093	3,197	3,102	3,033	3,025
Engineering	4,331	4,318	9,538	6,273	4,095
Maintenance and Operations	179,012	155,899	157,612	160,299	159,079
Pension costs	31,115	30,071	31,561	27,372	29,511
Claims and judgments	9,353	4,954	4,368	3,829	2,972
Construction costs	194,151	164,157	133,599	127,155	164,865
Debt service:					
Redemption of bonds	90,466	83,692	107,767	92,560	91,198
Interest on bonds	68,148	88,177	61,252	63,465	67,428
Refunding transaction costs	-	-	-	-	-
Total expenditures	716,191	637,082	609,070	584,507	616,136
Revenues over (under) expenditures	(173,522)	(104,810)	(67,113)	(124,025)	(114,749)
Other Financing Sources (Uses):					
Payment to escrow agent	(437,621)	(416,000)	-	-	-
State revolving fund loan proceeds	47,104	27,464	15,973	52,720	77,613
Sale of refunding bonds	382,020	397,390	-	-	-
Proceeds from sale of bonds	-	350,000	-	-	146,000
Premium on sale of bonds	53,098	24,594	-	-	-
Total other financing sources (uses)	44,601	383,448	15,973	52,720	223,613
Net change in fund balance	$ (128,921)	$ 278,638	$ (51,140)	$ (71,305)	$ 108,864
Debt service as a percentage of non-capital expenditures *(only available from 2001 forward)*	27.5%	33.4%	32.2%	33.4%	32.9%

2002	2001	2000	1999	1998
$ 362,036	$ 337,654	$ 342,633	$ 322,683	$ 332,610
22,285	27,946	31,928	27,916	28,755
15,693	26,770	39,836	33,823	38,143
3,395	229	110	500	4,456
656	1,077	549	493	164
131	10,441	-	-	-
2,080	16,062	14,710	13,868	18,222
48,890	49,194	50,902	52,221	48,650
5,115	4,479	4,442	4,465	3,656
2,892	-	-	-	-
490	3,754	6,069	6,366	1,751
463,663	477,606	491,179	462,335	476,407
3,131	2,930	2,696	2,435	2,478
14,318	14,009	13,633	15,722	11,651
23,838	23,781	22,405	21,458	19,698
7,037	4,872	6,917	8,022	7,644
27,610	26,155	22,221	20,232	19,727
11,204	10,961	10,123	8,438	10,382
4,923	4,736	4,670	4,457	4,269
5,483	3,987	4,553	5,220	3,584
7,757	10,914	7,137	6,711	4,568
160,326	165,831	154,679	150,567	143,674
27,044	24,958	29,829	24,830	23,500
2,859	3,355	2,961	4,908	1,143
157,076	159,841	149,455	163,135	139,404
89,572	80,464	84,521	98,688	89,407
56,259	57,358	56,282	60,458	64,648
1,653	-	-	-	8
600,090	594,152	572,082	595,281	545,785
(136,427)	(116,546)	(80,903)	(132,946)	(69,378)
(398,620)	-	-	-	-
26,667	17,811	35,101	42,231	35,377
416,000	-	-	-	-
164,000	175,000	-	-	-
14,575	8,614	-	-	-
222,622	201,425	35,101	42,231	35,377
$ 86,195	$ 84,879	$ (45,802)	$ (90,715)	$ (34,001)
31.1%	28.1%			

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

Last Ten Fiscal Years

(in thousands of dollars, except tax rates)

Fiscal Year Ended December 31,	Chicago Equalized Assessed Value	Suburbs Equalized Assessed Value	Total Equalized Assessed Value	Total Direct Tax Rate (1)	Estimated Full Taxable Value	Equalized Assessed Value as a Percentage of Full Value
1997	$ 33,349,557	$ 40,511,394	$ 73,860,951	0.451	$ 271,192,993	27.2 %
1998	33,940,146	42,812,917	76,753,063	0.444	287,762,846	26.7
1999	35,354,802	45,509,854	80,864,656	0.419	309,433,210	26.1
2000	40,480,075	45,036,933	85,517,008	0.415	348,966,255	24.5
2001	41,981,912	50,923,178	92,905,090	0.401	392,206,809	23.7
2002	45,330,892	57,506,473	102,837,365	0.371	428,105,908	24.0
2003	53,168,632	57,097,996	110,266,628	0.361	471,971,669	23.4
2004	55,277,096	63,761,464	119,038,560	0.347	541,942,050	22.0
2005	59,304,530	71,282,391	130,586,921	0.315	581,371,295	22.5
2006	69,511,192	71,957,450	141,468,642	0.284	581,371,295 (2)	24.3

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

(1) Tax rates per $100 equalized assessed valuation

(2) Current data not available from Civic Federation

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

Last Ten Years

(rates per $100 of assessed value)

	2007 (1)	2006	2005	2004	2003	2002	2001	2000	1999	1998
District direct rates										
Corporate	$ 0.165	$ 0.151	$ 0.158	$ 0.167	$ 0.163	$ 0.164	$ 0.171	$ 0.179	$ 0.176	$ 0.190
Corporate Working Cash	-	-	-	-	0.004	0.004	0.004	0.005	0.005	0.005
Reserve Claim	0.004	0.004	0.004	0.004	0.004	0.004	0.004	0.005	0.005	0.005
Retirement	0.017	0.018	0.018	0.024	0.024	0.024	0.027	0.027	0.033	0.029
Debt Service	0.101	0.087	0.113	0.139	0.143	0.145	0.158	0.151	0.151	0.170
Construction	0.004	0.013	0.014	0.013	0.023	0.030	0.037	0.043	0.044	0.041
Stormwater Management (2)	0.003	0.011	0.008	-	-	-	-	-	-	-
Construction Working Cash	-	-	-	-	-	-	-	0.005	0.005	0.004
Total direct rate	$ 0.294	$ 0.284	$ 0.315	$ 0.347	$ 0.361	$ 0.371	$ 0.401	$ 0.415	$ 0.419	$ 0.444
Major local governments' tax rates (3)										
City of Chicago	$ -	$ 1.012	$ 1.153	$ 1.188	$ 1.262	$ 1.452	$ 1.478	$ 1.498	$ 1.673	$ 1.812
Chicago Board of Education	-	2.697	3.026	3.104	3.142	3.562	3.744	3.714	4.104	4.172
Chicago Park District	-	0.379	0.443	0.431	0.439	0.515	0.546	0.557	0.627	0.653
Cook County	-	0.500	0.533	0.593	0.630	0.690	0.746	0.824	0.854	0.911
Cook County Forest Preserve Dist.	-	0.057	0.060	0.060	0.059	0.061	0.067	0.069	0.070	0.072
Community College Dist. #508 (4)	-	0.205	0.234	0.242	0.246	0.280	0.307	0.311	0.347	0.354
Chicago School Finance Authority	-	0.118	0.127	0.177	0.151	0.177	0.223	0.223	0.255	0.268
City of Chicago Library Fund	-	0.050	0.090	0.114	0.118	0.139	0.159	0.162	0.187	0.186
District's tax levies by fund										
Corporate	$233,065	$213,860	$206,565	$198,676	$180,310	$168,279	$158,870	$153,732	$142,238	$145,854
Stormwater Management (2)	3,942	15,508	-	-	-	-	-	-	-	-
Corporate Working Cash	-	-	-	-	4,645	4,276	4,044	3,838	3,693	3,533
Reserve Claim	6,529	5,957	5,513	5,142	4,645	4,276	4,044	3,838	3,693	3,533
Retirement	24,843	25,072	23,598	28,247	25,958	24,825	24,661	23,009	27,079	22,294
Debt Service	142,830	123,608	147,281	166,152	157,334	149,169	146,605	129,151	122,060	130,321
Construction	5,181	17,766	17,940	14,847	25,170	30,702	34,325	37,490	36,367	31,875
Construction Working Cash	-	-	-	-	-	-	-	3,838	3,693	3,373
Total tax levies	$416,390	$401,771	$411,348	$413,064	$398,062	$381,527	$372,549	$354,896	$338,823	$340,783

Source: Cook County Clerk

(1) District's tax rates are estimated based on 2006 equalized assessed valuation of $141.5 billion.

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

(3) Major local governments' rates for 2007 are not yet available.

(4) Formerly Chicago City Colleges

Exhibit H-7
Principal Property Taxpayers

2006 and Nine Years Ago

(in thousands of dollars)

		2006 (1)			1997		
Taxpayer	**Type of Business**	**Equalized Assessed Value**	**Rank**	**Percentage of Total Equalized Assessed Value (5)**	**Equalized Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**
Sears Tower	Retail & Office	$ 493,804	1	0.35%	$ 291,616	1	0.39%
Aon Center (2)	Insurance	356,510	2	0.25	212,586	2	0.29
Equity Office (3)	Property Management	340,473	3	0.24	-	-	-
AT & T Corporate Center	Communications	283,386	4	0.20	157,287	5	0.21
Prudential Plaza	Financial Services	279,533	5	0.20	161,834	4	0.22
Chase Tower (4)	Banking	238,266	6	0.17	183,286	3	0.25
Water Tower Place	Retail & Office	219,995	7	0.16	-	-	-
Citigroup Center	Banking	205,853	8	0.15	106,521	9	0.14
Leo Burnett Building	Advertising	201,662	9	0.14	-	-	-
70 West Madison, Chicago	Retail & Office	196,044	10	0.14	-	-	-
Three First National Plaza	Banking	-	-	-	129,099	6	0.17
Hyatt Regency Hotel	Hotel	-	-	-	128,867	7	0.17
CIGNA	Insurance	-	-	-	112,441	8	0.15
Civic Opera House	Retail & Office	-	-	-	104,724	10	0.14
Total		$ 2,815,526		2.00%	$ 1,588,261		2.13%

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

(1) 2007 information is unavailable

(2) Formerly the Amoco Oil Building

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

(4) Formerly One First National Plaza

(5) The Equalized Assessed Valuation for 2006 is $ 141,468,642.

Exhibit H-8
Property Tax Levies and Collections

Last Ten Fiscal Years

(in thousands of dollars)

Fiscal Year Ended December 31	Taxes Levied for the Fiscal Year	Collected within the First Year			Collections in Subsequent Years (1)	Total Collections to Date	
		Amount	Percentage of Levy	Final Due Date		Amount	Percentage of Levy
1998	$ 340,783	$ 319,261	93.7%	11/01/99	$ 10,360	$ 329,621	96.7%
1999	338,823	326,628	96.4	10/01/00	(830)	325,798	96.2
2000	354,896	338,078	95.3	11/01/01	55	338,133	95.3
2001	372,549	361,145	96.9	11/01/02	2,966	364,111	97.7
2002	381,527	369,667	96.9	10/01/03	2,307	371,974	97.5
2003	398,062	375,549	94.3	11/15/04	15,461	391,008	98.2
2004	413,064	399,017	96.6	11/01/05	8,300	407,317	98.6
2005	411,348	398,343	96.8	09/01/06	8,887	407,230	99.0
2006	401,771	354,801	88.3	12/03/07	-	354,801	88.3
2007	416,390	-	-	09/01/08	-	-	-

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

Exhibit H-9
User Charge Rates

Last Ten Years

	2007 (1)	2006	2005	2004	2003
Large Commercial / Industrial User Rates (2)					
Flow per million gallons	$ 224.87	$ 225.80	$ 210.91	$ 202.39	$ 217.74
5-day BOD per 1,000 lbs. (5)	228.39	239.79	226.64	215.86	227.39
SS per 1,000 lbs. (6)	173.01	183.41	174.33	168.16	182.75
Tax-Exempt User Rates (3)					
Flow per million gallons	$ 231.07	$ 235.40	$ 219.30	$ 209.31	$ 223.29
5-day BOD per 1,000 lbs. (5)	234.69	249.99	235.65	223.25	233.19
SS per 1,000 lbs. (6)	177.77	191.20	181.26	173.92	187.41
OM&R Rate (4)	0.5040	0.5680	0.5680	0.5690	0.6240

(1) The current year's rates are calculated using financial data from the prior year's Budget, operating cost, and loading data from two years prior. The decrease in the 2007 rates resulted from a decrease in the District's recoverable Operations, Maintenance and Replacement (OM&R) costs.

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

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

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

(5) BOD - Biological Oxygen Demand

(6) SS - Suspended Solids

2002	2001	2000	1999	1998
$ 185.09	$ 200.21	$ 215.09	$ 205.63	$ 202.75
197.10	216.96	205.33	196.13	190.60
151.53	158.11	163.43	160.40	156.57
$ 190.74	$ 201.98	$ 181.83	$ 175.13	$ 176.16
203.22	218.89	173.52	167.04	165.60
156.16	159.51	138.14	136.61	136.03
0.5580	0.5950	0.4880	0.4510	0.4650

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

Last Ten Fiscal Years

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

Fiscal Year	General Obligation Bonds	Bond Anticipation Notes and Interest	Total Debt	Resources Available for Repayment of Debt (2)	Net Debt	Total Debt as a % Personal Income (3)	Total Debt Per Capita (3)	Net Debt as a % of Estimated Full Taxable Value (3)	Net Debt Per Capita (3)
1998	$ 1,159,093	$ 4,519	$ 1,163,612	$ 169,847	$ 993,765	0.70%	$ 229.33	0.35%	$ 195.85
1999	1,060,480	35,686	1,096,166	142,210	953,956	0.65	211.25	0.31	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	0.27	195.32
2002	1,298,375	26,162	1,324,537	157,957	1,166,580	0.70	246.06	0.27	216.72
2003	1,363,739	94,245	1,457,984	174,249	1,283,735	1.03	268.75	0.27	236.63
2004	1,329,123	90,473	1,419,596	164,185	1,255,411	1.03	264.65	0.23	234.04
2005	1,280,569	48,238	1,328,807	168,920	1,159,887	0.95	248.98	0.21	217.33
2006	1,579,401	25,261	1,604,662	124,540	1,480,122	1.15	302.37	0.27	278.90
2007	1,465,854	63,131	1,528,985	97,492	1,431,493	1.10	289.69	0.26	271.22

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

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

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

Exhibit H-11
Estimate of Direct and Overlapping Debt
As of December 31, 2007

(in thousands of dollars)

	Net Debt (2)	% Applicable (3)	Applicable Amount	
Direct debt				
General obligation bonds				$ 1,465,854
Overlapping bonded debt of major local governments (1)				
City of Chicago	$ 6,309,514	100.00%	$ 6,309,514	
Chicago Board of Education	4,743,781 (4)	100.00	4,743,781 (4)	
Chicago School Finance Authority	139,895	100.00	139,895	
Chicago Park District	804,115 (4)	100.00	804,115 (4)	
Community College District #508	- (5)	100.00	- (5)	
Cook County	2,950,840	98.01	2,892,118	
Cook County Forest Preserve District	121,270	98.01	118,857	
Total overlapping debt (6)				15,008,280
Total direct and overlapping debt (6)				$ 16,474,134

(1) Excludes outstanding tax anticipation notes and warrants.
(2) Source: Each of the respective taxing districts.
(3) Based on 2006 EAV's; the most recent available.
For 2006, the EAV's from the portion of the District within the City of Chicago was $69,511,192,285.
(4) Includes approximately $4,189,105,504 and $335,690,000 of general obligation bonds of the Chicago Board of Education and the Chicago Park District, respectively, issued as "alternate revenue" bonds secured by alternate revenue sources. An ad valorem property tax levy is filed in an amount sufficient to pay debt service on the alternate revenue bonds. When sufficient revenues have accumulated to pay annual debt service on the alternate revenue bonds, the property tax levy is abated. To date, alternate revenues have been available in amounts sufficient to pay principal and interest coming due on the alternate revenue bonds issued by the Chicago Board of Education and the Chicago Park District.
(5) Outstanding bonded debt of $31,695,000 matured 12/01/07.
(6) Does not include debt issued by other taxing authorities located in Cook County.

Exhibit H-12
Computation of Statutory Debt Margin

Last Ten Fiscal Years

(in thousands of dollars)

	2007 (1)	2006	2005	2004	2003
Equalized assessed valuation	$ 141,468,642	$ 141,468,642	$ 130,586,921	$ 119,038,560	$ 110,266,628
Statutory debt limit (5.75% of equalized assessed valuation)	8,134,447	8,134,447	7,508,748	6,844,717	6,340,331
Total debt applicable to debt limit:					
General obligation bonds outstanding	1,465,854	1,579,401	1,280,569	1,329,123	1,363,739
Bond anticipation notes outstanding	63,131	25,261	48,238	90,473	94,245
Liabilities of tax financed funds:					
Corporate	38,699	27,233	25,394	29,112	29,661
Stormwater	1,179	340	72	-	-
Debt service	-	56	154	212	212
Reserve claim	1,243	1,495	124	276	472
Construction	2,662	2,810	3,949	6,333	4,953
Total applicable debt	1,572,768	1,636,596	1,358,500	1,455,529	1,493,282
Less applicable assets:					
Debt service funds unrestricted cash	77,599				
and investments		108,814	127,860	125,441	129,600
Interest payable in the next twelve months	(68,877)	(69,111)	(55,119)	(60,902)	(63,488)
Total applicable assets	8,722	39,703	72,741	64,539	66,112
Total net debt applicable to debt limit	1,564,046	1,596,893	1,285,759	1,390,990	1,427,170
Statutory debt margin	$ 6,570,401	$ 6,537,554	$ 6,222,989	$ 5,453,727	$ 4,913,161
Total applicable net debt as a percentage of statutory debt limit	19.2%	19.6%	17.1%	20.3%	22.5%

(1) Debt limit calculation based on 2006 equalized assessed valuation since 2007 value is not yet available.

2002	2001	2000	1999	1998
$ 102,837,365	$ 92,905,090	$ 85,517,008	$ 80,864,656	$ 76,753,063
5,913,148	5,342,043	4,917,228	4,649,718	4,413,301
1,298,375	1,134,632	1,040,096	1,060,480	1,159,093
26,162	46,702	27,972	35,686	4,519
29,321	37,658	30,289	31,064	28,728
-	-	-	-	-
486	-	-	-	-
149	1,951	1,588	2,676	1,673
4,161	5,691	11,187	8,682	9,554
1,358,654	1,226,634	1,111,132	1,138,588	1,203,567
128,508	114,179	121,305	129,143	155,120
(62,325)	(58,199)	(53,112)	(55,836)	(60,458)
66,183	55,980	68,193	73,307	94,662
1,292,471	1,170,654	1,042,939	1,065,281	1,108,905
$ 4,620,677	$ 4,171,389	$ 3,874,289	$ 3,584,437	$ 3,304,396
21.9%	21.9%	21.2%	22.9%	25.1%

Exhibit H-13
Demographic and Economic Statistics

Last Ten Calendar Years

(population and dollars in thousands)

Year	Population	Personal Income	Per Capita Personal Income	Median Household Income	Unemployment Rate
2007	5,278	$ 138,936,974	$ 26,324	$ 52,477	4.9%
2006	5,307	139,547,983	26,295	52,408	4.5
2005	5,337	139,159,977	26,075	51,635	5.9
2004	5,364	137,820,341	25,694	50,093	6.2
2003	5,425	140,930,862	25,978	51,585	6.7
2002	5,383	189,054,081	35,121	57,214	6.5
2001	5,398	187,091,937	34,659	54,490	5.5
2000	5,377	182,393,699	33,921	40,292	4.3
1999	5,189	169,932,439	32,749	49,081	4.4
1998	5,074	165,072,174	32,533	45,668	4.4

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

Exhibit H-14
Principal Employers

2006 and Nine Years Ago

	2006 (a)			1997		
Employer	**Employees**	**Rank**	**Percentage of Total Employment** (6)	**Employees**	**Rank**	**Percentage of Total Employment** (6)
U.S. Government (1)	51,700	1	0.97%	30,340	3	0.60%
Chicago Public Schools (3)	43,783	2	0.83%	43,158	1	0.85%
City of Chicago (3)	39,675	3	0.75%	41,789	2	0.82%
Jewel-Osco (3)	34,037	4	0.64%	29,923	4	0.59%
Cook County (4)	25,482	5	0.48%	27,167	5	0.53%
Advocate Health Care (3)	25,279	6	0.48%	19,322	10	0.38%
United Parcel Service of America, Inc. (5)	19,000	7	0.36%	-	-	-
State of Illinois (3)	17,056	8	0.32%	21,197	9	0.42%
SBC Communications, Inc. (2) (3)	16,500	9	0.31%	22,500	8	0.44%
Wal-Mart Stores Inc. (3)	16,350	10	0.25%	-		-
U.S. Postal Service	-	-	-	24,268	7	0.48%
Motorola	-	-	-	25,000	6	0.49%
Total	288,862		5.44%	284,664		5.59%

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

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

(a) Current data unavailable

Exhibit H-15
Budgeted Positions by Fund/Department

Last Ten Fiscal Years

	Budgeted Positions									
Fund/Department	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**
Corporate Fund										
Board of Commissioners	45	45	46	46	45	45	45	45	45	45
General Administration	144	145	146	147	140	131	128	127	123	122
Research & Development	311	317	321	326	337	347	352	355	353	357
Purchasing	70	70	71	75	71	77	82	79	78	74
Personnel	53	53	56	56	52	51	46	43	44	49
Information Technology	66	63	64	64	64	75	75	73	69	63
Law	40	41	41	41	40	41	41	41	42	41
Finance	34	35	35	37	37	38	40	42	40	40
Engineering (Corporate Fund)	33	33	33	32	32	32	32	31	31	33
Maintenance & Operations	1,044	1,071	1,124	1,137	1,163	1,191	1,202	1,193	1,193	1,189
Total Corporate Fund	1,840	1,873	1,937	1,961	1,981	2,028	2,043	2,029	2,018	2,013
Engineering (Construction Fund)	49	63	63	117	120	130	231	223	227	226
Engineering (Stormwater Management)	48	38	9	-	-	-	-	-	-	-
Engineering (Capital Improvements Bond Fund) (1)	157	133	134	83	85	91	-	-	-	-
Grand Total	2,094	2,107	2,143	2,161	2,186	2,249	2,274	2,252	2,245	2,239

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

Exhibit H-16
Operating Indicators
Last Ten Fiscal Years

	Area Served (1)	Communities Served (2)	Number of People Served(3)	Commercial and Industrial Population Equivalent Served	Number of Local Sewer Connections to Intercepting Sewers	Gallons of Pumping Station Maximum Capacity (4)	Gallons of Sewerage Wastes Processed per Day (4)	Daily Sewerage Treatment Capacity (4)
2007	876	128	5,278,157	4,500,000	10,000	4,000,000	1,310,000	2,000,000
2006	876	128	5,306,935	4,500,000	10,000	4,000,000	1,329,000	2,000,000
2005	876	126	5,275,180	4,500,000	10,000	4,000,000	1,158,000	2,000,000
2004	872	126	5,364,000	4,500,000	10,000	4,000,000	1,243,000	2,000,000
2003	872	126	5,425,000	4,500,000	10,000	4,000,000	1,228,000	2,000,000
2002	872	126	5,383,000	4,500,000	10,000	4,000,000	1,244,000	2,000,000
2001	872	126	5,398,000	4,500,000	10,000	4,000,000	1,425,000	2,000,000
2000	872	126	5,377,000	4,500,000	10,000	4,000,000	1,324,000	2,000,000
1999	872	126	5,189,000	4,500,000	10,000	4,000,000	1,388,000	2,000,000
1998	872	126	5,074,000	4,500,000	10,000	4,000,000	1,443,000	2,000,000

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

Exhibit H-17
Capital Asset Statistics

Years ended December 31, 2007 - 1998

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Miles of intercepting sewers and force mains operated	559	559	559	559	559	559	559	554	554	554
Miles of waterway water levels controlled	76	76	76	76	76	76	76	76	76	76
Acres of strip-mined land utilized for solids processing	13,000+	13,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+	15,000+
Number of water reclamation plants	7	7	7	7	7	7	7	7	7	7
Number of pumping stations	23	23	23	23	23	24	25	24	24	24
Miles of TARP tunnels constructed for pollution and flood control	109.4	109.4	101.5	101.5	101.5	93.4	93.4	93.4	93.4	93.4
Miles of TARP tunnels under construction	0.0	0.0	7.9	7.9	7.9	16.0	16.0	8.1	8.1	8.1
Number of TARP reservoirs constructed	1	1	1	1	1	1	1	1	1	-
Number of TARP reservoirs under construction	2	2	2	2	2	1	1	1	-	-
Number of flood control reservoirs	32	32	32	32	32	31	31	30	30	30
Instream aeration stations	2	2	2	2	2	2	2	2	2	2
Sidestream elevated pool aeration stations	5	5	5	5	5	5	5	5	5	5

Source: District's Engineering Department

IV.
SINGLE AUDIT SECTION

The District's commitment to Protecting Our Water Environment is increasingly apparent as Chicago promotes water sports and eco-tourism on the Chicago River and Lake Michigan.

McGladrey & Pullen
Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Water Reclamation District of Greater Chicago (District) as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 28, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the District's pension trust fund, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

<u>Internal Control Over Financial Reporting</u>

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2007-1 and 2007-2, to be significant deficiencies in internal control over financial reporting.

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

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

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.

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

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 28, 2008

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

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

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

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

We have audited the accompanying Schedule of Expenditures of Federal Awards (Schedule) of the Metropolitan Water Reclamation District of Greater Chicago (the District), for the year ended December 31, 2007. The Schedule is the responsibility of the District's management. Our responsibility is to express an opinion on the Schedule based on our audit.

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

In our opinion, the schedule of expenditures of federal awards referred to above present fairly, in all material respects, the respective expenditures of federal awards of the Metropolitan Water Reclamation District of Greater Chicago, as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, we have also issued a report dated March 3, 2008, on our consideration of the District's compliance with requirements applicable to each major program and internal controls over compliance in accordance with OMB Circular A-133. That report is an integral part of an audit performed in accordance with *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and should be read in conjunction with this report.

Velma Butler & Company, Ltd.

Velma Butler & Company, Ltd.
Chicago, Illinois

March 3, 2008

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

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

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

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

Compliance

We have audited the compliance of the Metropolitan Water Reclamation District of Greater Chicago (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Velma Butler & Company, Ltd.

Velma Butler & Company, Ltd.
Chicago, Illinois

March 3, 2008

Schedule of Expenditures of Federal Awards

Year ended December 31, 2007

Federal CFDA Number (A)	Grant/ Identifying Number (B)	Award Date (C)	Project Description (D)		Total 2007 Federal Expenditures (E)
Major Programs:					
Federal Grantor: U.S. Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Funds (passed through Illinois Environmental Protection Agency)					
66.458	L17-2128	May, 2004	Dixmoor/Lansing Branch TARP	$	2,117,082
	Total U.S. Environmental Protection Agency Funding Capitalization Grant For Clean Water State Revolving Funds			$	2,117,082
			Total Federal Expenditures	**$**	**2,117,082**

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

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2007

Note 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 basic financial statements.

Note 2 – Heading and Column Explanation

(A) Catalog of Federal Domestic Assistance Number.

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

(C) Date of original award.

(D) Description of project funded with federal funds.

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

Note 3 – Program Description

Descriptions of federal programs, funded wholly or partially by federal sources, from which the District expended funds during the year ended December 31, 2007.

CFDA # 66.458 – Capitalization Grants for Clean Water 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 (SRF) in order to provide a feasible transition to state and local financing of municipal wastewater treatment facilities. The purpose of the SRF is to provide assistance for the construction of municipal wastewater treatment works, for implementing a nonpoint source management program and for developing and implementing an estuary conservation and management plan. The capitalization grant is deposited in the SRF, which is used to provide loans and other types of financial assistance, but not grants, to local communities and inter-municipal and interstate agencies. The States must agree to enter into binding commitments with recipients to provide financial assistance from the SRF in an amount equal to 16.67 percent of the total SRF loans, with the Federal share being 83.33 percent.

Note 4 – Grant Project Descriptions

State Revolving Fund Loans

Loan #L17-2128 was awarded to the District from the Illinois Environmental Protection Agency on May 24, 2004. The loan provides for the Dixmoor/Lansing Branch TARP Project #75-213-2H. The maximum SRF loan amount is $57,162,399, and the maximum pass through federal funding is $47,633,427. For fiscal year 2007, MWRD received $2,117,082 in federal funding.

Schedule of Findings and Questioned Costs

Year ended December 31, 2007

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	__	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	X	Yes	__	None Reported
Noncompliance material to financial statements noted?	__	Yes	X	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____Yes __X__No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?
_____Yes __X__None reported

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

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

Identification of major programs:

U.S. Environmental Protection Agency

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

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

Auditee qualified as low-risk auditee? __X__Yes _____No

SECTION II – FINANCIAL STATEMENT FINDINGS

Item 2007-1 – Internal Network Security

The District's internal network has several vulnerable security features.

During the 2007 audit, a review was performed of the security controls within the District's internal network. During the review, certain deficiencies were cited. The deficiencies included the following:

1. Certain directory permissions for several critical directories do not have restricted access to users of the system.

2. Two systems were found to have a blank password for a specified server, which if left uncorrected allows any user to act as administrator of the server.

3. One device was detected as having a file share with no access controls. This would allow anyone on the internal network to read and write to anything in this directory.

4. Use of the default access that is part of a distributed administration package provided within the operating system is creating vulnerabilities. If left uncorrected, a user has the ability to spoof credentials and make changes as the root user of this system.

Per the District they are constantly changing and updating systems and are doing their best to provide adequate security over their systems in a timely fashion.

A good system of internal control requires that the integrity of the District's information systems be maintained and that limitations and restrictions are in effect so that individuals could not impair the necessary security and control features.

Under the present system, unauthorized individuals could potentially add, change, or delete information on the District's network and such unauthorized activities would go undetected by the District.

We recommend the District implement the following related to the deficiencies noted above:

1. The District should review access to the drive and remove access by the "everyone" group.

2. Replace the blank password with a password that is difficult to guess.

3. The District should explicitly restrict access to the share or remove the share if it is not needed.

4. The District should install the appropriate patch provided by the system vendor to correct this issue.

SECTION II – FINANCIAL STATEMENT FINDINGS

Item 2007-2 – Inventory Obsolescence

The District currently does not have a timely process for removing obsolete inventory from the accounting system.

During our review of the internal controls of the District, we noted the District has an Inventory Control Review Board (IRB) that meets on a monthly basis to review items held in inventory. The January 16, 2008 meeting of the IRB identified 2,693 inventory items recorded at approximately $891,000 that were deemed obsolete. In accordance with the District's policy GS 82-1and GS 02-3, inventory is not recorded as a disposal until the item is either missing, lost, junked, abandoned, stolen, or sold. The District uses the Consumption Method of Accounting for Inventory whereby inventory purchases are recorded as an expenditure when used, as opposed to when purchased. Because the obsolete inventory will generally never be "consumed", these items should be written off or adequately reserved in accordance with Generally Accepted Accounting Principles (GAAP).

As a result of the audit, the District recorded an adjustment to inventory and has met with the Purchasing and Maintenance and Operation (M&O) Departments to discuss a resolution to fix the current situation.

A good system of internal control requires that inventories be properly valued and reported in the financial statements and that a mechanism for the timely reporting of the decline in inventory values is communicated to those charged with financial reporting on a timely basis.

Under the present system, inventory will be overstated as long as obsolete items are not removed from the accounting system on a timely basis.

We recommend the District update its current policy to include a process for removing obsolete items from inventory on a timely basis. At a minimum, any necessary inventory adjustments should be recorded prior to the year-end close. The IRB may also want to include a member of the finance department so that good communication is promoted within the organization.

SECTION II – FINANCIAL STATEMENT FINDINGS

Management's Responses and Corrective Action Plan

Item 2007-1 – Internal Network Security

Given that the devices identified as having vulnerabilities by the Network Security Review represent 0.35% of the devices on the District's network, the Information Technology Department has shown considerable competence in managing the network, has already corrected some of the identified vulnerabilities, and will pursue correction of the remaining vulnerabilities.

1. Changes have already been made to secure both directories.

2. This vulnerability has been fixed.

3. Since the open share was not specifically identified in the Review, the entire device is being reviewed and permissions will be adjusted to secure the device.

4. Of the devices identified with this vulnerability, one has been removed from the network and three are scheduled for patching. The vendor is being contacted to advise whether it is possible to apply the suggested patch to the final device – an old high performance book publishing printer deployed in the print shop. If patching is not possible, the device will need to be replaced at an initial cost estimate of $170,000.

Item 2007-2 – Inventory Obsolescence

The Purchasing Department will attempt to remove the obsolete inventory currently valued at $891,276.15 from inventory by December 31, 2008.

The Purchasing Act 70 ILCS 2605 stipulates the following regulations be met.

1) **Section 11.3**: **Necessity of competitive bidding**: Except as provided in Sections 11.4 and 11.5, all purchase orders or contracts involving amounts in excess of the mandatory competitive bid threshold and made by or on behalf of the sanitary district for labor, services or work, the purchase, lease or sale of personal property, materials, equipment or supplies, or the granting of any concession, shall be let by free and open competitive bidding after advertisement, to the lowest responsible bidder or to the highest responsible bidder, as the case may be, depending upon whether the sanitary district is to expend or receive money.

2) **Section 11.17**: **Powers of purchasing agent**: (i) transfer materials, supplies, and equipment to or between the various requisitioning agencies and to trade in, sell, donate, or dispose of any materials, supplies, or equipment that may become surplus, obsolete, or unusable; except that materials, supplies, and equipment may be donated only to not-for profit institutions.

SECTION II – FINANCIAL STATEMENT FINDINGS

Management's Response and Corrective Action Plan

Item 2007-2 – Inventory Obsolescence (Continued)

Purchasing plans to address the need to dispose obsolete inventory from stock by December 31, 2008 utilizing one of the following three options.

- **State of Illinois IBID Website**: The Purchasing and Finance Departments will utilize the ibid.illinois.gov website as the major resource to sell obsolete inventory subject to approval of the Board of Commissioners.

- **Requests for Quotations (RFQ's)**: The Purchasing Department may use the standard RFQ process when deemed necessary.

- **Donations**: The Purchasing Department may use donations to not for profit organizations.

Purchasing will also implement procedures to dispose of future obsolete inventory within six months of identification by the Inventory Review Board. Purchasing sees no reason to include a member from Finance to the Inventory Review Board.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY SCHEDULE OF PRIOR FINDINGS

Item 2006-1 – SAP System Security

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

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

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

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

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

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

SECTION IV – SUMMARY SCHEDULE OF PRIOR FINDINGS

Item 2006-1 – SAP System Security (Continued)

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

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

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

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

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

Status and Corrective Action Taken:

This recommendation has been implemented. During FY 2007, the District made significant improvements regarding the security of the SAP system. Blanket authorizations have been eliminated. The District completed a draft document for the *SAP Security Policy* which among other things contains guidelines for creating user authorizations, development security and password administration. The District also tightened SAP password parameters and now requires that passwords be changed more frequently.