

NEW ISSUE – BOOK ENTRY ONLY

Moody's: Aaa
Standard & Poor's: AAA
Fitch: AAA
(See "RATINGS" herein.)

Interest on the Bonds is not excludable from gross income for federal income tax purposes. Interest on the Bonds is not exempt from present Illinois income taxes. See "TAX MATTERS" herein for a more complete discussion.



**METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO**

\$600,000,000

**Taxable General Obligation Capital Improvement Bonds,
Limited Tax Series of August, 2009
(Build America Bonds – Direct Payment)**

Dated: Date of Delivery

The Taxable General Obligation Capital Improvement Bonds, Limited Tax Series of August, 2009 (Build America Bonds – Direct Payment) (the "Bonds") will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only. The Bonds are issuable in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers will not receive physical delivery of bond certificates. Principal and interest are payable by Amalgamated Bank of Chicago, Chicago, Illinois, the Bond Registrar and Paying Agent, to DTC, which will remit such principal and interest to DTC's Participants for payment to the Beneficial Owners of the Bonds, as described herein. Interest on the Bonds will be payable on June 1, 2010 and semiannually thereafter on each June 1 and December 1. **The Bonds are subject to redemption prior to maturity as described herein.**

MATURITY SCHEDULE

\$600,000,000 5.72% Term Bonds Due December 1, 2038; Price: 100%

The Bonds are direct and general obligations of the Metropolitan Water Reclamation District of Greater Chicago, Cook County, Illinois (the "District"). The Bonds are payable from ad valorem taxes levied upon all taxable property within the District without limitation as to rate, but limited as to amount by the provisions of the Property Tax Extension Limitation Law of the State of Illinois.

The Bonds are offered when, as, and if issued, and accepted by the Underwriters and subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel. Certain legal matters will be passed upon for the Underwriters by their Co-Underwriters' Counsel, Katten Muchin Rosenman LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois. It is anticipated that the Bonds will be available for delivery to DTC on or about August 26, 2009.

Mesirow Financial, Inc.

George K. Baum & Company
Cabrera Capital Markets, LLC
Merrill Lynch & Co.
Ramirez & Co., Inc.

Loop Capital Markets, LLC

William Blair & Company
Jefferies & Company

Blaylock Robert Van, LLC
Melvin Securities, LLC
Podesta & Co.

Siebert Brandford Shank & Co., LLC

Dated: August 11, 2009

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations may not be relied upon as statements of the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. Unless otherwise indicated, the District is the source of all tables and statistical and financial information contained in this Official Statement. The information set forth herein relating to governmental bodies other than the District has been obtained from such governmental bodies or from other sources believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and opinions expressed herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition or operations of the District since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor should be considered less important than any other by reason of its position in this Official Statement. Where statutes, ordinances, reports or other documents are referred to herein, reference should be made to such statutes, ordinances, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any other Federal, state, municipal or other governmental entity (other than the District) shall have passed upon the accuracy or adequacy of this Official Statement.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level which might not otherwise prevail in the open market. Such stabilizing, if begun, may be discontinued, and also may be recommenced at any time, in each case without notice.

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OFFICIAL STATEMENT

\$600,000,000

**Taxable General Obligation Capital Improvement Bonds,
Limited Tax Series of August, 2009
(Build America Bonds – Direct Payment)
CUSIP Number: 167560 PL9***

**METROPOLITAN WATER RECLAMATION DISTRICT
OF GREATER CHICAGO
COOK COUNTY, ILLINOIS**

INTRODUCTION

The purpose of this Official Statement, including the cover page and the Appendices, is to set forth certain information in conjunction with the sale by the Metropolitan Water Reclamation District of Greater Chicago (the “District”) of \$600,000,000 principal amount of its Taxable General Obligation Capital Improvement Bonds, Limited Tax Series of August, 2009 (Build America Bonds – Direct Payment) (the “Bonds”). Factors that may affect an investment decision concerning the Bonds are described throughout this Official Statement. Persons considering a purchase of any of the Bonds should read the Official Statement in its entirety.

The Bonds are authorized and issued under and pursuant to the Metropolitan Water Reclamation District Act, as amended (70 Illinois Compiled Statutes 2605) (the “Act”), the Local Government Debt Reform Act, as amended (30 Illinois Compiled Statutes 350) (the “Debt Reform Act”), and a bond ordinance adopted by the Board of Commissioners (the “Board”) of the District on June 18, 2009 (the “Bond Ordinance”).

The Bonds are direct and general obligations of the District, whose full faith and credit has been pledged for the punctual payment of the principal of and interest on the Bonds. The Bonds are payable from ad valorem taxes levied upon all taxable property within the District, without limitation as to rate, but limited as to amount by the provisions of the Property Tax Extension Limitation Law, as amended (35 Illinois Compiled Statutes 200/18-185 to 200/18-245) (the “Limitation Law”).

The Bonds are issued to finance construction projects identified in the District’s Capital Improvements Program and to pay the costs of issuance of the Bonds. For additional information concerning the District’s construction plan, see APPENDIX B – “CAPITAL IMPROVEMENTS PROGRAM.”

* Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard & Poor’s, CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Bonds and the District does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

This Official Statement contains summaries of the terms of the Bonds, together with descriptions of the District and other pertinent information. All references to agreements and documents are qualified in their entirety by references to the definitive forms of such agreements and documents. Any statements or information indicated to involve matters of opinion or estimates are represented as opinions or estimates in good faith, but no assurance can be given that the facts will materialize as so opined or estimated.

THE PROJECT

The Project involves the replacing, remodeling, completing, altering, constructing and enlarging of sewage treatment works, water quality improvement projects or flood control facilities, and additions therefore, including, but not limited to, the construction of pumping stations, tunnels, conduits, intercepting sewers and outlet sewers, together with the equipment, including air pollution equipment, and appurtenances thereto, to acquire property, real, personal or mixed, necessary for said purposes, and for costs and expenses for the acquisition of the sites and rights-of-way necessary thereto, and for engineering expenses for designing and supervising the construction of such works and other related and incidental expenses (the “Project”). For additional information concerning the District’s construction plan, see APPENDIX B – “CAPITAL IMPROVEMENTS PROGRAM.”

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows:

| | |
|--------------------------------|-----------------------------|
| SOURCES OF FUNDS | |
| Principal Amount of Bonds..... | \$600,000,000 |
| USES OF FUNDS | |
| Project Costs | \$594,189,375 |
| Costs of Issuance (1) | <u>5,810,625</u> |
| Total | <u><u>\$600,000,000</u></u> |

(1) Includes Underwriters’ discount.

THE BONDS

General Description

The Bonds mature on December 1, 2038. The Bonds bear interest from their dated date, at the rate of five and seventy-two hundredths percentum (5.72%) per annum, computed upon the basis of a 360-day year of twelve 30-day months and payable on June 1, 2010 and semiannually thereafter on June 1 and December 1 in each year. The Bonds are issuable only as fully registered book-entry bonds in denominations of \$5,000 or integral multiples of \$5,000. See “BOOK-ENTRY ONLY SYSTEM.” Principal of and interest on the Bonds are payable by Amalgamated Bank of Chicago, Chicago, Illinois, as Bond Registrar and Paying Agent (the “Bond Registrar”).

Election to Treat Bonds as Qualified Build America Bonds

Prior to the issuance of the Bonds, the District will irrevocably elect to treat the Bonds as qualified “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) in order to receive a cash subsidy from the United States Treasury in connection therewith. Such cash subsidy payments are not pledged to the payment of the Bonds.

Optional Redemption

The Bonds are subject to redemption prior to maturity at the option of the District, in whole or in part, on any business day, at the “Optional Redemption Price,” which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted “Treasury Rate” (as defined below) plus 35 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date. The District shall transmit the Optional Redemption Price on such dates and to such parties as shall be necessary to effectuate such optional redemption.

The “Treasury Rate” is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available four business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption

The Bonds are subject to redemption prior to their maturity at the option of the District, in whole or in part, upon the occurrence of an “Extraordinary Event” (as defined below), at the “Extraordinary Optional Redemption Price,” which is the greater of (i) 100% of the principal amount of the Bonds to be redeemed, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate, plus 100 basis points; plus, in each case, accrued interest on the Bonds to be redeemed to the redemption date. The District shall transmit the Extraordinary Optional Redemption Price on such dates and to such parties as shall be necessary to effectuate such extraordinary optional redemption.

An “Extraordinary Event” is a change that has occurred to Section 54AA or Section 6431 of the Internal Revenue Code of 1986, as amended (the “Code”) (as such sections were added by

Section 1531 of the Recovery Act, pertaining to Build America Bonds), or to any guidance published by the Internal Revenue Service or the United States Treasury with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, pursuant to which the District's 35% cash subsidy payment from the United States Treasury is reduced or eliminated, and which is not the result of any act or omission by the District to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury.

Determination of Redemption Price

The Optional Redemption Price and the Extraordinary Optional Redemption Price of the Bonds will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the District at the District's expense to calculate the Optional Redemption Price or the Extraordinary Optional Redemption Price. The Bond Registrar and the District may conclusively rely on the determination of the Optional Redemption Price and the Extraordinary Optional Redemption Price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

Mandatory Redemption

The Bonds are subject to mandatory sinking fund redemption at a redemption price of par plus accrued interest on December 1 in the years and amounts as follows:

| <u>Year</u> | <u>Amount</u> |
|-----------------------|---------------|
| 2033 | \$ 45,000,000 |
| 2034 | 100,000,000 |
| 2035 | 105,000,000 |
| 2036 | 110,000,000 |
| 2037 | 115,000,000 |
| 2038 (final maturity) | 125,000,000 |

The District shall credit against the mandatory sinking fund requirement for the Bonds, and corresponding mandatory redemption obligation, in the order determined by the District, any Bonds which have previously been redeemed (otherwise than as a result of a previous mandatory redemption requirement) or delivered to the District for cancellation or purchased for cancellation by the District and therefore applied as a credit against any redemption obligation. Each Bond so delivered or canceled shall be credited by the District at 100% of the principal amount thereof against the mandatory sinking fund obligation of such Bond on such mandatory redemption date, and any excess of such amount shall be credited on future redemption obligations, and the principal amount of that Bond to be redeemed by operation of the mandatory sinking fund requirement shall be accordingly reduced; provided, however, the District shall only credit such Bond to the extent received on or before 45 days preceding the applicable mandatory redemption date.

Redemption Procedure and Notice of Redemption

The District shall, at least 45 days prior to a redemption date (unless a shorter time period shall be satisfactory to the Bond Registrar), notify the Bond Registrar of such redemption date and of the maturities and principal amounts of Bonds to be redeemed.

If less than all of the Bonds are to be redeemed prior to maturity, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Bond Registrar pro-rata based upon the aggregate principal amount thereof then outstanding; provided, however, that if for an individual owner or owners of Bonds the pro rata redemption shall not result in a denomination of \$5,000 or an integral multiple thereof (the "Uneven Amount"), then the amount to be redeemed allocable to such Uneven Amount shall be as determined by the District by direction to the Bond Registrar in any commercially reasonable manner, which may include allocating such additional redemptions by rounding to the nearest denomination of \$5,000 or by lot, or both. If the Bonds are held in book-entry form at the time of such redemption, the Bond Registrar will instruct The Depository Trust Company ("DTC"), to instruct the DTC Participants to select the specific Bonds within such maturity for redemption pro rata among such Bonds, and neither the District nor the Bond Registrar shall have any responsibility to insure that DTC or its Participants properly select such Bonds for redemption.

Unless waived by the registered owner of Bonds to be redeemed, official notice of any such redemption shall be given by the Bond Registrar on behalf of the District by mailing the redemption notice by first class mail not less than 30 days and not more than 60 days prior to the date fixed for redemption to each registered owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

All official notices of redemption shall identify the Bonds or portions of Bonds to be redeemed and will state (a) the redemption date, (b) the redemption price or, in the case of an Optional Redemption or an Extraordinary Optional Redemption (each as described above), a description of the formula by which the redemption price shall be determined, (c) if less than all of the outstanding Bonds of a particular maturity are to be redeemed, the identification (and, in the case of partial redemption of Bonds within such maturity, the respective principal amounts) of the Bonds to be redeemed, (d) a statement that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption and that interest thereon shall cease to accrue from and after the date fixed for redemption, and (e) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment will be the office designated for such purpose by the Bond Registrar.

Unless moneys sufficient to pay the optional redemption price of the Bonds to be redeemed shall have been received by the Bond Registrar prior to the giving of such notice of redemption, such notice of optional redemption may, at the option of the District, state that the redemption shall be conditional upon the receipt of such moneys by the Bond Registrar on or prior to the date fixed for redemption. If such moneys are not received, the redemption notice shall be of no force and effect, the District shall not redeem such Bonds, and the Bond Registrar shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not received and that such Bonds will not be redeemed.

Official notice of redemption having been given, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the District shall default in the payment of the redemption price), such Bonds or portions of Bonds shall cease to bear interest. Neither the failure to mail such redemption notice, nor any defect in any notice so mailed, to any particular registered owner of a Bond, shall affect the sufficiency of such notice with respect to other registered owners. Notice having been properly given, failure of a registered owner of a Bond to receive such notice shall not be deemed to invalidate, limit or delay the effect of the notice or redemption action described in the notice. Such notice may be waived in writing by a registered owner of a Bond entitled to receive such notice either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by registered owners shall be filed with the Bond Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. The procedure for the payment of interest due as part of the redemption price shall be as herein provided for payment of interest otherwise due. Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond or Bonds of like tenor, of authorized denominations, of the same maturity, bearing the same rate of interest and in the amount of the unpaid principal amount.

Such additional notice and information as may be agreed upon with DTC shall also be given so long as the Bonds are held by DTC. See “BOOK-ENTRY ONLY SYSTEM.”

SECURITY FOR THE BONDS

The Bonds are direct and general obligations of the District for the payment of which the full faith and credit of the District has been pledged. The Bond Ordinance provides for the levy of a tax on all taxable property within the District adequate to pay principal of and interest on the Bonds when due.

The Bonds are payable from ad valorem taxes levied upon all taxable property within the boundaries of the District without limitation as to rate, but limited as to amount by the Limitation Law.

The Debt Reform Act provides that the Bonds are payable from the “debt service extension base” of the District. The District’s debt service extension base is \$141,463,900 (the “Debt Service Extension Base”). The District has covenanted in the Bond Ordinance that the sum of the annual amount of taxes to be extended to pay the Bonds and all other “limited bonds” (as defined in the Debt Reform Act) issued by the District will not exceed \$141,463,900, less the amount extended to pay certain other non-referendum bonds previously or hereafter issued by the District. See “DEBT INFORMATION – District’s Debt Service Extension Base Capacity.” The debt service on general obligation bonds of the District issued to finance construction projects initiated prior to October 1, 1991, including the District’s Tunnel and Reservoir Plan (“TARP”), is excluded from the tax extension limitation and does not reduce the District’s capacity to issue limited tax bonds. See “REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES – Property Tax Extension Limitation Law and Debt Reform Act.”

Upon the issuance of the Bonds, the District will have significant remaining capacity to levy ad valorem taxes for the repayment of additional limited bonds. See the table entitled “District’s Debt Service Extension Base Capacity” under the caption “DEBT INFORMATION.”

BOOK-ENTRY ONLY SYSTEM

The following information has been provided by The Depository Trust Company, New York, New York (“DTC”). The District and the Underwriters make no representation regarding the accuracy or completeness thereof. Each actual purchaser of a Bond (a “Beneficial Owner”) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

General

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dfc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive

written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they will be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, Bond Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Bond Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that, while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds; however, all rights of ownership must be exercised through DTC and the book-entry system.

ADDITIONAL FINANCING

Long-Term Capital Needs

The District has traditionally financed a substantial portion of its capital projects through the issuance of general obligation indebtedness. The District expects that future capital expenditures will continue to be financed in large part through the issuance of its general obligation indebtedness. There are currently no legislative proposals pending to eliminate or curtail the District's power to issue its general obligation bonds without voter approval. Legislation has been adopted which extended the existing bonding power of the District through 2016. For a description of certain of the District's present and future capital projects, see APPENDIX B – "CAPITAL IMPROVEMENTS PROGRAM." The District will also continue to evaluate whether market conditions will enable it to refinance additional outstanding indebtedness at favorable rates.

IEPA Projects

The District is involved in an ongoing program of sewer and treatment plant rehabilitation and expansion projects for which the Illinois Environmental Protection Agency ("IEPA") has approved partial funding through the State of Illinois Water Pollution Control Revolving Loan Fund (the "Revolving Loan Fund"). Under the terms of the Revolving Loan Fund, the District issues preliminary bonds in the amount of interim project loan advances to pay project costs. The preliminary bonds are funded at project completion by the issuance to the IEPA of long term general obligation bonds of twenty-year maturities. In connection with these fundings, the District has authorized the issuance of the following Capital Improvement Bonds:

| Series and Authorization | Principal Outstanding | Preliminary Bonds Outstanding |
|---------------------------------|--------------------------|----------------------------------|
| 1990 IEPA Series, \$45,000,000 | \$ 8,362,551.52 | – |
| 1991 IEPA Series, \$59,000,000 | 4,161,914.22 | – |
| 1992 IEPA Series, \$204,000,000 | 44,265,497.67 | – |
| 1994 IEPA Series, \$210,000,000 | 31,084,855.14 | – |
| 1997 IEPA Series, \$190,000,000 | 62,705,976.24 | \$12,224,149.43 |
| 2001 IEPA Series, \$180,000,000 | 97,592,358.58 | 46,774,065.26 |
| 2004 IEPA Series, \$150,000,000 | 58,212,007.82 | 47,845,739.29 |
| 2007 IEPA Series, \$160,000,000 | – | 29,846,500.00 |
| 2009 IEPA Series, \$258,000,000 | – | – |
| Total | <u>\$306,385,161.19</u> | <u>\$136,690,453.98</u> |

Proposed Refunding

On July 9, 2009, the Board adopted an ordinance authorizing the issuance of not to exceed \$300,000,000 of taxable general obligation bonds of the District for the purpose of refunding outstanding general obligation bonds of the District. The District’s refunding plan may be undertaken upon satisfaction of certain conditions set forth in the authorizing ordinance including that the issuance of the refunding bonds and the funding of the refunding plan must result in a net present value debt service savings. Under the terms of the authorizing ordinance, the authority of the District officials to issue such refunding bonds expires on December 31, 2009.

METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

The District

The District is a sanitary district and a body corporate and politic of the State of Illinois (the “State”), organized and existing under the Act. The District is an independent government and taxing body encompassing approximately 91% of the land area and 98% of the assessed valuation of Cook County, Illinois. The District was originally organized as the Sanitary District of Chicago in 1889 under an act of the Illinois General Assembly which has been modified from time to time to increase the District’s powers and jurisdiction. From 1955 through 1988 the District was called The Metropolitan Sanitary District of Greater Chicago. In order to provide a more accurate description of the District’s current functions and responsibilities the name was changed, effective January 1, 1989, to the Metropolitan Water Reclamation District of Greater Chicago.

The District is responsible for preventing pollution of Lake Michigan, the source of Chicago’s water supply, and treating wastewater to improve the water quality in the Chicago, Des Plaines, Calumet and Illinois Rivers and all other waterways within its jurisdiction. While it exercises no direct control over wastewater collection and transmission systems maintained by cities, towns and villages in Cook County, the District does control municipal sewer construction by permits. It also provides the main trunk lines for the collection of wastewater from the local

systems, and provides facilities for the treatment and disposal of the wastewater products. The District also provides facilities to store, treat and release combined sewage overflow and storm water runoff within its jurisdiction. Beginning in 2005, the District was assigned responsibility pursuant to Section 7h of The Metropolitan Water Reclamation District Act (70 ILCS 2605/7h) for stormwater management for all of Cook County, including areas outside of the District's corporate boundaries.

The District is currently undertaking a number of capital projects designed to fulfill its statutory responsibilities. A description of the District's Capital Improvements Program is set forth in APPENDIX B attached hereto.

Services

As of December 31, 2008, the District collects and treats wastewater from a population equivalent of about 10.35 million people; this includes domestic wastewater from approximately 5.25 million people, a commercial and industrial equivalent of approximately 4.5 million people, and a combined sewer overflow equivalent of approximately 0.6 million people in an 884 square mile area of Cook County. The District's 559 miles of intercepting sewers and force mains, ranging in size from 12 inches to 27 feet in diameter, are fed by direct interceptor sewer connections from the local systems of the City of Chicago and 128 other municipalities for which the District has issued over 40,500 user permits.

The District also has total or shared responsibilities with local communities for operating and maintaining 31 flood control reservoirs.

Administration

The District is governed by a nine member Board of Commissioners. Commissioners are elected at large and serve on a salaried basis. Three Commissioners are elected every two years for six-year terms. The Board elects a President, Vice President and Chairman of the Committee on Finance biannually from its membership.

The current Commissioners are:

| Board of Commissioners | Year First Elected | Term Expires |
|---|--------------------|--------------|
| Terrence J. O'Brien, <i>President</i> | 1988 | 2012 |
| Kathleen Therese Meany, <i>Vice President</i> | 1990 | 2014 |
| Gloria Alitto Majewski, <i>Chairman of Committee on Finance</i> | 1984 | 2010 |
| Frank Avila | 2002 | 2014 |
| Patricia Horton | 2006 | 2012 |
| Barbara J. McGowan | 1998 | 2010 |
| Cynthia M. Santos | 1996 | 2014 |
| Debra Shore | 2006 | 2012 |
| Mariyana Spyropoulos | 2009* | 2010 |

*Appointed by the Governor of the State of Illinois on August 5, 2009 to fill a vacancy.

The District's day to day operations are managed by the Executive Director, who is appointed by and reports directly to the Board. With the consent of the Board, the Executive Director appoints eight department heads who report directly to him. The Executive Director is

responsible for administering board policies, as well as preparing and implementing the District’s annual budget and long-range plan. The Treasurer of the District, its chief financial officer, is also appointed by and reports directly to the Board. The Treasurer is responsible for the District’s financial planning and investment management. The Board of Commissioners appoints a Civil Service Board that has statutory responsibilities for the District's classified service employees.

Mr. Richard Lanyon was appointed Executive Director by the Board of Commissioners on June 1, 2006. Mr. Lanyon has been with the District for 45 years. Prior to his appointment, he served as Director of Research and Development for seven years after serving as Assistant Director of Research and Development. Mr. Lanyon is a registered Professional Engineer, with a Master's Degree in Civil Engineering from the University of Illinois at Urbana-Champaign. Prior to January 1, 2009, the title “Executive Director” was not used. The former title with the same responsibilities was “General Superintendent.”

Mr. Harold G. Downs has been Treasurer of the District since 1982. Mr. Downs served as the District’s Assistant Treasurer for 12 years prior to assuming his current position. Mr. Downs holds a MBA in Finance from Northwestern University.

The District’s other principal officers serve as heads of the following departments under the Executive Director.

| <u>Other Principal Officers</u> | <u>Title</u> | <u>Department</u> |
|---------------------------------|--|--------------------------------------|
| Joseph P. Sobanski | Director of Engineering | Engineering |
| Osoth Jamjun | Director of Maintenance and Operations | Maintenance and Operations |
| Louis Kollias | Director of Monitoring and Research | Monitoring and Research |
| Frederick M. Feldman | General Counsel | Law |
| Patrick J. Foley | Director of Human Resources | Human Resources |
| Darlene A. LoCascio | Director of Procurement and Materials Management | Procurement and Materials Management |
| Keith D. Smith | Director of Information Technology | Information Technology |
| Jacqueline Torres | Director of Finance / Clerk of the District | Finance |

The departments have responsibility for the following activities:

Engineering Department – This department conducts and/or supervises facilities planning, design and construction inspection for the District, including new water reclamation plants; remodeling, alteration and expansion of existing plants; the Tunnel and Reservoir Plan (TARP); flood control reservoirs; construction of new and upgrading of existing sewer lines and pumping stations; solids management and disposal; and stormwater management activities within Cook County. The department provides liaison with the United States and Illinois Environmental Protection Agencies and with the U.S. Army Corps of Engineers; evaluates compliance with directives, processes permits for new sewer construction; applies for construction project state revolving fund loans; and provides coordination with other local governmental agencies, including county, township, and municipal agencies.

Maintenance and Operations Department – The responsibilities of this department include: protecting the water quality of Lake Michigan, which is the major water supply of the Chicago area; intercepting and treating domestic and industrial wastewater to minimize pollution

of the waterways; and operating and maintaining all the facilities of the District. In performing the above responsibilities, the department produces a high quality treatment plant effluent in compliance with the National Pollutant Discharge Elimination System (NPDES) Permits, provides for the proper utilization of the solids that are recovered from the various treatment processes, and controls collection facilities and the Tunnel and Reservoir Plan (TARP) system to minimize combined sewer overflows and treatment plant bypasses. The department has the added responsibilities of operating and maintaining flood control reservoirs to handle storm water run-off, operating and maintaining waterway aeration stations and Sidestream Elevated Pool Aeration (SEPA) Stations for the maintenance of water quality dissolved oxygen standards, maintaining a program of debris clearance from the waterways, controlling the state-allocated Lake Michigan diversion and operating and maintaining the hydroelectric Lockport powerhouse, which generates a revenue of \$1.4 million per year for the District.

Monitoring and Research Department – This department conducts ongoing research in wastewater treatment, solids disposal and related fields; monitors water reclamation plant operations, effluent quality and solids disposal for compliance with federal and state permits; monitors water quality of the Chicago area waterways and Lake Michigan for compliance with federal and state water quality standards; and administers the Sewage and Waste Control Ordinance and User Charge Ordinance for compliance with the requirements of the Clean Water Act of 1977 and regulations of the United States Environmental Protection Agency.

Law Department – This department is responsible for all legal matters relating to the District. The department also reviews necessary legislation for presentation to the Illinois General Assembly and provides legal interpretation of governing statutes.

Human Resources Department – This department is responsible for providing effective human resources management programs including: recruitment and selection, employee training and development, compensation and benefits, and labor and employee relations. Approximately 854 of the District's 2,100 employees are represented by 15 different unions. These unions comprise six different bargaining units. The District and the unions representing its employees have enjoyed a long tradition of amicable and professional relations. Multi-year collective bargaining agreements were negotiated with all unions in 2008. These agreements will be in effect until June 30, 2011.

Procurement and Materials Management Department – This department is responsible for procuring all materials and services in compliance with the Purchasing Act of the Metropolitan Water Reclamation District of Greater Chicago. The department operates four major storerooms at the District facilities providing planning, receiving, storing and issuing of materials. The department is also responsible for the sale of obsolete, used and surplus materials.

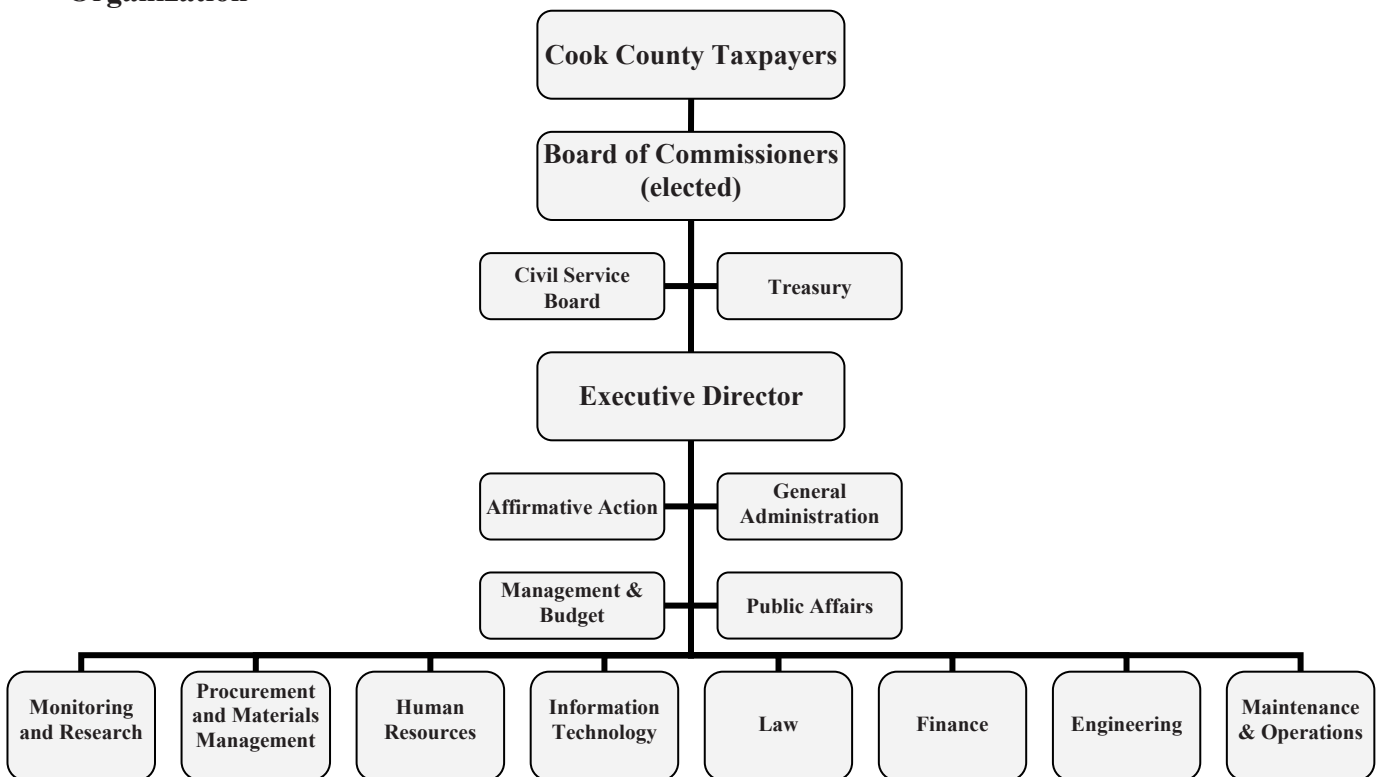
Information Technology Department – The mission of the Information Technology Department (ITD) is to align information technology with the stated goals and objectives of the District and to maintain the technology infrastructures and architectures at levels that promote productivity and efficiency throughout the District. In pursuit of this mission, the ITD coordinates the planning and implementation of information technology throughout the District. In addition, this Department establishes District-wide computer standards, monitors and oversees computer security, and provides support for numerous District-wide applications. The Department provides information technology services in the following key areas: Planning and

Program Management, Design and Implementation, Applications Development and Support, Infrastructure Operations and Maintenance, User Support and Customer Satisfaction, and Security and Disaster Recovery.

Finance Department – This department is responsible for reporting financial transactions and preparing the District’s Comprehensive Annual Financial Report (CAFR). Additionally, the department maintains all official records of District Proceedings, pursues revenue collections and pays obligations of the District in compliance with relevant statutes, professional standards, and District policy.

General Administration – This organizational unit includes the Office of the Executive Director, Affirmative Action, Management & Budget, Public Affairs and the General Administration Division. The Office of the Executive Director has overall administrative responsibility for the entire District. Affirmative Action administers the Affirmative Action ordinance to provide opportunities for protected class enterprises in the District purchasing process. Management & Budget is responsible for central budget preparation and administration, fiscal planning, and organizational studies. Public Affairs provides public and employee understanding of District functions and activities through media, publications, responses to public inquiries, tours, events and employee newsletters. The General Administration Division provides centralized support services such as Safety, Security, Environmental Site Remediation, Public Information and Building Administration across departmental lines.

Organization



OTHER LOCAL GOVERNMENTAL UNITS

Principal Units

There are numerous governmental units located within the boundaries of the District, each of which (i) is separately incorporated under the laws of the State; (ii) has an independent tax levy; (iii) derives its power and authority under the laws of the State; and (iv) maintains its own financial records and accounts. Each of these units may levy taxes upon property within its particular boundaries, and each is authorized to issue debt obligations. The principal municipality within the District is the City of Chicago. Other municipalities in Cook County with populations in excess of 50,000 include Arlington Heights, Berwyn, Cicero, Des Plaines, Evanston, Mount Prospect, Oak Lawn, Oak Park, Orland Park, Palatine, Schaumburg and Skokie. Approximately 47% of the Equalized Assessed Valuation of taxable property in Cook County is located within the City of Chicago with the balance located in other municipalities and unincorporated areas.

Other Major Governmental Units

Cook County (the “County”) is governed by a board of seventeen Commissioners (the “County Board”), each elected for four-year terms from one of seventeen districts. All taxable property situated in the District is located within the boundaries of the County. The County is a home rule unit under the Illinois Constitution of 1970 (the “Illinois Constitution”).

The Forest Preserve District of Cook County (the “Forest Preserve District”) is coterminous with the County. The Forest Preserve District creates, maintains and operates forest preserves within the County. The Forest Preserve District is governed by a seventeen-member board composed of the members of the County Board.

The City of Chicago (the “City”) was incorporated in 1837 and exercises broad governmental powers as a home rule unit under the Illinois Constitution. The City is governed by a Mayor elected at large for a four-year term, and the City Council. The City Council consists of 50 members (“Aldermen”), each representing one of the City’s 50 wards. Aldermen are elected for four-year terms.

The Board of Education of the City of Chicago (the “Board of Education”) exercises general supervision and jurisdiction over the public school system in the City. The Board of Education consists of seven members appointed by the Mayor of the City without consent or approval of the City Council. The Board of Education adopts the budget, approves contracts (including collective bargaining agreements), levies real property taxes and establishes general policies of the public schools.

The Chicago School Finance Authority was created in 1980 by the Illinois General Assembly and is a body politic and corporate that has previously issued bonds on behalf of the Board of Education.

The Chicago Park District (the “Park District”) is responsible for the maintenance and operation of parks, boulevards, marinas, and certain other public property within the City. The Park District is governed by a seven-member board, appointed by the Mayor of the City, with the approval of the City Council.

Community College District No. 508 (the “Community College District”) maintains a system of community colleges within the City. The Community College District is governed by a seven-member board, appointed by the Mayor of the City, with the approval of the City Council.

Certain Other Public Bodies

The Public Building Commission of Chicago (the “PBC”) is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more local governmental units. The PBC issues bonds to finance its projects and leases its facilities to the respective units of local government. At the present time the City, the Park District, the Board of Education and the Community College District lease facilities from the PBC. The Mayor of the City, with the approval of the City Council, appoints six of the 11 members of the PBC Board. The presiding officers of the District, the County, the Forest Preserve District, the Park District and the Board of Education, with the approval of their respective governing bodies, each appoint one member. The Chairman is elected by the PBC Board. The PBC has no authority to levy real property or other taxes.

The Regional Transportation Authority (the “RTA”) is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six county area of northeastern Illinois, including the County. The RTA is governed by a 16-member board. Five members are appointed by the Mayor of the City with the approval of the City Council. Four members are appointed by the Commissioners of the County Board elected from districts a majority of the electors of which reside outside of the City. One member is appointed by the President of the County Board with the advise and consent of the County Board. Five members total and one member each are appointed by the Chairman of DuPage, Lake and McHenry Counties and the County Executive of Will County, with the approval of each respective county board. The sixteenth member, who is the Chairman of the RTA, is elected by the other fifteen members and must receive no less than 11 votes, two of which must come from members from each of the City, the suburban portion of the County and from the five “collar” counties. The RTA is primarily funded from sales taxes imposed by the RTA on sales in the six county area and a portion of sales taxes imposed by the State. The RTA is also authorized to impose, but does not currently impose, taxes on automobile rentals, motor fuel and offstreet parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes. The RTA may not levy real property taxes.

The Chicago Transit Authority (the “CTA”) is a municipal corporation empowered to acquire, construct, own, operate and maintain a transportation system in the metropolitan area of the County. The CTA is governed by a seven-member board, four members appointed by the Mayor of the City with the approval of the City Council, and three members appointed by the Governor with the approval of the State Senate. The CTA board elects from its members a Chairman for a term of three years. The CTA may not levy real property or other taxes.

The Metropolitan Pier and Exposition Authority (the “MPEA”), formerly known as the Metropolitan Fair and Exposition Authority, is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and the Navy Pier recreational facilities. MPEA periodically issues revenue bonds to finance the construction of certain

facilities. MPEA is governed by a 12-member board, six of whom are appointed by the Governor with the approval of the State Senate and six of whom are appointed by the Mayor of the City. The Chairman of MPEA is appointed by the Mayor of the City with the consent of the Governor, and the Chief Executive Officer is appointed by the Governor with the consent of the Mayor of the City. MPEA is authorized to impose certain taxes to provide security for the bonds issued to finance the expansion of McCormick Place. The MPEA may not levy real property taxes.

Interrelationships

The governmental units and other public bodies described above share, in varying degrees, a common property tax base with the District. See “DEBT INFORMATION.” However, they are all separate legal and financial units, and the financial condition or circumstances of any one unit does not necessarily imply similar financial conditions or circumstances for the District.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

All of the “equalized assessed valuation” or “EAV” (described below) of taxable real property in the District is located in the County. Information under this caption describes the current procedures for real property assessment, tax levy and tax collection in the County. There is no assurance that the procedures described under this caption will not be changed. Illinois laws relating to the real property taxation are contained in the Illinois Property Tax Code (the “Property Tax Code”).

Real Property Assessment

The Cook County Assessor (the “County Assessor”) is responsible for the assessment of all taxable real property within the County, including that in the District, except for certain railroad property and pollution control facilities, which are assessed directly by the Illinois Department of Revenue (the “Department of Revenue”). For triennial reassessment purposes, the County is divided into three districts: west and south suburbs (the “South Tri”), north and northwest suburbs (the “North Tri”), and the City of Chicago (the “City Tri”). The North Tri was last reassessed for the 2007 tax levy year, the South Tri was last reassessed for the 2008 tax levy year, and the City Tri is to be reassessed for the 2009 tax levy year.

Real property in the County is separated into classes for assessment purposes. After the County Assessor establishes the fair market value of a parcel of property, that value is multiplied by the appropriate classification percentage to arrive at the assessed valuation (the “Assessed Valuation”) for the parcel. The classification percentages range from 16% for certain residential, commercial and industrial property to 36% and 38%, respectively, for other industrial and commercial property. On September 17, 2008, the County Board approved changes to the property classification ordinance. The changes reduce the percentages used to calculate the assessed value of real property in the County for real estate tax purposes. These reductions will take effect in the 2009 tax levy year. Such new classification percentages range from 10% for certain residential, commercial and industrial property to 25% for other industrial and commercial property.

Property is classified for assessment into six basic categories, each of which is assessed (beginning with the 2009 tax levy year) at various percentages of fair market value as follows: Class 1) unimproved real estate - 10%; Class 2) residential - 10%; Class 3) rental-residential - 16%, in tax year 2009, 13% in assessment year 2010, and 10% in assessment year 2011 and subsequent years; Class 4) not-for-profit - 25%; Class 5a) commercial - 25%; Class 5b) industrial - 25%. There are also seven additional categories. Newly constructed industrial properties or substantially rehabilitated sections of existing industrial properties within the County may qualify for a Class 6b assessment level, which assessment level is 10% for the first 10 years and for any subsequent 10-year renewal periods. However, if the incentive is not renewed, the 6b assessment level is 15% in year 11 and 20% in year 12, hereafter reverting to Class 5b. Real estate, which is to be used for industrial or commercial purposes where such real estate has undergone environmental testing and remediation, may be eligible for a Class C assessment level. The Class C assessment level for industrial properties is 10% for the first 10 years, 15% in year 11 and 20% in year 12, thereafter reverting to Class 5b. Class C commercial properties are assessed at 10% for the first 10 years, 15% in year 11 and 20% in year 12, thereafter reverting to Class 5a. Commercial properties that are newly constructed or substantially rehabilitated and are within an area determined to be an area in need of commercial development may be classified as Class 7a or 7b property, and will then be assessed at a level of 10% for the first 10 years, 15% in year 11 and 20% in year 12, thereafter reverting to Class 5a. Certain commercial and industrial properties located in zones determined to be in need of substantial revitalization or in an enterprise community could be eligible for Class 8 assessments. The Class 8 assessment level for industrial properties is 10% for the first 10 years and for any subsequent 10-year renewal periods. If the incentive is not renewed, the Class 8 assessment level for industrial properties is 15% in year 11 and 20% in year 12, thereafter reverting to Class 5b. The Class 8 assessment level for commercial properties is 10% for the first 10 years, 15% in year 11 and 20% in year 12, thereafter reverting to Class 5a. Substantially rehabilitated or new construction multi-family residential properties within certain target areas, empowerment or enterprise zones may be eligible for Class 9 categorization. The Class 9 assessment level is 10% for an initial 10-year period, renewable upon application for additional 10-year periods. When the Class 9 assessment level expires, the assessment level reverts to the applicable classification. Rental-residential (Class 3) properties subject to a Section 8 contract that has been renewed under the "Mark Up To Market" option may qualify for a Class S assessment level. The Class S assessment level is 10% for the term of the Section 8 contract renewal under the Mark Up To Market option, and for any additional terms of renewal of the Section 8 contract under the Mark Up To Market option. When the Class S assessment level expires, the assessment level reverts to Class 3. Substantially rehabilitated properties which are designated as Class 3, Class 4, Class 5a or Class 5b and which qualify as Landmark or Contributing buildings may qualify for a Class L assessment level. The Class L assessment level for Class 3, 4 or 5b properties is 10% for the first 10 years and for any subsequent 10-year renewal periods. If the incentive is not renewed, the Class L assessment level is 15% in year 11 and 20% in year 12, thereafter reverting to Class 3, 4 or 5b. Class L commercial properties are assessed at 10% for the first 10 years, 15% in year 11 and 20% in year 12, thereafter reverting to Class 5a.

In response to the downturn of the real estate market, on May 11, 2009, the County Assessor announced a proposal to reduce the 2009 assessed value on suburban residential properties (specifically, those properties located in the South Tri and the North Tri) not originally scheduled for reassessment this year. If enacted, each suburban township would receive an

adjustment percentage for tax year 2009, lowering the existing assessed values of all residential properties in that township within a range of 4% to 15%. The reductions are expected to take effect in the second-installment tax bills payable in the fall of 2010. Any market adjustments to the North Tri and the South Tri will be coordinated with the 2009 triennial reassessment of the City Tri.

The County Assessor has established procedures enabling taxpayers to contest their proposed Assessed Valuations. Once the County Assessor certifies its final Assessed Valuations, a taxpayer can seek review of its assessment by appealing to the Cook County Board of Review, which consists of three commissioners elected by the voters of the County. The Board of Review has the power to adjust the Assessed Valuations set by the County Assessor.

Owners of both residential property having six or fewer units and owners of real estate other than residential property with six or fewer units are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a statewide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Taxpayers may appeal the decision of PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

As an alternative to seeking review of Assessed Valuations by PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County similar to the previous judicial review procedure but with a different standard of proof than that previously required. In addition, in cases where the County Assessor agrees that an assessment error has been made after tax bills have been issued, the County Assessor can correct any factual error, and thus reduce the amount of taxes due, by issuing a Certificate of Error. Certificates of Error are not issued in cases where the only issue is the opinion of the valuation of the property.

Equalization

After the County Assessor has established the Assessed Valuation for each parcel for a given year, and following any revisions by the Board of Review or PTAB, the Illinois Department of Revenue is required by statute to review the Assessed Valuations. The Illinois Department of Revenue establishes an equalization factor (the "Equalization Factor"), commonly called the "multiplier," for each county to make all valuations uniform among the 102 counties in the State. Under State law, the aggregate of the assessments within each county is to be equalized at 33-1/3% of the estimated fair cash value of real property located within the county prior to any applicable exemptions. One multiplier is applied to all property in the County, regardless of its assessment category, except for some farmland property which is not subject to equalization.

Once the Equalization Factor is established, the Assessed Valuation, as revised by the Board of Review or PTAB, is multiplied by the Equalization Factor to determine the equalized assessed valuation (the "EAV") of that parcel. The EAV for each parcel is the final property valuation used for determination of tax liability. The aggregate EAV for all parcels in any taxing body's jurisdiction, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the

“Assessment Base”). The following table sets forth the Equalization Factor for the County for the last 10 tax levy years.

| <u>Tax Levy Year</u> | <u>Equalization Factor</u> |
|----------------------|----------------------------|
| 1997 | 2.1489 |
| 1998 | 2.1799 |
| 1999 | 2.2505 |
| 2000 | 2.2235 |
| 2001 | 2.3098 |
| 2002 | 2.4689 |
| 2003 | 2.4598 |
| 2004 | 2.5757 |
| 2005 | 2.7320 |
| 2006 | 2.7076 |
| 2007 | 2.8439 |

Exemptions

Public Act 95-644, effective October 17, 2007, made changes to and added a number of property tax exemptions taken by residential property owners. These changes are discussed below.

An annual General Homestead Exemption provides that the EAV of certain property owned and used for residential purposes (“Residential Property”) may be reduced by \$5,500 for assessment year 2008, and \$6,000 for assessment years 2009 and forward (the “General Homestead Exemption”).

The Alternative General Homestead Exemption (the “Alternative General Homestead Exemption”) caps EAV increases for homeowners (who also reside on the property as their principal place of residence) at 7% a year, up to a certain maximum each year as defined by the statute. Any amount of increase that exceeds the maximum exemption as defined is added to the 7% increase and is part of that property’s taxable EAV. Homes that do not increase by at least 7% a year are entitled, in the alternative, to the General Homestead Exemption as discussed above.

The Base Year for purposes of calculation of the Alternative General Homestead Exemption is 2002 for properties located in the City Tri, 2003 for properties located in the North Tri and 2004 for properties located in the South Tri. The Base Homestead Value is the EAV of the homestead property minus the General Homestead Exemption for that year: \$5,500 for 2008 and \$6,000 for the year 2009 and thereafter.

For properties in the City Tri, the Alternative General Homestead Exemption cannot exceed \$20,000 for assessment year 2008 and \$6,000 thereafter. For properties in the North Tri, the Alternative General Homestead Exemption cannot exceed \$26,000 for assessment year 2008, \$20,000 for assessment year 2009 and \$6,000 thereafter. For properties in the South Tri, the Alternative General Homestead Exemption cannot exceed \$33,000 for assessment year 2008, \$26,000 for assessment year 2009, \$20,000 for assessment year 2010 and \$6,000 thereafter.

Finally, the Long-Time Occupant Homestead Exemption applies to those counties subject to the Alternative General Homestead Exemption, including the County. Beginning with assessment year 2007 and thereafter, the EAV of homestead property of a taxpayer who has owned the property for at least 10 years (or five years if purchased with certain government assistance) and who has a household income of \$100,000 or less (“Qualified Homestead Property”) may increase by no more than 10% per year. If the taxpayer’s annual income is \$75,000 or less, the EAV of the Qualified Homestead Property may increase by no more than 7% per year. There is no exemption limit for Qualified Homestead Properties. Individuals applying for this exemption must comply with the following guidelines: (i) continuously occupy their property for 10 years, as of January 1st of the assessment year, and occupy such property as their principal residence or, (ii) continuously occupy their property as their principal place of residence for five years, as of January 1st of the assessment year, provided that the property was purchased with certain government assistance.

In addition, the Homestead Improvement Exemption (“Homestead Improvement Exemption”) applies to residential properties that have been improved and to properties that have been rebuilt in the two years following a catastrophic event. The exemption is limited to \$75,000 per year to the extent the assessed value is attributable solely to such improvements or rebuilding.

Additional exemptions exist for senior citizens. The Senior Citizens Homestead Exemption (“Senior Citizens Homestead Exemption”) operates annually to reduce the EAV on a senior citizen’s home by \$4,000 in all counties. Furthermore, property that is first occupied as a residence after January 1 of any assessment year by a person who is eligible for the Senior Citizens Homestead Exemption must be granted a prorata exemption for the assessment year based on the number of days during the assessment year that the property is occupied as a residence by a person eligible for the exemption.

A Senior Citizens Assessment Freeze Homestead Exemption (“Senior Citizens Assessment Freeze Homestead Exemption”) freezes property tax assessments for homeowners who are 65 and older, reside in their property as their principal place of residence and receive a household income not in excess of the maximum income limitation. The maximum income limitation is \$55,000 for assessment years 2008 and thereafter. In general, the exemption grants qualifying senior citizens an exemption based upon a “freeze” of their home’s Assessed Valuation.

Another exemption, available to disabled veterans, may be applied annually to exempt up to \$70,000 of the Assessed Valuation of property owned and used exclusively by such veterans or their spouses for residential purposes. However, individuals claiming exemption under the Disabled Persons’ Homestead Exemption (“Disabled Persons’ Homestead Exemption”) or the hereinafter defined Disabled Veterans Standard Homestead Exemption cannot claim the aforementioned exemption.

Also, certain property is exempt from taxation on the basis of ownership and/or use, such as public parks, not-for-profit schools and public schools, churches, and not-for-profit hospitals and public hospitals.

Furthermore, beginning with assessment year 2007, the Disabled Persons' Homestead Exemption provides an annual homestead exemption in the amount of \$2,000 for property that is owned and occupied by certain persons with a disability. However, individuals claiming exemption as a disabled veteran or claiming exemption under the Disabled Veterans Standard Homestead Exemption cannot claim the Disabled Persons' Homestead Exemption.

In addition, the Disabled Veterans Standard Homestead Exemption ("Disabled Veterans Standard Homestead Exemption") provides disabled veterans an annual homestead exemption starting with assessment year 2007 and thereafter. Specifically, (i) those veterans with a service-connected disability of 75% are granted an exemption of \$5,000 and (ii) those veterans with a service-connected disability of less than 75%, but at least 50%, are granted an exemption of \$2,500. Furthermore, the veteran's surviving spouse is entitled to the benefit of the exemption, provided that the spouse has legal or beneficial title of the homestead, resides permanently on the homestead and does not remarry. Moreover, if the property is sold by the surviving spouse, then an exemption amount not to exceed the amount specified by the current property tax roll may be transferred to the spouse's new residence, provided that it is the spouse's primary residence and the spouse does not remarry. However, individuals claiming exemption as a disabled veteran or claiming an exemption under the Disabled Persons' Homestead Exemption cannot claim the aforementioned exemption.

Also, beginning with assessment year 2007, the Returning Veterans' Homestead Exemption ("Returning Veterans' Homestead Exemption") is available for property owned and occupied as the principal residence of a veteran in the assessment year the veteran returns from an armed conflict while on active duty in the United States armed forces. This provision grants a homestead exemption of \$5,000, which is applicable in all counties. In order to apply for this exemption, the individual must pay real estate taxes on the property, own the property or have either a legal or an equitable interest in the property, subject to some limitations. Those individuals eligible for this exemption may claim the exemption in addition to other homestead exemptions, unless otherwise noted.

Tax Levy

As part of the annual budgetary process of governmental units (the "Units") with power to levy taxes in the County, proceedings are adopted by the designated body for each Unit each year in which it determines to levy real estate taxes. The administration and collection of real estate taxes is statutorily assigned to the Cook County Clerk (the "County Clerk") and the Cook County Treasurer (the "County Treasurer"). After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit. The County Clerk uses the prior year's EAV to compute the taxing district's maximum allowable levy. The maximum levy that can be raised for a Unit is the maximum tax rate for that Unit multiplied by the prior year EAV for all property currently in the taxing district. The prior year's EAV includes the prior year's EAV plus the EAV of any new property, the current year value of any annexed property, and any recovered tax increment value, minus any disconnected property for the current year under the Limitation Law. The tax rate for a Unit is computed by dividing the lesser of the maximum allowable levy or the actual levy by the current year's EAV.

Property Tax Extension Limitation Law and Debt Reform Act

The Limitation Law is applied after the prior year EAV limitation. The Limitation Law limits the annual growth in the amount of property taxes to be extended for certain Illinois non-home rule units, including the District. The effect of the Limitation Law is to limit the amount of property taxes that can be extended for a taxing body. In addition, general obligation bonds, notes and installment contracts payable from ad valorem taxes, unlimited as to rate and amount, cannot be issued by the affected taxing bodies unless they are approved by referendum, are alternate bonds or are for certain refunding purposes; these limitations on the extensions of property taxes contained in the Limitation Law do not apply to the taxes levied by the District (i) to pay the principal of and interest on its outstanding general obligation bonds issued prior to March 1, 1995; (ii) to pay the principal of and interest on bonds issued to refund or continue to refund those bonds issued before March 1, 1995; (iii) to pay the principal of and interest on bonds to finance construction projects initiated prior to October 1, 1991 (consisting primarily of the TARP projects as described in APPENDIX B); or (iv) to pay interest or principal on bonds issued to refund or continue to refund bonds issued after March 1, 1995 that are approved by referendum.

The Debt Reform Act permits units of local government, including the District, to issue limited tax bonds that have otherwise been authorized by applicable law. The base for such bond issues is the debt service extension for the levy year 1994. The District could also increase its debt service extension base by referendum. H.B. 242, which was passed by the Illinois General Assembly on May 19, 2009 and sent to the Governor for his signature on June 17, 2009, would amend the Limitation Law and provides that the debt service extension base of a taxing district must be increased by the lesser of 5% or the percentage increase in the Consumer Price Index during the 12-month calendar year preceding the levy year.

Under legislation enacted in 1997, the Limitation Law was amended so that the issuance of bonds by the District to construct construction projects initiated before October 1, 1991, including the TARP projects, will not reduce the District's ability to issue limited tax bonds for other major capital projects.

The use of prior year EAV's to limit the allowable tax levy may reduce tax rates for funds that are at or near their maximum rates in districts with rising EAVs. These reduced rates and all other rates for those funds subject to the Limitation Law are added together, which results in the aggregate preliminary rate. The aggregate preliminary rate is then compared to the limiting rate. If the limiting rate is more than the aggregate preliminary rate, there is no further reduction in rates due to the Limitation Law. If the limiting rate is less than the aggregate preliminary rate, the aggregate preliminary rate is further reduced to the limiting rate. In all cases, taxes are extended using current year EAV under Section 18-140 of the Property Tax Code.

The District has the authority to levy taxes for many different purposes. See "TAXATION OF PROPERTY WITHIN DISTRICT – STATISTICAL INFORMATION—Metropolitan Water Reclamation District Tax Rates by Fund." The ceiling at any particular time on the rate at which these taxes may be extended for the District is either (i) unlimited (as provided by statute), (ii) initially set by statute but permitted to be increased by referendum, (iii) capped by statute, or (iv) limited to the rate approved by referendum. Public Act 94-0976, effective June 30, 2006, provides that the

only ceiling on a particular tax rate is the ceiling set by statute above, at which the rate is not permitted to be further increased by referendum or otherwise. Therefore, taxing districts (such as the District) will have increased flexibility to levy taxes for the purposes for which they most need the money. The total aggregate tax rate for the various purposes subject to the Limitation Law, however, will not be allowed to exceed the District's limiting rate computed in accordance with the provisions of the Limitation Law.

In general, the annual growth permitted under the Limitation Law is the lesser of 5% or the percentage increase in the Consumer Price Index during the calendar year preceding the levy year. Taxes can also be increased due to new construction, referendum approval of tax rate increases, mergers and consolidations. Local governments, including the District, can issue limited tax bonds in lieu of general obligation bonds that have otherwise been authorized by applicable law. See "SECURITY FOR THE BONDS" herein.

Extensions

The County Clerk then computes the total tax rate applicable to each parcel of real property by aggregating the tax rates of all of the Units having jurisdiction over the particular parcel. The County Clerk extends the tax by entering the tax (determined by multiplying the total tax rate by the EAV of that parcel for the current assessment year) in the books prepared for the Cook County Collector (the "Warrant Books") along with the tax rates, the Assessed Valuation and the EAV. The Warrant Books are the Cook County Collector's (the "County Collector") authority for the collection of taxes and are used by the County Collector as the basis for issuing tax bills to all property owners.

Collections

Property taxes are collected by the County Collector, who is also the County Treasurer, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first due on March 1 and the second on the later of August 1 or 30 days after the mailing of the tax bills. A payment due is deemed to be paid on time if the payment is postmarked on the due date. The first installment is equal to one half of the prior years' tax bill. However, if a Certificate of Error is approved by a court or certified on or before November 30 of the preceding year and before the estimated tax bills are prepared, then the first installment is instead equal to one-half of the *corrected* prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the then current tax year levy, assessed value and Equalization Factor, and reflects any changes from the prior year in those factors. The following table sets forth the second installment penalty date for the last 10 tax levy years in the County; the first installment penalty date has been March 1 for all such years.

| <u>Tax Levy Year</u> | <u>Second Installment Penalty Date</u> |
|----------------------|--|
| 1997 | October 28, 1998 |
| 1998 | November 1, 1999 |
| 1999 | October 2, 2000 |
| 2000 | November 2, 2001 |
| 2001 | November 1, 2002 |
| 2002 | October 1, 2003 |
| 2003 | November 15, 2004 |
| 2004 | November 1, 2005 |
| 2005 | September 1, 2006 |
| 2006 | December 3, 2007 |
| 2007 | November 3, 2008 |

It is possible that the changes to the assessment appeals process described above will cause delays similar to those experienced in past years in preparation and mailing of the second installment in future years. The County may provide for tax bills to be payable in four installments instead of two. However, the County has not required payment of tax bills in four installments. During the periods of peak collections, tax receipts are forwarded to each Unit on a weekly basis. Upon receipt of taxes from the County Collector, the District promptly credits the taxes received to the funds for which they were levied.

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court and applies for a judgment for all unpaid taxes. The court orders resulting from the application for judgment provides for an Annual Tax Sale (the “Annual Tax Sale”) of unpaid taxes shown on that year’s Warrant Books. A public sale is held, at which time successful tax buyers pay the unpaid taxes plus penalties. In each such public sale, the collector can use any “automated means.” Unpaid taxes accrue penalties at the rate of 1.5% per month from their due date until the date of sale. Taxpayers can redeem their property by paying the amount paid at the sale, plus a maximum of 12% for each six-month period after the sale. If no redemption is made within the applicable redemption period (ranging from six months to two and one-half years depending on the type and occupancy of the property) and the tax buyer files a petition in the Circuit Court, notifying the necessary parties in accordance with the applicable law, the tax buyer receives a deed to the property. In addition, there are miscellaneous statutory provisions for foreclosure of tax liens.

If there is no sale of the tax lien on a parcel of property at the Annual Tax Sale, the taxes are forfeited and the property becomes eligible to be purchased at any time thereafter at an amount equal to all delinquent taxes and interest accrued to the date of purchase. Redemption periods and procedures are the same as applicable to the Annual Tax Sale.

The Scavenger Sale (the “Scavenger Sale”), like the Annual Tax Sale, is a sale of unpaid taxes. The Scavenger Sale is held every two years on all property on which two or more years’ taxes are delinquent. The sale price of the unpaid taxes is the amount bid at such sale, which may be less than the amount of delinquent taxes. Redemption periods vary from six months to two and a half years depending upon the type and occupancy of the property.

Truth in Taxation Law

Legislation known as the Truth in Taxation Law (the “Law”) limits the aggregate amount of certain taxes which can be levied by, and extended for, a taxing district to 105% of the amount of taxes extended in the preceding year unless specified notice, hearing and certification requirements are met by the taxing body. The express purpose of the Law is to require published disclosure of, and hearing upon, an intention to adopt a levy in excess of the specified levels.

**TAXATION OF PROPERTY WITHIN DISTRICT – STATISTICAL
INFORMATION**

Equalized Assessed Valuation by Major Classification
(amounts in thousands)

| <u>Year of Levy</u> | <u>Real Property</u> | <u>Railroad and Environmental Protection Property</u> | <u>Total</u> |
|---------------------|----------------------|---|---------------|
| 2007 | \$155,800,132 | \$172,662 | \$155,972,794 |
| 2006 | 141,311,943 | 156,699 | 141,468,642 |
| 2005 | 130,438,124 | 148,797 | 130,586,921 |
| 2004 | 118,889,944 | 148,616 | 119,038,560 |
| 2003 | 110,120,812 | 145,816 | 110,266,628 |
| 2002 | 102,405,543 | 431,822 | 102,837,365 |
| 2001 | 92,500,093 | 404,997 | 92,905,090 |
| 2000 | 85,149,867 | 367,141 | 85,517,008 |
| 1999 | 80,527,449 | 337,206 | 80,864,655 |
| 1998 | 76,439,045 | 314,017 | 76,753,062 |

Source of data: Office of County Clerk

Equalized Assessed Valuation – Chicago and Suburbs
(amounts in thousands)

| <u>Year of Levy</u> | <u>Chicago</u> | <u>Suburbs</u> | <u>Total</u> |
|---------------------|----------------|----------------|---------------|
| 2007 | \$73,645,316 | \$82,327,478 | \$155,972,794 |
| 2006 | 69,511,192 | 71,957,450 | 141,468,642 |
| 2005 | 59,304,530 | 71,282,391 | 130,586,921 |
| 2004 | 55,277,096 | 63,761,464 | 119,038,560 |
| 2003 | 53,168,632 | 57,097,996 | 110,266,628 |
| 2002 | 45,330,892 | 57,506,473 | 102,837,365 |
| 2001 | 41,981,912 | 50,923,178 | 92,905,090 |
| 2000 | 40,480,075 | 45,036,933 | 85,517,008 |
| 1999 | 35,354,802 | 45,509,853 | 80,864,655 |
| 1998 | 33,940,146 | 42,812,916 | 76,753,062 |

Source of data: Office of County Clerk

Estimated Full Value – Chicago and Suburbs
(amounts in thousands)

| <u>Year of Levy</u> | <u>Chicago</u> | <u>Suburbs</u> | <u>Total</u> |
|---------------------|----------------|----------------|---------------|
| 2006 | \$329,770,733 | \$336,452,329 | \$666,223,062 |
| 2005 | 283,137,884 | 298,233,411 | 581,371,295 |
| 2004 | 262,080,627 | 279,861,423 | 541,942,050 |
| 2003 | 223,572,427 | 248,399,242 | 471,971,669 |
| 2002 | 201,938,231 | 226,167,677 | 428,105,908 |
| 2001 | 185,912,246 | 206,294,563 | 392,206,809 |
| 2000 | 162,593,364 | 186,372,891 | 348,966,255 |
| 1999 | 135,522,333 | 173,910,877 | 309,433,210 |
| 1998 | 122,726,446 | 165,036,400 | 287,762,846 |

Source of data: The Civic Federation, Chicago, Illinois (Based upon information from the Illinois Department of Revenue.)
2007 data not available.

Comparative Tax Rates of Major Local Governmental Units
(Per \$100 Equalized Assessed Valuation)

| | Tax Years (1) | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Metropolitan Water Reclamation District | \$0.263 | \$0.284 | \$0.315 | \$0.347 | \$0.361 | \$0.371 | \$0.401 | \$0.415 |
| City of Chicago | 1.004 | 1.012 | 1.153 | 1.188 | 1.262 | 1.452 | 1.478 | 1.498 |
| Chicago Board of Education..... | 2.583 | 2.697 | 3.026 | 3.104 | 3.142 | 3.562 | 3.744 | 3.714 |
| Chicago Park District | 0.355 | 0.379 | 0.443 | 0.455 | 0.439 | 0.515 | 0.546 | 0.557 |
| County of Cook | 0.446 | 0.500 | 0.533 | 0.593 | 0.630 | 0.690 | 0.746 | 0.824 |
| Cook County Forest Preserve District | 0.053 | 0.057 | 0.060 | 0.060 | 0.059 | 0.061 | 0.067 | 0.069 |
| Community College District #508..... | 0.159 | 0.205 | 0.234 | 0.242 | 0.246 | 0.280 | 0.307 | 0.311 |
| Chicago School Finance Authority..... | 0.091 | 0.118 | 0.127 | 0.177 | 0.151 | 0.177 | 0.223 | 0.223 |
| City of Chicago Library Fund | 0.040 | 0.050 | 0.090 | 0.114 | 0.118 | 0.139 | 0.159 | 0.162 |
| Total | \$4.994 | \$5.302 | \$5.981 | \$6.280 | \$6.408 | \$7.247 | \$7.671 | \$7.773 |

Source of data: Office of County Clerk

(1) Based upon taxes extended for collection in succeeding years as a percentage of the Equalized Assessed Valuation for the tax year.

Metropolitan Water Reclamation District Tax Rates by Fund
(Per \$100 Equalized Assessed Valuation)

| | Tax Years | | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| Corporate Fund | \$0.150 | \$0.151 | \$0.158 | \$0.167 | \$0.163 | \$0.164 | \$0.171 | \$0.179 |
| Retirement Fund | 0.016 | 0.018 | 0.018 | 0.024 | 0.024 | 0.024 | 0.027 | 0.027 |
| Debt Service Fund | 0.087 | 0.087 | 0.113 | 0.139 | 0.143 | 0.145 | 0.158 | 0.151 |
| Reserve Claim Fund..... | 0.004 | 0.004 | 0.004 | 0.004 | 0.004 | 0.004 | 0.004 | 0.005 |
| Corporate Working Cash Fund | - | - | - | - | 0.004 | 0.004 | 0.004 | 0.005 |
| Construction Fund..... | 0.003 | 0.013 | 0.014 | 0.013 | 0.023 | 0.030 | 0.037 | 0.043 |
| Construction Working Cash Fund..... | - | - | - | - | - | - | - | 0.005 |
| Stormwater Management Fund..... | 0.003 | 0.011 | 0.008 | - | - | - | - | - |
| Total..... | \$0.263 | \$0.284 | \$0.315 | \$0.347 | \$0.361 | \$0.371 | \$0.401 | \$0.415 |

Source of data: Office of County Clerk

Statutory Tax Rate Limitation by Fund
(Per \$100 Equalized Assessed Valuation)

| | |
|--------------------------------------|-----------|
| Corporate Fund..... | \$0.410 |
| Retirement Fund (1) | Unlimited |
| Debt Service Fund (1) | Unlimited |
| Reserve Claim Fund (2) | 0.005 |
| Corporate Working Cash Fund..... | 0.005 |
| Construction Fund | 0.100 |
| Construction Working Cash Fund | 0.005 |
| Stormwater Management Fund | 0.050 |

Source of data: Office of County Clerk

(1) Subject to the provisions of the Tax Extension Limitation Law. See "REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES – Property Tax Extension Limitation Law and Debt Reform Act."

(2) Subject to maximum accumulated value of \$0.05.

Tax Levies, Collections, and Receivables (1)

(amounts in thousands) (Unaudited)

| | 2008 | | | 2007 | | | 2006 | | | 2005 | | | 2004 | | |
|---|------------------|--------------|--------------|------------------|--------------|--------------|------------------|--------------|--------------|------------------|--------------|--------------|------------------|--------------|--------------|
| | Amount | % of Levy | % of APT (2) | Amount | % of Levy | % of APT (2) | Amount | % of Levy | % of APT (2) | Amount | % of Levy | % of APT (2) | Amount | % of Levy | % of APT (2) |
| Gross Property Tax Levy: | | | | | | | | | | | | | | | |
| Corporate Fund | \$239,262 | 56.1 | | \$233,982 | 57.0 | | \$213,860 | 53.2 | | \$206,565 | 50.2 | | \$198,676 | 48.1 | |
| Construction Fund..... | - | 0.0 | | 5,181 | 1.3 | | 17,766 | 4.4 | | 17,940 | 4.4 | | 14,847 | 3.6 | |
| Debt Service Fund..... | 138,960 | 32.6 | | 135,730 | 33.1 | | 123,608 | 30.8 | | 147,281 | 35.8 | | 166,152 | 40.2 | |
| Retirement Fund..... | 25,665 | 6.0 | | 24,843 | 6.1 | | 25,072 | 6.2 | | 23,598 | 5.7 | | 28,247 | 6.8 | |
| Stormwater Management Fund..... | 15,212 | 3.6 | | 3,942 | 1.0 | | 15,508 | 3.8 | | 10,451 | 2.5 | | - | 0.0 | |
| Corporate Working Cash Fund | - | 0.0 | | - | 0.0 | | - | 0.0 | | - | 0.0 | | - | 0.0 | |
| Reserve Claim Fund..... | 7,073 | 1.7 | | 6,530 | 1.5 | | 5,957 | 1.6 | | 5,513 | 1.4 | | 5,142 | 1.3 | |
| Total Gross Property Tax Levy..... | \$426,172 | 100.0 | | \$410,208 | 100.0 | | \$401,771 | 100.0 | | \$411,348 | 100.0 | | \$413,064 | 100.0 | |
| Less Allowance for Estimated Uncollectible Taxes | 14,917 | 3.5 | | 14,325 | 3.5 | | 14,062 | 3.5 | | 14,397 | 3.5 | | 14,451 | 3.5 | |
| Anticipated Property Tax Collections..... | \$411,255 | 96.5 | 100.0 | \$395,883 | 96.5 | 100.0 | \$387,709 | 96.5 | 100.0 | \$396,951 | 96.5 | 100.0 | \$398,613 | 96.5 | 100.0 |
| Property Tax Collected: | | | | | | | | | | | | | | | |
| First Year | \$194,780 | 45.7 | 47.4 | \$390,440 | 95.2 | 98.6 | \$353,566 | 88.3 | 91.5 | \$398,343 | 96.8 | 100.4 | \$399,017 | 96.6 | 100.1 |
| Second Year..... | | | | 8,972 | 2.2 | 2.3 | 43,145 | 10.7 | 11.1 | 8,887 | 2.2 | 2.2 | 11,002 | 2.7 | 2.8 |
| Third Year..... | | | | | | | (1,460) | (0.4) | (0.4) | (2,857) | (0.7) | (0.7) | (2,702) | (0.7) | (0.7) |
| Fourth Year..... | | | | | | | | | | (1,577) | (0.4) | (0.4) | (2,285) | (0.6) | (0.6) |
| Fifth Year..... | | | | | | | | | | | | | (2,186) | (0.5) | (0.5) |
| Total Property Tax Collected..... | \$194,780 | 45.7 | 47.4 | \$399,412 | 97.4 | 100.9 | \$395,251 | 98.6 | 102.2 | \$402,796 | 97.9 | 101.5 | \$402,846 | 97.5 | 101.1 |
| Net Property Tax Receivable..... | \$216,475 | 50.8 | 52.6 | \$ - | | | \$ - | | | \$ - | | | \$ - | | |
| Net Property Tax Receivable by Fund: | | | | | | | | | | | | | | | |
| Corporate Fund | \$121,533 | | | | | | | | | | | | | | |
| Construction Fund..... | - | | | | | | | | | | | | | | |
| Debt Service Fund..... | 70,586 | | | | | | | | | | | | | | |
| Retirement Fund..... | 13,036 | | | | | | | | | | | | | | |
| Stormwater Management Fund..... | 7,727 | | | | | | | | | | | | | | |
| Corporate Working Cash Fund | - | | | | | | | | | | | | | | |
| Reserve Claim Fund..... | 3,593 | | | | | | | | | | | | | | |
| Net Property Tax Receivable..... | \$216,475 | | | | | | | | | | | | | | |

(1) As of June 30, 2009.

(2) Anticipated Property Tax Collections.

DEBT INFORMATION
(Unaudited)

The following tables set forth direct and overlapping debt applicable to the District as of June 30, 2009, adjusted to include the Bonds.

Direct Debt

| | Amount |
|--|-----------------|
| IEPA Preliminary Bonds | \$ 136,690,454 |
| General Obligation Bonds Outstanding (Includes IEPA Final Bonds) | 1,379,237,302 |
| Plus: The Bonds..... | 600,000,000 |
| Total Direct Debt | \$2,115,927,756 |

Estimated Overlapping Bonded Debt (1)

| | Bonded Debt (2) | Percent Applicable (3) | Amount Applicable |
|---|-----------------|---------------------------|-------------------|
| City of Chicago..... | \$6,558,654,262 | 100% | \$6,558,654,262 |
| Chicago Board of Education (4) | 4,607,881,653 | 100% | 4,607,881,653 |
| Chicago Park District (4) | 814,290,000 | 100% | 814,290,000 |
| Cook County..... | 3,144,605,000 | 97.93% | 3,079,511,677 |
| Cook County Forest Preserve District..... | 115,105,000 | 97.93% | 112,722,327 |
| Total Overlapping Debt | | | \$15,173,059,919 |
| Total Direct and Overlapping Debt..... | | | \$17,288,987,675 |
| Population (2008 Estimate)..... | | | 5,294,664 |
| Equalized Assessed Valuation (2007) (3) | | | \$155,972,794,427 |
| Estimated Fair Market Value (2006)..... | | | \$666,223,061,624 |

Source of data: Office of County Clerk, Tax Extension Division

- (1) Excludes outstanding tax anticipation notes and warrants. Does not include debt issued by other taxing authorities located in Cook County.
- (2) Source: Each of the respective taxing districts.
- (3) Based on 2007 EAVs; the most recent available. For 2007, the EAV from the portion of the District within the City of Chicago was \$73,645,316,037.
- (4) Includes approximately \$4,202,885,504 and \$334,695,000 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.

Selected Debt Ratios

| | Per Capita (1) | % of Equalized Assessed Value (2) | % of Estimated Full Value (3) |
|--|----------------|--------------------------------------|----------------------------------|
| Direct Debt | \$399.63 | 1.36% | 0.32% |
| Total Direct and Overlapping Debt (4)..... | \$3,265.36 | 11.08% | 2.60% |

- (1) 2008 Estimated Cook County Population: 5,294,664.
- (2) 2007 Equalized Assessed Value: \$155,972,794,427.
- (3) 2006 Estimated Full Value: \$666,223,061,624.
- (4) Does not include debt issued by other taxing authorities located in Cook County not included under "Estimated Overlapping Bonded Debt."

Combined Schedule of Bonds Issued and Outstanding
(As of June 30, 2009) (Unaudited)
(amounts in thousands)

| Series | Interest Rate | Final Maturity (1) | Annual Payments | | | | | | Initial Principal | Amount Retired | Principal Outstanding |
|---|---------------|--------------------|-----------------|--------|------|--------|------|--------|--------------------|------------------|-----------------------|
| Capital Improvement | | | | | | | | | | | |
| December 2002 Unlimited C | 5.375 | 2013 | 2013 | 6,100 | | | | | \$64,000 | \$57,900 | \$6,100 |
| December 2002 Limited D | 3.50-5.375 | 2013 | 2009 | 14,400 | 2011 | 15,800 | 2013 | 11,300 | 100,000 | 26,900 | 73,100 |
| | | | 2010 | 15,100 | 2012 | 16,500 | | | | | |
| July, 2006 Limited | 5.00 | 2022 | 2010 | 14,630 | 2016 | 11,515 | 2020 | 13,280 | 250,000 | 110,435 | 139,565 |
| | | | 2011 | 12,995 | 2017 | 11,150 | 2021 | 12,105 | | | |
| | | | 2012 | 12,380 | 2018 | 11,770 | 2022 | 15,800 | | | |
| | | | 2015 | 11,995 | 2019 | 11,945 | | | | | |
| IEPA Revolving Loan Fund Bonds | | | | | | | | | | | |
| | 2.50-3.745 | 2028 | 2009 | 13,641 | 2016 | 23,950 | 2023 | 14,028 | 546,194 | 196,732 | 349,462 |
| | | | 2010 | 27,828 | 2017 | 23,479 | 2024 | 11,442 | | | |
| | | | 2011 | 28,574 | 2018 | 20,354 | 2025 | 7,881 | | | |
| | | | 2012 | 28,262 | 2019 | 18,702 | 2026 | 4,431 | | | |
| | | | 2013 | 27,321 | 2020 | 15,896 | 2027 | 2,524 | | | |
| | | | 2014 | 25,854 | 2021 | 15,644 | 2028 | 181 | | | |
| | | | 2015 | 24,616 | 2022 | 14,854 | | | | | |
| Total Capital Improvement and IEPA Revolving Loan Fund | | | | | | | | | \$960,194 | \$391,967 | \$568,227 |
| Refunding | | | | | | | | | | | |
| August 1992 (2) | 6.05 | 2009 | 2009 | 15,400 | | | | | \$188,700 | \$173,300 | \$15,400 |
| July 1997 (3) | 5.50 | 2009 | 2009 | 16,200 | | | | | 116,325 | 100,125 | 16,200 |
| May, 2006 Unlimited (4) | 5.00 | 2031 | 2023 | 31,860 | 2026 | 36,535 | 2029 | 41,935 | 346,600 | - | 346,600 |
| | | | 2024 | 33,335 | 2027 | 38,255 | 2030 | 43,795 | | | |
| | | | 2025 | 34,895 | 2028 | 40,055 | 2031 | 45,935 | | | |
| May, 2006 Limited (4) | 5.00 | 2031 | 2023 | 5,035 | 2026 | 5,480 | 2029 | 5,985 | 50,790 | - | 50,790 |
| | | | 2024 | 5,165 | 2027 | 5,645 | 2030 | 6,050 | | | |
| | | | 2025 | 5,315 | 2028 | 5,820 | 2031 | 6,295 | | | |
| March, 2007 Unlimited A (5) | 4.00-5.00 | 2022 | 2014 | 18,760 | 2017 | 17,955 | 2020 | 22,250 | 188,315 | - | 188,315 |
| | | | 2015 | 19,675 | 2018 | 20,015 | 2021 | 23,395 | | | |
| | | | 2016 | 20,585 | 2019 | 21,125 | 2022 | 24,555 | | | |
| March, 2007 Unlimited B (5) | 5.25 | 2035 | 2034 | 45,965 | 2035 | 45,880 | | | 91,845 | - | 91,845 |
| March, 2007 Limited C (5) | 5.25 | 2033 | 2025 | 2,595 | 2027 | 405 | 2033 | 48,210 | 101,860 | - | 101,860 |
| | | | 2026 | 2,465 | 2032 | 48,185 | | | | | |
| Total Refunding | | | | | | | | | \$1,084,435 | \$273,425 | \$811,010 |
| Total — All Series | | | | | | | | | \$2,044,629 | \$665,392 | \$1,379,237 |

(Footnotes appear on the following page.)

Notes to Combined Schedule of Bonds Issued and Outstanding

- (1) Bonds issued prior to August 1992 mature on January 1 of the years indicated, except IEPA Revolving Loan Fund Bonds which mature semiannually on January 1 and July 1.
- (2) Seven bond issues were fully or partially refunded by August 1992 Refunding Bond Issue as provided below:
 - \$21,300,000 Capital Improvement, October 1985, maturing 1996-2000, called January 1, 1995, at 102%.
 - \$2,980,000 Refunding, December 1985, maturing 2003, called January 1, 2000, at 100%.
 - \$27,555,000 Refunding, June 1986, maturing 2000-2004, called January 1, 1998, at 100%.
 - \$80,400,000 Capital Improvement, March 1989, maturing 2002-2008, called January 1, 1998, at 100%.
 - \$17,400,000 Capital Improvement, November 1990, maturing 2009-2010, called January 1, 2000, at 102%.
 - \$3,050,000 Corporate Working Cash, November 1990, maturing 2009 and 2010, called January 1, 2000, at 102%.
 - \$15,000,000 Capital Improvement, June 1991, partial maturities 2008 and 2011.
- (3) Three bond issues were partially refunded by July 1997 Refunding Bond Issue as provided below:
 - \$19,970,000 Refunding, December 1985, maturing 1998 and 2000 at 100%.
 - \$14,400,000 Capital Improvement, November 1990, maturing 2002-2004, called January 1, 2000, at 102%.
 - \$73,765,000 Capital Improvement, January 1995, maturing 2008-2009 and 2014, called December 1, 2005, at 100%.
- (4) Two refunding bond issues were refunded by May 2006 Refunding Bond Issue Unlimited and Limited as provided below:
 - \$363,000,000 Variable Rate General Obligation Refunding Bonds, Unlimited Tax Series A of June 2002 (6)
 - \$53,000,000 Variable Rate General Obligation Refunding Bonds, Limited Tax Series B of June 2002 (6)
- (5) Four bond issues were fully or partially refunded by the March, 2007 Refunding Bond Issues, Unlimited Tax Series A and B, and Limited Tax Series C, as provided below:
 - \$57,900,000 Capital Improvement, Unlimited Tax Series of December 2002, maturing 2014 to 2016.
 - \$146,000,000 Capital Improvement, Unlimited Tax Series E of December 2002, maturing 2022.
 - \$100,000,000 Capital Improvement, Unlimited Tax Series of July 2006, maturing 2035.
 - \$110,435,000 Capital Improvement, Limited Tax Series of July 2006, maturing 2027 and 2033.
- (6) Five bond issues were partially refunded by June 2002 Refunding Bond Issue Unlimited Series A and Limited Series B as provided below:
 - \$39,950,000 Capital Improvement, June 1991, maturing 2008 and 2011.
 - \$145,500,000 Capital Improvement, March 1993, maturing 2008-2010 and 2012.
 - \$68,415,000 Capital Improvement, January 1995, maturing 2007 and 2010-2012.
 - \$100,000,000 Capital Improvement, Unlimited Series June 2001 A, maturing 2008-2014 at 100%, callable December 1, 2012, at 101%.
 - \$20,510,000 Capital Improvement, Limited Series June 2001 B, maturing 2007-2008.

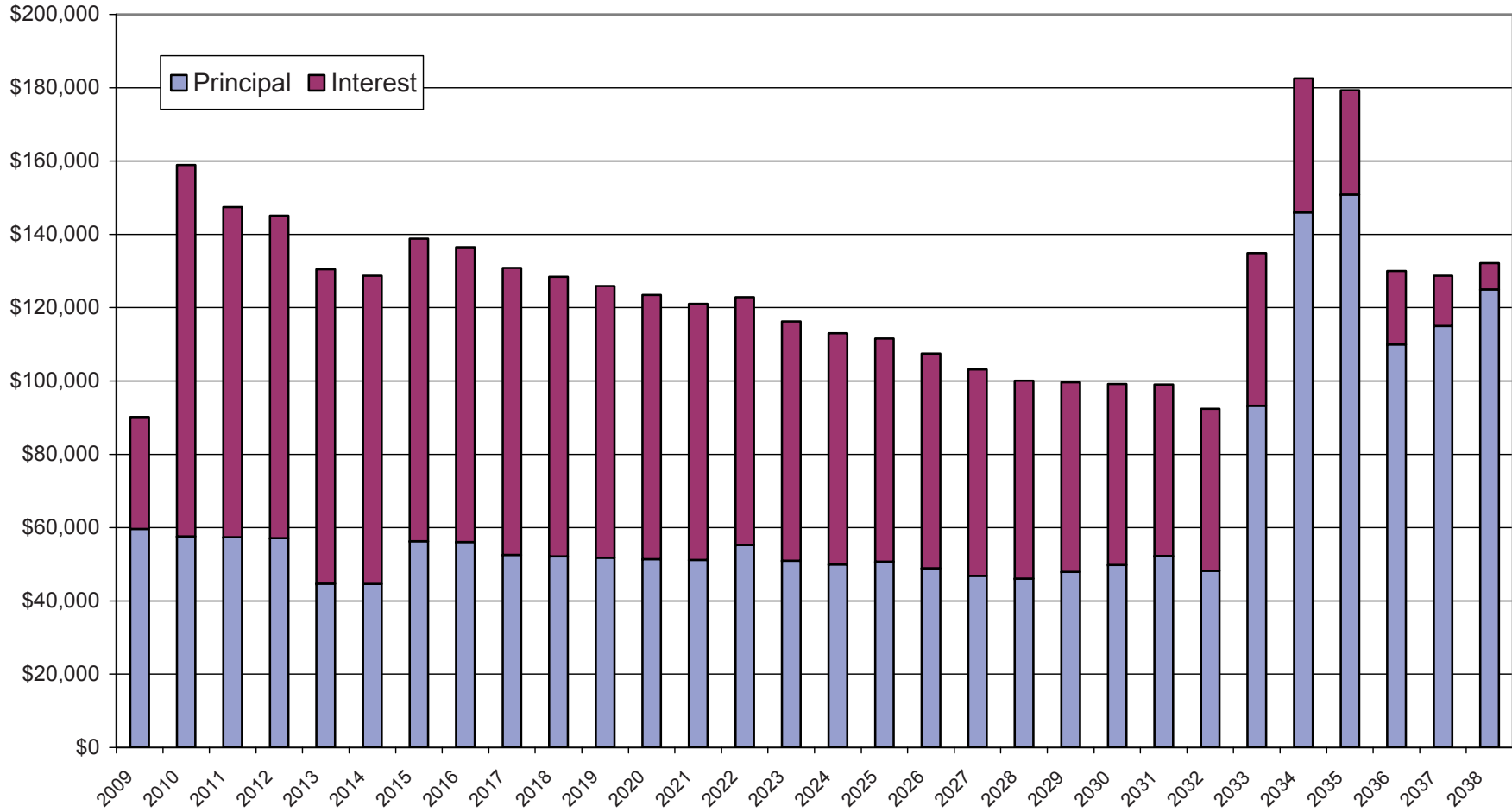
General Obligation Bonded Debt Service Schedule (1)
(Amounts in thousands; as of June 30, 2009)

| Year | Bonds Outstanding (2) | | | The Bonds | | | Total | | | % Principal Retired | |
|------|-----------------------|------------------|--------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|---------------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total | Annual | Cumulative |
| 2009 | \$ 59,641 | \$ 30,538 | \$ 90,179 | \$ – | \$ – | \$ – | \$ 59,641 | \$ 30,538 | \$ 90,179 | 3.0% | 3.0% |
| 2010 | 57,559 | 57,992 | 115,550 | – | 43,377 | 43,377 | 57,559 | 101,368 | 158,927 | 2.9% | 5.9% |
| 2011 | 57,369 | 55,789 | 113,158 | – | 34,320 | 34,320 | 57,369 | 90,109 | 147,478 | 2.9% | 8.8% |
| 2012 | 57,142 | 53,620 | 110,762 | – | 34,320 | 34,320 | 57,142 | 87,940 | 145,082 | 2.9% | 11.7% |
| 2013 | 44,721 | 51,442 | 96,163 | – | 34,320 | 34,320 | 44,721 | 85,762 | 130,483 | 2.3% | 14.0% |
| 2014 | 44,614 | 49,814 | 94,428 | – | 34,320 | 34,320 | 44,614 | 84,134 | 128,748 | 2.3% | 16.2% |
| 2015 | 56,286 | 48,273 | 104,559 | – | 34,320 | 34,320 | 56,286 | 82,593 | 138,879 | 2.8% | 19.1% |
| 2016 | 56,050 | 46,114 | 102,164 | – | 34,320 | 34,320 | 56,050 | 80,434 | 136,484 | 2.8% | 21.9% |
| 2017 | 52,584 | 43,916 | 96,500 | – | 34,320 | 34,320 | 52,584 | 78,236 | 130,820 | 2.7% | 24.6% |
| 2018 | 52,139 | 41,915 | 94,053 | – | 34,320 | 34,320 | 52,139 | 76,235 | 128,373 | 2.6% | 27.2% |
| 2019 | 51,772 | 39,820 | 91,592 | – | 34,320 | 34,320 | 51,772 | 74,140 | 125,912 | 2.6% | 29.8% |
| 2020 | 51,426 | 37,709 | 89,135 | – | 34,320 | 34,320 | 51,426 | 72,029 | 123,455 | 2.6% | 32.4% |
| 2021 | 51,143 | 35,530 | 86,673 | – | 34,320 | 34,320 | 51,143 | 69,850 | 120,993 | 2.6% | 35.0% |
| 2022 | 55,208 | 33,354 | 88,562 | – | 34,320 | 34,320 | 55,208 | 67,674 | 122,882 | 2.8% | 37.8% |
| 2023 | 50,923 | 30,970 | 81,894 | – | 34,320 | 34,320 | 50,923 | 65,290 | 116,214 | 2.6% | 40.3% |
| 2024 | 49,943 | 28,774 | 78,716 | – | 34,320 | 34,320 | 49,943 | 63,094 | 113,036 | 2.5% | 42.9% |
| 2025 | 50,687 | 26,584 | 77,270 | – | 34,320 | 34,320 | 50,687 | 60,904 | 111,590 | 2.6% | 45.4% |
| 2026 | 48,911 | 24,263 | 73,174 | – | 34,320 | 34,320 | 48,911 | 58,583 | 107,494 | 2.5% | 47.9% |
| 2027 | 46,829 | 21,942 | 68,771 | – | 34,320 | 34,320 | 46,829 | 56,262 | 103,091 | 2.4% | 50.3% |
| 2028 | 46,056 | 19,678 | 65,734 | – | 34,320 | 34,320 | 46,056 | 53,998 | 100,054 | 2.3% | 52.6% |
| 2029 | 47,920 | 17,382 | 65,302 | – | 34,320 | 34,320 | 47,920 | 51,702 | 99,622 | 2.4% | 55.0% |
| 2030 | 49,845 | 14,986 | 64,831 | – | 34,320 | 34,320 | 49,845 | 49,306 | 99,151 | 2.5% | 57.5% |
| 2031 | 52,230 | 12,494 | 64,724 | – | 34,320 | 34,320 | 52,230 | 46,814 | 99,044 | 2.6% | 60.2% |
| 2032 | 48,185 | 9,883 | 58,068 | – | 34,320 | 34,320 | 48,185 | 44,203 | 92,388 | 2.4% | 62.6% |
| 2033 | 48,210 | 7,353 | 55,563 | 45,000 | 34,320 | 79,320 | 93,210 | 41,673 | 134,883 | 4.7% | 67.3% |
| 2034 | 45,965 | 4,822 | 50,787 | 100,000 | 31,746 | 131,746 | 145,965 | 36,568 | 182,533 | 7.4% | 74.7% |
| 2035 | 45,880 | 2,409 | 48,289 | 105,000 | 26,026 | 131,026 | 150,880 | 28,435 | 179,315 | 7.6% | 82.3% |
| 2036 | – | – | – | 110,000 | 20,020 | 130,020 | 110,000 | 20,020 | 130,020 | 5.6% | 87.9% |
| 2037 | – | – | – | 115,000 | 13,728 | 128,728 | 115,000 | 13,728 | 128,728 | 5.8% | 93.7% |
| 2038 | – | – | – | 125,000 | 7,150 | 132,150 | 125,000 | 7,150 | 132,150 | 6.3% | 100.0% |
| | <u>\$1,379,237</u> | <u>\$847,364</u> | <u>\$2,226,601</u> | <u>\$600,000</u> | <u>\$931,407</u> | <u>\$1,531,407</u> | <u>\$1,979,237</u> | <u>\$1,778,771</u> | <u>\$3,758,008</u> | <u>100%</u> | |

(1) Unaudited.

(2) Excludes \$136,690,454 principal amount of Preliminary Bonds outstanding under the IEPA Revolving Loan Fund Program.

District General Obligation Bonded Debt Service
 (Includes IEPA Debt)
 (Amounts in Thousands)
 As of June 30, 2009



District's Debt Service Extension Base Capacity
(as of June 30, 2009) (Unaudited)

The following table sets forth the capacity of the Debt Service Extension Base of the District to cover debt service on future limited bonds.

| Tax Levy Year | Levy for Outstanding Limited Tax Bonds (1) (2) | Levy for Limited Tax Series of August, 2009 | Total Applicable Debt Service Levy | Debt Service Extension Base | Remaining Capacity |
|---------------|---|---|------------------------------------|-----------------------------|--------------------|
| 2008 | \$26,524,763 | \$ — | \$ 26,524,763 | \$141,463,900 | \$114,939,137 |
| 2009 | 50,390,150 | 43,376,667 | 93,766,817 | 141,463,900 | 47,697,083 |
| 2010 | 47,997,650 | 34,320,000 | 82,317,650 | 141,463,900 | 59,146,250 |
| 2011 | 46,670,900 | 34,320,000 | 80,990,900 | 141,463,900 | 60,473,000 |
| 2012 | 27,646,900 | 34,320,000 | 61,966,900 | 141,463,900 | 79,497,000 |
| 2013 | 15,739,525 | 34,320,000 | 50,059,525 | 141,463,900 | 91,404,375 |
| 2014 | 27,734,525 | 34,320,000 | 62,054,525 | 141,463,900 | 79,409,375 |
| 2015 | 26,654,775 | 34,320,000 | 60,974,775 | 141,463,900 | 80,489,125 |
| 2016 | 25,714,025 | 34,320,000 | 60,034,025 | 141,463,900 | 81,429,875 |
| 2017 | 25,776,525 | 34,320,000 | 60,096,525 | 141,463,900 | 81,367,375 |
| 2018 | 25,363,025 | 34,320,000 | 59,683,025 | 141,463,900 | 81,780,875 |
| 2019 | 26,100,775 | 34,320,000 | 60,420,775 | 141,463,900 | 81,043,125 |
| 2020 | 24,261,775 | 34,320,000 | 58,581,775 | 141,463,900 | 82,882,125 |
| 2021 | 27,351,525 | 34,320,000 | 61,671,525 | 141,463,900 | 79,792,375 |
| 2022 | 15,796,525 | 34,320,000 | 50,116,525 | 141,463,900 | 91,347,375 |
| 2023 | 15,674,775 | 34,320,000 | 49,994,775 | 141,463,900 | 91,469,125 |
| 2024 | 18,161,525 | 34,320,000 | 52,481,525 | 141,463,900 | 88,982,375 |
| 2025 | 17,794,538 | 34,320,000 | 52,114,538 | 141,463,900 | 89,349,362 |
| 2026 | 13,941,478 | 34,320,000 | 48,261,478 | 141,463,900 | 93,202,422 |
| 2027 | 12,088,238 | 34,320,000 | 46,408,238 | 141,463,900 | 95,055,663 |
| 2028 | 11,962,238 | 34,320,000 | 46,282,238 | 141,463,900 | 95,181,663 |
| 2029 | 11,727,988 | 34,320,000 | 46,047,988 | 141,463,900 | 95,415,913 |
| 2030 | 11,670,488 | 34,320,000 | 45,990,488 | 141,463,900 | 95,473,413 |
| 2031 | 53,245,738 | 34,320,000 | 87,565,738 | 141,463,900 | 53,898,163 |
| 2032 | 50,741,025 | 79,320,000 | 130,061,025 | 141,463,900 | 11,402,875 |
| 2033 | — | 131,746,000 | 131,746,000 | 141,463,900 | 9,717,900 |
| 2034 | — | 131,026,000 | 131,026,000 | 141,463,900 | 10,437,900 |
| 2035 | — | 130,020,000 | 130,020,000 | 141,463,900 | 11,443,900 |
| 2036 | — | 128,728,000 | 128,728,000 | 141,463,900 | 12,735,900 |
| 2037 | — | 132,150,000 | 132,150,000 | 141,463,900 | 9,313,900 |

(1) Includes Capital Improvement Bonds Series D of December 2002 and the Series of July 2006; Refunding Bonds Series of May 2006 and Series of March 2007; IEPA Series 04A, 04B, 04C, 04D, 04E, and 04G.

(2) Excludes \$160,505,795 of Preliminary Bond Principal and Interest outstanding under the IEPA Revolving Loan Fund Program.

Long-Term Contractual Obligation

In December 2000, the Board authorized the District to enter into a long-term contract with a contractor to design, build, finance, own, operate, and maintain a 150 dry ton per day biosolids processing facility at the District's Stickney Water Reclamation Plant. The contractor has obtained its own financing to design, build, and own the facility.

Performance testing of the facility began in July 2009 and it is expected that the facility will become operational in the fourth quarter of 2009. Once completed and accepted for

operation by the District, a 20-year operational contract will follow. The contract requires that the District pay for costs associated with the preliminary and performance testing based on a per ton cost for the processing and disposal of biosolids, and to make two additional payments, as further described in the subsequent paragraph, only after the facility is completed and accepted for operation by the District.

The first payment is a facility fee of approximately \$4.7 million per year for 19 years to pay for the facility. The facility will become the property of the District at the end of the contract. The second payment is a per ton cost for the processing and utilization of biosolids. The first year's estimated cost is \$7.1 million (based on processing 54,600 tons of biosolids). This cost is subject to annual adjustments based on the Consumer Price Index, and monthly adjustments proportionate to the natural gas costs of the District.

The District has an option to purchase the facility at the end of the 5th, 10th, and 15th year of operation for the remaining principal portion of the debt. The Board of Commissioners has approved the contract at a cost not to exceed \$217,169,090. Based upon current energy costs and expected inflation, the current cost estimate to complete the contract is \$258,866,476. The contract estimate will be monitored over time, and if the cost to complete will exceed the approved contract amount, the Board will be requested to approve an increase in the contract value. The District expects that the facility payment will be accounted for as a capital lease while the processing and utilization costs will be accounted for as an operating expense. 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 includable in the District's 3.35% non-referendum bonded debt limit.

Debt Limits and Borrowing Authority

The Illinois General Assembly establishes the statutory debt limitations and borrowing authority of the District. Currently, such limits and authority are as follows:

Corporate Fund: To defray current operating expenses, 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 Corporate Fund portion of the Personal Property Replacement Tax allocation certified for distribution during the budget year through borrowing from the Corporate Working Cash Fund and issuance of tax anticipation notes or warrants.

Corporate Working Cash Fund: The fund may be used solely for the financing of Corporate Fund operations. The amount of non-referendum Corporate Working Cash Fund Bonds, which when added to (a) proceeds from the sale of Working Cash Fund bonds previously issued, (b) any amounts collected from the Corporate Working Cash Fund levy, and (c) amounts transferred from the Construction Working Cash Fund, may not exceed 90% of the amount produced by multiplying the maximum general corporate tax rate permitted by the last known equalized assessed valuation of all property in the District at the time the bonds are issued, plus 90% of the District's last known entitlement of the Personal Property Replacement Tax. At December 31, 2008, the District's remaining Corporate Working Cash Fund bond authorization is \$271,616,000.

Construction Fund: The Illinois General Assembly has adopted legislation allowing the District to levy property taxes to fund construction of District facilities. In anticipation of the

collection of such taxes, the District may issue tax anticipation notes or warrants in a total amount not to exceed 85% of its Construction Fund levy. In any tax year, the Construction Fund may borrow through the issuance of its tax anticipation notes or warrants plus loans from the Construction Working Cash Fund up to the aggregate total of 100% of its estimated or actual extended tax levy plus 100% of the Construction Fund allocation of the estimated Personal Property Replacement Tax distribution to be received in that tax year.

Construction Working Cash Fund: The fund may be used solely for the financing of Construction Fund operations. The maximum permitted balance, and the maximum amount of bonds which are authorized to be issued to provide such balance, is the total of 90% of the maximum permissible Construction Fund Tax Levy plus 90% of the last known Construction Fund entitlement to the Personal Property Replacement Tax.

Capital Improvement Bonds: The maximum amount of non-referendum Capital Improvement Bonds which may be outstanding at any one time is 3.35% of the last known equalized assessed valuation of taxable property within the District. The Act authorizes the District to issue Capital Improvement Bonds through December 31, 2016. At December 31, 2008, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding Corporate Working Cash bonds and State Revolving Fund bonds) of \$1,029,775,000 did not exceed the limitation of \$5,225,088,600.

Storm Water Management Fund: To meet ordinary disbursements for salaries and other storm water purposes, the District may fund up to 100% of the total estimated amount of taxes to be levied for storm water purposes through borrowings from the Storm Water Working Cash Fund. The District may issue bonds under Section 9.6a of the Metropolitan Water Reclamation Act for purposes of funding storm water management projects.

Storm Water Working Cash Fund: The fund may be used solely for the financing of storm water management fund operations. The District may transfer funds into the storm water working cash fund, in an amount not to exceed 100% of the amount produced by multiplying the maximum tax rate permitted for storm water purposes by the last known assessed valuation of all taxable property within the territorial boundaries of the District, as equalized and determined for state and local taxes.

Personal Property Replacement Tax Anticipation Notes: Pursuant to 50 ILCS 420/4.1(e) General Obligation Personal Property Replacement Tax Anticipation Notes may be issued in anticipation of receipt of such taxes, in an amount not to exceed 75% of the last known certified Personal Property Replacement Tax entitlement less the aggregate amount of such entitlement which the governing body estimates will be required to be set aside for the payment of the proportional amount of debt service and pension or retirement obligations as required by Section 12 of "An Act in relation to State revenue sharing with local government entities", approved July 31, 1969, as amended.

District Debt Limitation: The maximum amount of debt which the District may have outstanding at any time is 5.75% of the last known equalized assessed valuation of taxable property within the District. See "Calculation of Statutory Debt Margin" below.

The foregoing are impacted by the Limitation Law. See “REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES – Property Tax Extension Limitation Law and Debt Reform Act.”

Calculation of Statutory Debt Margin
(amounts in thousands)

| | December 31 | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2008 (1) | 2007 | 2006 | 2005 | 2004 |
| Equalized Assessed Valuation | \$155,972,794 (2) | \$155,972,794 | \$141,468,643 | \$130,586,921 | \$119,038,560 |
| Statutory Debt Limit (3) | \$8,968,436 | \$8,968,436 | \$8,134,447 | \$7,508,748 | \$6,844,717 |
| Calculation of Debt Applicable to Debt Limit: | | | | | |
| Principal Amount of Bonds Outstanding | \$1,392,699 | \$1,465,854 | \$1,579,401 | \$1,280,569 | \$1,329,123 |
| Bond Anticipation Notes (4) | 64,894 | 63,131 | 25,261 | 48,238 | 90,473 |
| Liabilities of Tax Financed Funds | 47,735 | 43,783 | 31,934 | 29,693 | 35,933 |
| Total Debt | \$1,505,328 | \$1,572,768 | \$1,636,596 | \$1,358,500 | \$1,455,529 |
| Less: Applicable Assets: | | | | | |
| Debt Service Funds Cash and | | | | | |
| Investments | \$89,397 | \$77,599 | \$108,814 | \$127,860 | \$125,441 |
| Interest Payable in the Next 12 Months | (73,103) | (68,877) | (69,111) | (55,119) | (60,902) |
| Total Applicable Assets | \$16,294 | \$8,722 | \$39,703 | \$72,741 | \$64,539 |
| Net Debt Applicable to Debt Limit | \$1,489,034 | \$1,564,046 | \$1,596,893 | \$1,285,759 | \$1,390,990 |
| Statutory Debt Margin | \$7,479,402 | \$7,404,390 | \$6,537,554 | \$6,222,989 | \$5,453,727 |

- (1) Estimated and unaudited.
(2) Debt limit calculation based on 2007 equalized assessed valuation since 2008 value is not yet available.
(3) 5.75% of equalized assessed valuation.
(4) Consists of IEPA Preliminary Bonds.

CASH MANAGEMENT

Corporate Working Cash Fund

The delay of more than a year between appropriations and tax collections requires the District to provide interim financing for its corporate operations. A 1983 statutory change in the working cash fund’s maximum limitation permitted expansion of the fund thereby allowing the District to use it as the sole outside source for funding corporate operating needs and making the future issuance of tax anticipation notes unnecessary. As of the date of this Official Statement, the District has no corporate notes outstanding.

By law, working cash funds are non-appropriable and all loans to the Corporate Fund must be repaid with tax receipts from the year against which such funds were borrowed, and any other available property tax and Personal Property Replacement Tax revenues received in the year. Illinois law provides that working cash fund loans not repaid within the second budget year following the year in which the loans were made shall be general obligations of the Corporate Fund which must be repaid.

Debt Service Funds

For accounting and legal purposes, the District has created and maintains a debt service fund for each issue of its bonds. At the time of the sale of each issue, the applicable fund is credited with accrued interest plus any premium received by the District. Amounts credited to the District's various debt service funds are invested on a consolidated basis; but such investments and earnings thereon are recorded in the appropriate investment inventory of the applicable fund. Payment of principal of and interest on each issue of the District's bonds is made directly from the applicable debt service fund.

Property taxes collected are allocated among the debt service funds to achieve total distribution to each in the proportion of its levy to the total levy in that year for debt service. Distributions of Personal Property Replacement Tax revenue are credited to the Retirement Fund as required by statute, the Corporate Fund, and certain other funds proportionately as specified by the annual budget.

Investment of District Funds

The District is committed to a policy of maximizing the return on all funds available for investment within the constraints of its Investment Policy. Tax levies necessary for the operation of the District are in effect reduced in direct relation to the income earned on investments.

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 District invests funds in all of these categories over time, depending on their competitive interest rate structures. All certificates of deposit or time deposits are required to be collateralized with securities of the U.S. Government or letters of credit issued by the Federal Home Loan Bank in an amount equal to 110% or 102%, respectively, of the funds on deposit. All investment collateral is held in safekeeping in the District's name by financial institutions acting as the District's agent. Collateral is priced to market semi-monthly and monitored regularly with additional collateral requested as necessary.

The District attempts to match its investment maturities with anticipated cash flow requirements. All funds are invested for periods of one day to three years from date of purchase based upon cash flow requirements and interest rate projections. Investments are placed on the basis of bids received on a daily basis from banks and brokers.

Investments and Interest Income
(amounts in millions)

| Fund | 2009 (1) | 2008 | 2007 | 2006 | 2005 |
|---|------------------|------------------|------------------|------------------|------------------|
| Interest Income: | | | | | |
| Corporate | \$ 1.7 | \$ 4.4 | \$ 8.9 | \$ 8.1 | \$ 3.3 |
| Capital Improvement | 7.5 | 15.9 | 29.5 | 23.2 | 10.1 |
| Debt Service | 1.3 | 3.1 | 5.3 | 8.8 | 5.2 |
| Other | 1.8 | 3.7 | 5.0 | 3.6 | 1.1 |
| Total..... | <u>\$12.3</u> | <u>\$27.1</u> | <u>\$48.7</u> | <u>\$43.7</u> | <u>\$19.7</u> |
| Aggregate Investments Purchased (at Par) | <u>\$4,100.0</u> | <u>\$3,933.0</u> | <u>\$5,681.0</u> | <u>\$6,029.0</u> | <u>\$3,912.7</u> |
| Average Annual Return | <u>1.0%</u> | <u>2.6%</u> | <u>4.9%</u> | <u>5.0%</u> | <u>3.4%</u> |

(1) Estimated and unaudited, cash basis only.

FINANCIAL OPERATIONS

Description of Accounting Policies

The accounting system of the District is operated and maintained on a fund accounting basis. A “fund” is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, and residual equities or balances and change therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The District’s General Corporate Fund, Special Revenue Fund, Debt Service Fund, Capital Projects Fund, and Stormwater Management Fund are maintained using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when measurable and available to finance operations. Expenditures, other than interest on long-term debt, are recorded at the time liabilities are incurred. District expenditures for the payment of principal and interest on long-term debt are recognized when such debt is due and payable.

The fiduciary funds of the District are the Pension Trust Fund and OPEB Trust Fund. The Funds’ financial statements are prepared using the accrual basis of accounting with assets recorded at market value.

Property taxes, user charge revenues and personal property replacement taxes are accrued to the extent that they are available to satisfy liabilities relating to the reporting period.

The District uses the modified approach to report its infrastructure assets, with the exception of the TARP deep tunnels and drop shafts which are depreciated. The District has implemented all applicable Governmental Accounting Standards Board (GASB) Statements through Statement No. 50.

The District is required to implement each of the following accounting pronouncements within the timeframes noted herein: GASB Statement No. 51, *Accounting and Financial*

Reporting for Intangible Assets, beginning with fiscal year 2010; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, beginning with fiscal year 2010; and GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, beginning with fiscal year 2011.

District Retirement Fund

Attached hereto as APPENDIX C is an actuarial report relating to the District's Retirement Fund. Further information with respect to the Retirement Fund is contained in Note 7 to the Basic Financial Statements attached hereto as APPENDIX A.

The Retirement Fund's funding objective is to meet all expected future obligations to present and future members and retirees, through earnings on its plan assets and future employer and employee contributions. The amount of the employer contributions in a given year is limited by state statute, and accordingly, may not necessarily meet the annual actuarial requirements of the Retirement Fund. In 2008, employer contributions to the Retirement Fund amounted to 67.1% of the actuarially determined contribution requirement.

As of December 31, 2008, the funded ratio for the District's pension plan was 65.4% and the unfunded pension liability was \$640,441,314.

Other Post Employment Benefits

The District established an Other Post Employment Benefits (OPEB) Trust Fund in 2007 and adopted an OPEB Advance Funding Policy that will 1) improve the District's financial position by reducing the amount of future employer contributions and 2) serve to establish a reserve to help ensure the financial ability to provide healthcare coverage for District retirees and annuitants in the future. Through 2008, \$47,000,000 has been contributed by the District to the Trust Fund. As of December 31, 2008, the actuarial accrued liability was \$442,683,000. Further information with respect to the OPEB Trust Fund is contained in Note 8 to the Basic Financial Statements attached hereto as APPENDIX A.

BUDGETARY PROCEDURES

Budgetary Process

The District prepares its budget in conformity with practices prescribed or permitted by the applicable statutes of the State. A summary of the District's budgeting process can be found in the District's Basic Financial Statements attached hereto as APPENDIX A.

Comparative Budget Information

The following table summarizes the appropriations set forth in the annual budgets of the District for fiscal year 2009, as amended through December 31, 2008, and for 2008 as adjusted (in millions of dollars):

| Appropriations (in millions) | 2009 | 2008 | Increase/ (Decrease) | Percent Change |
|--------------------------------------|------------------|------------------|-------------------------|-------------------|
| Corporate Fund | \$ 395.0 | \$ 397.2 | \$ (2.2) | (0.5)% |
| Stormwater Management..... | 33.8 | 34.9 | (1.1) | (3.2) |
| Construction Fund..... | 35.6 | 32.2 | 3.4 | 10.6 |
| Retirement Fund..... | 31.4 | 30.4 | 1.0 | 3.3 |
| Reserve Claim Fund..... | 67.5 | 55.5 | 12.0 | 21.6 |
| Capital Improvements Bond Fund | 932.9 | 743.4 | 189.5 | 25.5 |
| Bond Redemption and Interest Fund .. | 134.4 | 179.1 | (44.7) | (25.0) |
| Total | <u>\$1,630.6</u> | <u>\$1,472.7</u> | <u>\$157.9</u> | <u>10.7%</u> |

The total appropriation request for 2009 is \$1,630.6 million, an increase of \$157.9 million. Major changes are presented below.

- The Corporate Fund appropriation, the District's operating fund, is \$395.0 million, a decrease of \$2.2 million or 0.5% from 2008. The major reasons for this decrease include funding for the OPEB trust at the policy level of 2009, a decrease of \$12.0 million, offset by expected increases in facility repairs of \$9.4 million.
- The Stormwater Management Fund appropriation of \$33.8 million is a decrease of \$1.1 million from 2008. The decrease is due primarily to suspension of negotiations for one capital project that was scheduled for award in 2008. The appropriation for 2009 will provide resources to continue work, studies, and investigations to implement Public Act 093-1049. The District will also be able to provide funding for projects approved by other regional, state and federal agencies. The appropriation for 2009 includes \$2.5 million for the Small Streams Maintenance Program (SSMP). SSMP provide debris and blockage removal of all small streams within the District, improving small stream flow, and reducing the chance of flooding.
- The Capital Improvements Bond Fund appropriation of \$932.9 million is an increase of \$189.5 million and reflects the award pattern of major projects. Scheduled for award in 2009 are Tunnel and Reservoir Plan projects (\$317.0 million), plant expansion and improvement projects (\$102.6 million), collection projects (\$70.2 million), solids management projects (\$106.1 million), and replacement facilities projects (\$265.3 million). The remaining \$71.7 million appropriation is required for salaries, project support, and land and easements.
- The Construction Fund appropriation of \$35.6 million, an increase of \$3.4 million, is due to an adjusted project award schedule and the anticipated expenditures for existing projects. Five projects are budgeted for award in 2009, at a total contract cost of \$10.2 million and requiring an appropriation of \$5.8 million. The remaining \$29.8 million appropriation is required for salaries, support, and projects under construction.
- The decline of \$44.7 million in the Bond Redemption and Interest Fund is due to the 2008 call for redemption of Refunding Bonds, Series July, 1997, maturities of 2010

through 2014, at a cost of \$44.6 million. No bond call amounts were included in the 2009 appropriation.

- The increase of \$12.0 million in the Reserve Claim Fund, the District's self insurance fund, to \$67.5 million is primarily due to 2008 estimated revenues and 2007 final statements for year-end cash and investments carried forward for fund balance. The Reserve Claim Fund is statutorily authorized to accumulate fund balance to meet claims against the District.

Appropriation Control Plan

The District expects to have a revenue shortfall of approximately \$18 million to \$25 million in fiscal year 2009. In order to ameliorate the effects of the projected shortfall, the District has implemented an Appropriation Control Plan to reduce expenses by approximately \$38 million in fiscal year 2009, which includes limiting hiring to essential employees for certain areas, deferring projects, reducing non-essential maintenance or upgrades, reducing overtime, eliminating non-essential positions, and deferring the budgeted OPEB contribution, if necessary.

FINANCIAL STATEMENTS

The District's Basic Financial Statements for the year ended December 31, 2008, included in this Official Statement as APPENDIX A, have been audited by McGladrey & Pullen LLP, independent public accountants, as stated in their Independent Auditors' Report dated April 22, 2009. The supplementary information referred to in the Independent Auditors' Report is not included in APPENDIX A. McGladrey & Pullen LLP has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. McGladrey & Pullen LLP also has not performed any procedures relating to this Official Statement. The District's entire Comprehensive Annual Financial Report for the fiscal year ended December 31, 2008 and several prior years are available online at the District's website at www.mwrdd.org, but the content of such website is not incorporated into this Official Statement by reference.

RATINGS

The Bonds and the District's outstanding general obligation bonds are rated "Aaa" by Moody's Investors Service, "AAA" by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, and "AAA" by Fitch Ratings.

A rating reflects only the views of the rating agency assigning such rating and an explanation of the significance of such rating or the status of any review of such rating may be obtained from such agency. Certain information and materials concerning the Bonds, the District and certain overlapping entities have been furnished to the rating agencies by the District. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions by the respective agency. There is no assurance that each such rating will be maintained for any given period of time or that one or more of such ratings may not be raised, lowered or withdrawn entirely by the respective rating agency, if in its

judgment, circumstances so warrant. Any downward change in or withdrawal of any such rating may have an adverse effect on the price at which the Bonds may be resold.

FINANCIAL ADVISORS

The District has engaged A.C. Advisory, Inc. and Scott Balice Strategies, LLC, as financial advisors (the “Financial Advisors”), in connection with the authorization, issuance and sale of the Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the Bonds and have reviewed certain legal and disclosure documents, including this Official Statement, with respect to certain financial matters. Under the terms of their engagement, the Financial Advisors are not obligated to undertake any independent verification of or assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

TAX MATTERS

Interest on the Bonds is not excludable from gross income for federal income purposes. Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers. Bondholders should consult their tax advisors with respect to the inclusion of interest on the Bonds in gross income for federal income tax purposes and any collateral tax consequences. Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such consequences arising with respect to the Bonds.

As part of the Recovery Act, Congress added provisions to the Code, which permit state or local governments to obtain certain tax advantages when issuing certain taxable obligations, referred to as “Build America Bonds.” A Build America Bond must satisfy certain requirements, including that the interest on the Build America Bonds would be, but for the issuer’s election to treat such bonds as Build America Bonds, excludable from gross income under Section 103 of the Code. Prior to the issuance of the Bonds, the District will make irrevocable elections to treat the Bonds as qualified Build America Bonds. As a result of these elections, interest on the Bonds will be includable in gross income of the holders thereof for federal income tax purposes and the holders of the Bonds will not be entitled to any tax credits as a result either of ownership of the Bonds or of receipt of any interest payments on the Bonds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the District at an aggregate purchase price of \$595,173,750 (which reflects an underwriters’ discount of \$4,826,250). The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The District maintains various banking relationships with certain of the Underwriters. Various officers of the Underwriters hold positions on governing boards of certain overlapping units of government.

The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions set forth in the Bond Purchase Agreement with respect to the Bonds. The Underwriters are obligated to purchase all of the Bonds if they purchase any of the Bonds.

The Underwriters may offer and sell the Bonds to certain dealers (including those dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover page. The initial public offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE

The District will enter into a Continuing Disclosure Undertaking (the “Undertaking”) for the benefit of the beneficial owners of the Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (the “MSRB”) pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the “Rule”) adopted by the Securities and Exchange Commission (the “Commission”) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The information to be provided on an annual basis, the events which will be noticed on an occurrence basis and a summary of other terms of the Undertaking, including termination, amendment and remedies, are set forth below under “THE UNDERTAKING.”

The District represents that it has not failed to comply in all material respects with each and every continuing disclosure undertaking that it has previously entered into pursuant to the Rule. A failure by the District to comply with the Undertaking will not constitute a default under the Bond Ordinance and beneficial owners of the Bonds are limited to remedies described in the Undertaking. See “THE UNDERTAKING – Consequences of Failure of the District to Provide Information.” A failure by the District to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

THE UNDERTAKING

The following is a brief summary of certain provisions of the Undertaking of the District and does not purport to be complete. The statements made under this caption are subject to the detailed provisions of the Undertaking, a copy of which is available upon request from the District.

Annual Financial Information Disclosure

The District covenants that it will disseminate its Annual Financial Information and its Audited Financial Statements (as described below) to the MSRB in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information. Annual Financial Information, exclusive of the Audited Financial Statements, will be provided to the MSRB within 210 days after the last day of the District’s fiscal year. Audited Financial Statements, as described below, should be filed at the

same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included.

“*Annual Financial Information*” means the financial information and operating data of the type contained in the Official Statement under the following captions: “TAXATION OF PROPERTY WITHIN THE DISTRICT – STATISTICAL INFORMATION,” “DEBT INFORMATION” (excluding information in the table “Estimated Overlapping Bonded Debt,” and graph and information under the heading “Debt Limits and Borrowing Authority”), “CASH MANAGEMENT – Investment of District Funds” (chart titled “Investments and Interest Income” only), “BUDGETARY PROCEDURES – Comparative Budget Information,” APPENDIX B – “CAPITAL IMPROVEMENTS PROGRAM” and APPENDIX C – “REPORT OF THE CONSULTING ACTUARY ON THE DISTRICT RETIREMENT FUND.”

“*Audited Financial Statements*” means the audited financial statements of the District prepared using the accounting standards as follows: Generally Accepted Accounting Principles, as applicable to governmental units (i.e., as subject to the pronouncements of the Governmental Accounting Standards Board) and subject to any express requirements of State law.

Audited Financial Statements shall be provided to the MSRB at the time the Annual Financial Information is provided, or within 30 days after availability to the District, if later.

Material Events Disclosure

The District covenants that it will disseminate to the MSRB in a timely manner, the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Exchange Act, in such manner and format and accompanied by identifying information as is prescribed by the MSRB or the Commission at the time of delivery of such information. The “Events” are:

- Principal and interest payment delinquencies
- Nonpayment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to the rights of security holders
- Bond calls
- Defeasances
- Release, substitution or sale of property securing repayment of the securities
- Rating changes

Some of the foregoing events may be inapplicable to the Bonds.

Consequences of Failure of the District to Provide Information

The District is required to give notice in a timely manner to the MSRB of any failure to provide disclosure of Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

In the event of a failure of the District to comply with any provision of the Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the District to comply with its obligations under the Undertaking. A default under the Undertaking shall not be deemed a default under the Bond Ordinance, and the sole remedy under the Undertaking in the event of any failure of the District to comply with the Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of the Undertaking, the District by resolution or ordinance authorizing such amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) (i) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, including, without limitation, pursuant to a “no-action” letter issued by the Commission, a change in law, or a change in the identity, nature, or status of the District, or type of business conducted; or

(ii) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(b) The amendment or waiver does not materially impair the interests of the beneficial owners of the Bonds, as determined by a party unaffiliated with the District (such as bond counsel).

In the event that the Commission or the MSRB or other regulatory authority approves or requires Annual Financial Information or notices of a material Event to be filed with a central post office, governmental agency or similar entity other than the MSRB or in lieu of the MSRB, the District shall, if required, make such dissemination to such central post office, governmental agency or similar entity without the necessity of amending the Undertaking.

Termination of Undertaking

The Undertaking shall be terminated if the District shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Bond Ordinance. The District shall give notice to the MSRB in a timely manner if this paragraph is applicable.

Additional Information

Nothing in the Undertaking shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Financial Information or Audited Financial Statements or notice of occurrence of a material Event, in addition to that which is required by the Undertaking, provided that the District shall have no obligation under the Undertaking to update such information or include it in any future disclosure or notice of occurrence of a material Event.

Dissemination of Information; Dissemination Agent

When filings are required to be made with the MSRB in accordance with the Undertaking, such filings are required to be made through its Electronic Municipal Market Access (EMMA) system for municipal securities disclosure or through any other electronic format or system prescribed by the MSRB for purposes of the Rule.

The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Undertaking, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinions of Chapman and Cutler LLP, Chicago, Illinois, and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois, Co-Bond Counsel who have been retained by, and who act as counsel to, the District. Certain legal matters will be passed upon for the District by its General Counsel. Certain legal matters will be passed on for the Underwriters by Katten Muchin Rosenman LLP, Chicago, Illinois, and Burke Burns & Pinelli, Ltd., Chicago, Illinois Co-Underwriters' Counsel. Co-Bond Counsel have reviewed the statements in this Official Statement appearing under the headings "THE BONDS," "SECURITY FOR THE BONDS" and "TAX MATTERS" and are of the opinion that the statements contained under such headings are accurate statements or summaries of the matters set forth therein and fairly present the information purported to be shown. Except for the foregoing, however, Co-Bond Counsel have not independently verified the accuracy or completeness of statements and information contained in the Official Statement and do not assume any responsibility for the accuracy or completeness of such statements and information. Chapman and Cutler LLP, Chicago, Illinois is also acting in a separate capacity as Disclosure Counsel to the District.

ENVIRONMENTAL MATTERS

Under current environmental protection laws, the District may be ultimately responsible for the environmental remediation of some of its properties that have been leased to other parties. The District has developed preliminary estimates of environmental remediation costs for major lease sites. The range of estimated remediation costs at December 31, 2008 was between \$14.5 million and \$46.0 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 a significant portion of these site clean-up costs. Negotiations are under way between the District's lawyers and the tenants to resolve remedial activity and costs liability issues. As a result of the implementation of GASB Statement No. 49, the District determined a current estimated remediation cost of \$30,250,000 with an estimated remediation cost recoverable of \$21,650,000 resulting in \$11,600,000 being recognized at December 31, 2008, 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. 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 has statutory authority for a Reserve Claim Fund to pay judgments or claims against the District, including environmental liabilities. Statutory authority authorizes an accumulation in this Fund of .05% of the equalized assessed property valuation or about \$78.0 million, and for a 0.5-cent annual property tax levy.

The District has appropriated \$67.5 million in the 2009 Budget for the Reserve Claim Fund. Total claims paid from this Fund (primarily employee injury) have averaged \$4.4 million over the past several years, therefore the unencumbered fund balance is estimated to be approximately \$66 million.

LITIGATION

Upon the delivery of the Bonds, the District will furnish a certificate to the effect that there is no litigation pending or threatened to restrain or enjoin the issuance, sale or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds or the pledge of the District's full faith, credit and taxing power for their payment.

Litigation involving the District and entitled: *Metropolitan Water Reclamation District of Greater Chicago v. Terra Foundation for American Art, et al.* is pending in the Circuit Court of Cook County, Illinois (the "Circuit Court"). On July 12, 2006, the District filed in the Circuit Court a Complaint For Declaratory Judgment, now as amended, naming Terra Foundation for American Art ("Terra"), 664 N. Michigan LLC, NM Project Company, LLC (the latter two defendants referred to collectively as the "Project Company") and others, as defendants, seeking a declaration of rights with respect to three easements encumbering a District-owned alley physically located between the District's main office building and certain property (the "Parcels") previously owned by Terra and now owned by the Project Company. Terra and the Project Company have entered into certain agreements to develop the Parcels into a luxury residential, office and retail building. The District alleges that the planned development improperly expands the scope and use of the District's alley in violation of the easements. Terra and the Project Company, in addition to denying the District's claims, each filed a counterclaim. Terra's counterclaim, filed on September 28, 2006, seeks to quiet title and a declaratory judgment. The Project Company's counterclaim, filed on July 2, 2008, seeks injunctive and declaratory relief and damages. The Project Company's damage claims range from approximately \$42.7 million to \$68.5 million based on the District's purported delay of the development. The District submitted its expert's report refuting the analysis of the Project Company's expert's report. On June 16, 2009, the Project Company filed a motion to amend its pleadings to add a claim for tortious interference with prospective economic advantage. The District filed its opposition to this motion, and the parties are awaiting a ruling by the Circuit Court on the motion. The trial on the Project Company's damage claim is presently set for August 24, 2009. While the District cannot assure any outcome, the District believes that its claims and defenses are well-founded. The District will continue to aggressively assert its claims and defenses.

The District is also involved in various other litigation matters relating principally to claims arising from construction contracts, enforcing property rights, personal injury and property damage. The majority of any claims and judgments for personal injury and property damage are recovered by insurance or settled and paid from the District's Reserve Claim Fund. Most claims and judgments involving construction contracts are paid by the Capital Projects Funds.

ADDITIONAL INFORMATION - APPENDICES

Included in this Official Statement as APPENDIX A are the District's Basic Financial Statements for the years ended December 31, 2008 and 2007. A description of the District's Capital Improvements Program is included as APPENDIX B. Information regarding the District's Retirement Fund is included as APPENDIX C. Economic and demographic information with respect to Cook County is presented as APPENDIX D. The form of the opinion of Co-Bond Counsel is included as APPENDIX E.

AUTHORIZATION

The District has authorized the distribution of this Official Statement.

At the time of delivery of the Bonds, the District will furnish a certificate executed by the Treasurer stating that to the best of his knowledge the Official Statement does not (as of the date thereof and will not at the date of the delivery of the Bonds) contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

/s/ Harold G. Downs

Treasurer

**Metropolitan Water Reclamation District
of Greater Chicago**

100 East Erie Street

Chicago, Illinois 60611

Telephone: (312) 751-5150

APPENDIX A

BASIC FINANCIAL STATEMENTS

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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, 2008, 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 87% of the total assets, and 45% of total revenues (contributions) 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, 2007, 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, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009 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 – 92) 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 22, 2009

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

Metropolitan Water Reclamation District of Greater Chicago

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

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

2008 FINANCIAL HIGHLIGHTS

- The District ended the 2008 fiscal year with assets exceeding liabilities by \$ 5,221,899,000. This amount represents the District's net assets and it includes \$47,316,000 of unrestricted net assets which may be used to meet the District's future obligations.
- The District's total net assets decreased by \$12,179,000 in 2008. This was a result of expenses exceeding revenues.
- The District's combined fund balances for its governmental funds at December 31, 2008 totaled \$694,050,000, a decrease of \$172,196,000 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 \$68,987,000 in 2008, 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.

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

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, 2008 and 2007, is presented in the following schedule (in thousands of dollars):

| | <u>2008</u> | <u>2007</u> | <u>Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
|---|---------------------|---------------------|--------------------------------|--|
| Assets: | | | | |
| Current and other assets | \$ 1,158,718 | \$ 1,291,852 | \$ (133,134) | (10.3)% |
| Capital assets | 5,776,028 | 5,691,890 | 84,138 | 1.5 |
| Total assets | <u>6,934,746</u> | <u>6,983,742</u> | <u>(48,996)</u> | (0.7) |
| Liabilities: | | | | |
| Current liabilities | 157,416 | 125,246 | 32,170 | 25.7 |
| Long-term liabilities | 1,555,431 | 1,624,418 | (68,987) | (4.2) |
| Total liabilities | <u>1,712,847</u> | <u>1,749,664</u> | <u>(36,817)</u> | (2.1) |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 4,575,974 | 4,580,604 | (4,630) | (0.1) |
| Restricted | 598,609 | 583,043 | 15,566 | 2.7 |
| Unrestricted | 47,316 | 70,431 | (23,115) | (32.8) |
| Total net assets | <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> | <u>\$ (12,179)</u> | (0.2)% |

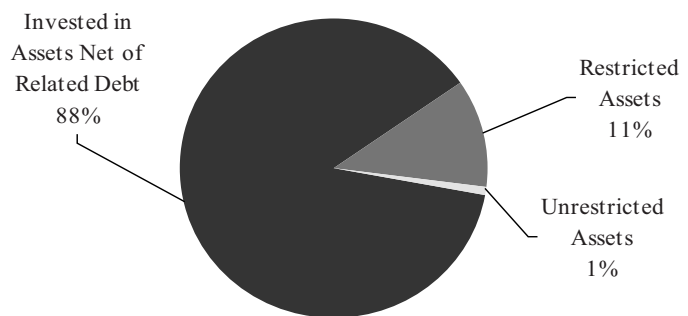
The previous schedule reports that the District's net assets totaled \$5,221,899,000 at December 31, 2008, which represents the amount by which the District's assets exceed its liabilities. The largest portion of the net assets, \$4,575,974,000 is made up of capital assets, net of related debt. This 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 \$598,609,000 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 \$47,316,000 is unrestricted.

The chart on the right reports the percentage of net assets in the three categories as of December 31, 2008.

Investment in capital assets, net of related debt, decreased by \$4,630,000 in 2008 as a result of the following:

- Capital assets increased by \$84,138,000 in 2008 due to new construction.
- Bonded debt related to capital assets increased by \$88,768,000 in 2008 due to a decrease in unspent bond proceeds.

2008 Net Assets by Components



The increase in restricted net assets of \$15,566,000 resulted from the following:

- Net assets restricted for Debt Service increased by \$8,697,000 due to increases to the levy.
- Net assets restricted for working cash increased by \$7,591,000 due to increases to the levy.
- Net assets restricted for capital projects decreased by \$5,244,000 as a result of expenditures exceeding revenues.
- Net assets restricted for reserve claims increased by \$4,522,000 due to revenues exceeding expenditures.

The decrease in unrestricted net assets of \$23,115,000 resulted from expenditures in excess of revenues in the Corporate accounts of the General Corporate Fund.

Management's Discussion and Analysis (MD&A)

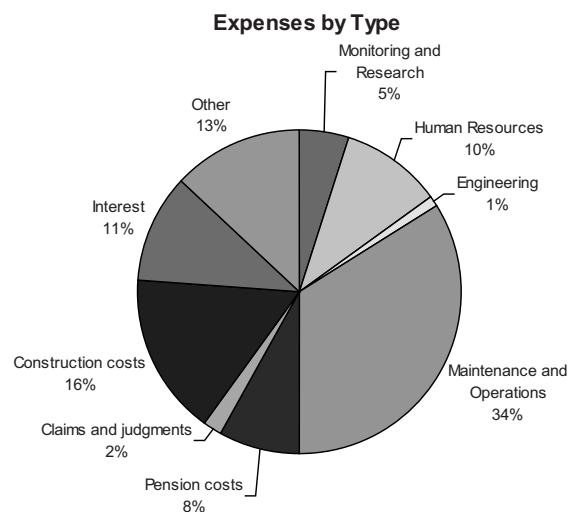
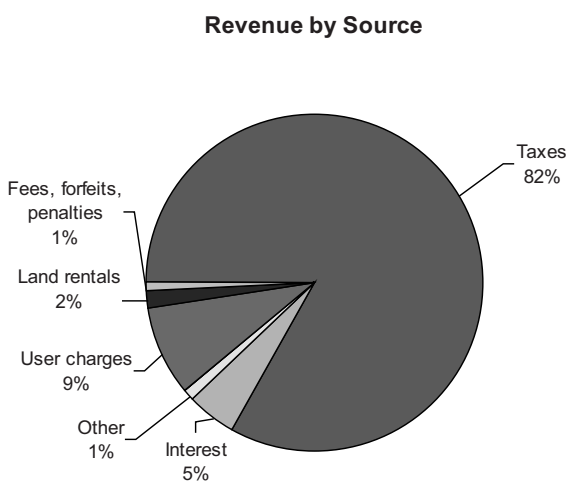
Year ended December 31, 2008

A comparison of the changes in net assets resulting from the District's operations for the years ended December 31, 2008 and 2007, is presented in the following schedule (in thousands of dollars):

| | <u>2008</u> | <u>2007</u> | <u>Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
|--|---------------------|---------------------|--------------------------------|--|
| Revenues | | | | |
| General Revenues: | | | | |
| Taxes | \$ 474,939 | \$ 416,712 | \$ 58,227 | 14.0 % |
| Interest | 27,112 | 48,750 | (21,638) | (44.4) |
| Other | 6,853 | 4,163 | 2,690 | 64.6 |
| Program Revenues: | | | | |
| User charges | 49,439 | 54,612 | (5,173) | (9.5) |
| Land rentals | 9,572 | 9,243 | 329 | 3.6 |
| Fees, forfeits, and penalties | 4,357 | 3,383 | 974 | 28.8 |
| Capital grants | 896 | 253 | 643 | 254.2 |
| Total revenues | <u>573,168</u> | <u>537,116</u> | <u>36,052</u> | 6.7 |
| Expenses | | | | |
| Board of Commissioners | 3,748 | 3,513 | 235 | 6.7 |
| General Administration | 18,438 | 16,875 | 1,563 | 9.3 |
| Monitoring and Research | 27,612 | 26,178 | 1,434 | 5.5 |
| Procurement and Materials Management | 5,398 | 6,631 | (1,233) | (18.6) |
| Human Resources | 61,465 | 61,878 | (413) | (0.7) |
| Information Technology | 20,767 | 16,475 | 4,292 | 26.1 |
| Law | 7,274 | 6,147 | 1,127 | 18.3 |
| Finance | 3,238 | 3,109 | 129 | 4.1 |
| Engineering | 8,144 | 4,483 | 3,661 | 81.7 |
| Maintenance and Operations | 196,612 | 179,938 | 16,674 | 9.3 |
| Pension costs | 45,343 | 49,891 | (4,548) | (9.1) |
| OPEB Trust Fund costs | 8,920 | 7,405 | 1,515 | 20.5 |
| Claims and judgments | 9,174 | 17,606 | (8,432) | (47.9) |
| Construction costs | 93,421 | 56,914 | 36,507 | 64.1 |
| Loss on disposal of capital assets | 750 | 273 | 477 | 174.7 |
| Unallocated depreciation | 9,224 | 9,216 | 8 | 0.1 |
| Interest | 65,819 | 64,584 | 1,235 | 1.9 |
| Total expenses | <u>585,347</u> | <u>531,116</u> | <u>54,231</u> | 10.2 |
| Increase (decrease) in net assets | (12,179) | 6,000 | (18,179) | (303.0) |
| Total net assets, beginning of year | <u>5,234,078</u> | <u>5,228,078</u> | <u>6,000</u> | 0.1 |
| Total net assets, end of year | <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> | <u>\$ (12,179)</u> | (0.2)% |

- Total revenues increased by \$36,052,000 in 2008 or 6.7% from the prior year. Property tax revenues increased by \$61,635,000 as a result of an increase in the tax levy and higher collections of prior year taxes in 2008 than 2007. Personal property replacement taxes decreased by \$3,408,000 as a result of decreased earnings by corporations in 2008. Interest on investments decreased by \$21,638,000 in 2008 due to lower investment balances resulting from capital improvement expenditures and as well as from lower interest rates during the year. Other general revenues increased by \$2,690,000 in 2008 due to an increase in collections of claims and judgments. Program revenues decreased by \$3,227,000 as a result of a decrease in User Charge revenues of \$5,173,000 which was offset by an increase in rental revenues of \$329,000, and an increase in fees, forfeits, and penalties of \$974,000. Capital grants and contributions increased by \$643,000 as a result of federal grants received for disaster area flooding.
- Total expenses in 2008 were \$585,347,000. This represents a \$54,231,000, or 10.2%, increase from the previous year. Vehicle expenses are responsible for General Administration's increase of \$1,563,000. The decrease in Human Resources' expenses of \$413,000 is attributed to lower-than-anticipated health care costs. The Information Technology Department expenses were \$4,292,000 higher because of an increase in computer and communication equipment purchases. Engineering expenses increased in 2008 by \$3,661,000 because of a greater number of repair projects scheduled for WRP facilities over the prior year. The Maintenance and Operations Department's expenses increased by \$16,674,000 in 2008, due mostly to the increased cost of natural gas and electricity and to upgrades to the control systems at the WRP facilities. The Monitoring and Research Department expenses were \$1,434,000 higher due to increased monitoring of the District's waterways. The 2008 pension cost decrease of \$4,548,000 is based on the actuarial pension cost calculation. The OPEB Trust Fund's expenses increased by \$1,515,000 as a result of the increase in the actuarial cost calculation. Claims and judgment expenses in 2008 were \$8,432,000 lower than 2007 because of a decrease in estimates for claims and contingent environmental liabilities. Construction expenses increased in 2008 by \$36,507,000 as a result of new construction. Interest expense was higher by \$1,235,000 due to accrued interest on bond anticipation notes. The increase in the loss on disposal of capital assets of \$477,000 was due to the write-off of obsolete equipment. All other expenses increased by \$266,000 in 2008.

The following percentage charts show the major sources of revenue and expenses for the year ended December 31, 2008:



Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

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 2008, 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 ended the current fiscal year with combined governmental fund balances of \$694,050,000, a decrease of \$172,196,000 or 19.9%, from 2007. The decrease is a result of expenditures exceeding revenues by \$213,381,000 offset by net financing sources of \$41,185,000. A total of \$357,023,000, or 51.4%, 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 \$337,027,000 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 \$229,417,000. The fund balance represented 64.7% 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 \$5,093,000 in the current year as a result of expenditures exceeding revenues by \$8,393,000, and a \$3,300,000 net transfer out of accumulated interest income from the Capital Improvements Bond Fund. The Corporate Fund ended the year with an unreserved fund balance deficit of \$42,703,000. The deficit unreserved fund balance of \$42,703,000 is due to the required working cash reservation as well as expenditures exceeding revenues.

A detailed comparison of the General Corporate Fund revenues for the years ended December 31, 2008 and 2007, is shown in the following schedule (in thousands of dollars):

| | 2008 | | 2007 | | Increase (Decrease) | Percent Increase (Decrease) |
|---------------------------------------|-------------------|---------------|-------------------|---------------|------------------------|-----------------------------------|
| | Amount | % of Total | Amount | % of Total | | |
| Revenues: | | | | | | |
| Property taxes | \$ 234,857 | 67.8% | \$ 207,566 | 64.2% | \$ 27,291 | 13.1 % |
| Personal property replacement tax | 34,862 | 10.1 | 35,032 | 10.8 | (170) | (0.5) |
| Total tax revenue | 269,719 | 77.9 | 242,598 | 75.0 | 27,121 | 11.2 |
| Interest on investments | 6,493 | 1.9 | 11,473 | 3.6 | (4,980) | (43.4) |
| Land sales | 6 | 0.0 | 28 | 0.0 | (22) | (78.6) |
| Tax increment financing distributions | 797 | 0.2 | 644 | 0.2 | 153 | 23.8 |
| Claims and damage settlements | 606 | 0.2 | 64 | 0.0 | 542 | 846.9 |
| Miscellaneous | 5,931 | 1.7 | 2,824 | 0.9 | 3,107 | 110.0 |
| User charges | 49,139 | 14.2 | 53,817 | 16.7 | (4,678) | (8.7) |
| Land rentals | 9,572 | 2.8 | 9,243 | 2.9 | 329 | 3.6 |
| Fees, forfeits, and penalties | 3,884 | 1.1 | 2,422 | 0.7 | 1,462 | 60.4 |
| Total revenues | <u>\$ 346,147</u> | <u>100.0%</u> | <u>\$ 323,113</u> | <u>100.0%</u> | <u>\$ 23,034</u> | <u>7.1 %</u> |

Revenues for the General Corporate Fund come from various major sources: property taxes, replacement taxes, user charges, interest on investments, and rental income. In 2008, General Corporate Fund revenues totaled \$346,147,000, an increase of \$23,034,000, or 7.1%, from the 2007 revenues of \$323,113,000. Total tax revenues increased by \$27,121,000, or 11.2%, to \$269,719,000 for the year 2008, as a result of increases in property taxes of \$27,291,000, or 13.1%, and a decrease in personal property replacement taxes of \$170,000, or 0.5%. The increase in property taxes resulted from increased tax levies. The decrease in personal property replacement tax collection resulted from a downturn in the State's economy.

Interest earned on General Corporate Fund investments for 2008 decreased to \$6,493,000 from \$11,473,000 in 2007. The decrease can be attributed to the decrease in interest rates earned on investments in 2008. Revenues from user charges decreased by \$4,678,000 in 2008 due to a downturn in the economy on the state and national levels. All other revenues, including miscellaneous revenue, increased by \$5,571,000 in 2008.

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**

| | <u>2008</u> | | <u>2007</u> | | <u>Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
|--------------------------------|-------------------|-----------------------|-------------------|-----------------------|--------------------------------|--|
| | <u>Amount</u> | <u>% of Total</u> | <u>Amount</u> | <u>% of Total</u> | | |
| Expenditures: | | | | | | |
| Employee cost | \$ 206,818 | 58.3% | \$ 200,803 | 60.4% | \$ 6,015 | 3.0 % |
| Energy cost | 47,848 | 13.5 | 42,910 | 12.9 | 4,938 | 11.5 |
| Chemicals | 6,753 | 1.9 | 5,605 | 1.7 | 1,148 | 20.5 |
| Solids disposal | 12,518 | 3.5 | 11,461 | 3.4 | 1,057 | 9.2 |
| Repair to structures/equipment | 27,758 | 7.8 | 24,776 | 7.5 | 2,982 | 12.0 |
| Materials, parts & supplies | 14,537 | 4.1 | 16,289 | 4.9 | (1,752) | (10.8) |
| Machinery & equipment | 8,788 | 2.5 | 4,144 | 1.2 | 4,644 | 112.1 |
| Land | 72 | 0.0 | 467 | 0 | (395) | (84.6) |
| Claims and judgments | 7,626 | 2.2 | 9,353 | 2.8 | (1,727) | (18.5) |
| All other | 21,822 | 6.2 | 16,503 | 5.0 | 5,319 | 32.2 |
| Total expenditures | <u>\$ 354,540</u> | <u>100.0%</u> | <u>\$ 332,311</u> | <u>100.0%</u> | <u>\$ 22,229</u> | <u>6.7 %</u> |

In 2008, General Corporate Fund expenditures totaled \$354,540,000, an overall increase of \$22,229,000, or 6.7%, over 2007 expenditures. Employee and energy costs were the two largest expenditure components of the General Corporate Fund in 2008, accounting for 71.8% of total expenditures versus 73.3% in 2007.

Employee costs, which include salaries and wages, group life and health insurance, medicare contributions, and tuition and training, increased by \$6,015,000, or 3.0%, from 2007. Salaries and wages during 2008 amounted to \$148,509,000, which was \$6,179,000, or 4.0%, higher than 2007. This change resulted from cost of living adjustments and annual step increases. The District's contribution for employee health insurance decreased by \$762,000, or 1.0%, in 2008 to \$53,776,000. The combination of all other employee related costs increased by \$598,000.

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

Energy costs have increased by \$4,938,000 in 2008, or 11.5%, due mainly to the higher cost of electricity and natural gas.

Repairs of structures and equipment increased by \$2,982,000 in 2008, or 12.0%, due to the scheduling of more repair projects for District facilities.

Purchases of machinery and equipment were \$4,644,000 higher in 2008 because of an increase in expenditures for vehicles, equipment in labs and process facilities, and computer software.

Expenditures for solids disposal were \$1,057,000 higher in 2008 because of an increase in charges for waste material disposal. Lower demand for materials, parts, and supplies resulted in a decrease of \$1,752,000 in 2008 expenditures.

Expenditures for all other categories increased by \$4,345,000 in 2008 mainly as a result of 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 \$101,053,000. The fund balance represented 56.4% of the total Debt Service Fund expenditures. The fund balance for the Debt Service Bond Fund increased by \$3,561,000 in the current year, which represents the amount revenues and transfers exceeded debt service costs. The decrease in the interest on bonds was primarily due to early redemption of callable bonds in 2008.

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

The fund balance of the Construction Fund at the end of the current fiscal year totaled \$46,583,000 including a reservation for working cash of \$27,005,000. The fund balance represented 389% of the total Construction Fund expenditures. The fund balance for the Construction Fund decreased by \$3,919,000 due to an increase in construction costs in 2008.

The fund balance in the Capital Improvements Bond Fund at the end of the current fiscal year totaled \$270,521,000. This amount will provide resources for the 2009 construction program. The fund balance represented 163.3% of the fund's expenditures. The fund balance decrease of \$161,668,000 in the current year was a result of expenditures exceeding revenues by \$151,279,000. The Capital Improvements Bond Fund recorded other financing uses of \$10,389,000, which is comprised of sources of \$41,185,000 in state revolving fund loan proceeds and a \$51,574,000 transfer out to the Debt Service Fund. Revenues decreased by \$12,848,000 due to significantly lower investment income, while expenditures decreased by \$11,448,000.

GENERAL CORPORATE FUND BUDGET ANALYSIS

The General Corporate Fund budget includes the budgetary accounts of the Corporate Fund and Reserve Claim divisions. A comparison of the 2008 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 2008 budget and actual results at the appropriation line item level is presented in Combining and Individual Fund Statements and Schedules (Exhibit C-1).

Metropolitan Water Reclamation District of Greater Chicago

A condensed summary of the 2008 General Corporate Fund budget is presented in the following schedule (in thousands of dollars):

| | Budget | | Actual Amounts | Actual Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|---------------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Property and personal property replacement taxes | \$ 267,668 | \$ 267,668 | \$ 268,262 | \$ 594 |
| Adjustment for working cash borrowing | (4,890) | (4,890) | (4,890) | - |
| Adjustment for estimated tax collections | - | - | 5,154 | 5,154 |
| Tax revenue available for current operations | <u>262,778</u> | <u>262,778</u> | <u>268,526</u> | <u>5,748</u> |
| User charges | 48,000 | 48,000 | 54,142 | 6,142 |
| Interest on investments | 10,766 | 10,766 | 6,654 | (4,112) |
| Land rentals | 9,001 | 9,001 | 9,457 | 456 |
| Other | 6,224 | 6,224 | 10,917 | 4,693 |
| Total revenues | <u>336,769</u> | <u>336,769</u> | <u>349,696</u> | <u>12,927</u> |
| Operating expenditures: | | | | |
| Board of Commissioners | 4,277 | 4,277 | 3,724 | 553 |
| General Administration | 29,205 | 29,705 | 21,594 | 8,111 |
| Monitoring and Research | 30,059 | 29,984 | 26,535 | 3,449 |
| Procurement and Materials Management | 9,808 | 9,808 | 8,719 | 1,089 |
| Human Resources | 64,434 | 64,434 | 61,379 | 3,055 |
| Information Technology | 21,883 | 21,783 | 19,250 | 2,533 |
| Law | 7,970 | 9,020 | 7,207 | 1,813 |
| Finance | 3,655 | 3,655 | 3,201 | 454 |
| Engineering | 16,027 | 14,652 | 6,697 | 7,955 |
| Maintenance and Operations | 209,869 | 209,869 | 194,457 | 15,412 |
| Claims and judgments | 55,500 | 55,500 | 7,627 | 47,873 |
| Total expenditures | <u>452,687</u> | <u>452,687</u> | <u>360,390</u> | <u>92,297</u> |
| Revenues over (under) expenditures | (115,918) | (115,918) | (10,694) | 105,224 |
| Other financing sources (uses): | | | | |
| Transfers | 7,000 | 7,000 | 7,000 | - |
| Revenue and other financing sources (uses) over (under) expenditures | <u>(108,918)</u> | <u>(108,918)</u> | <u>(3,694)</u> | <u>105,224</u> |
| Fund balance at beginning of year | 148,497 | 148,497 | 158,777 | 10,280 |
| Net assets available for future use | (39,579) | (39,579) | - | 39,579 |
| Fund balance at beginning of year as adjusted | <u>108,918</u> | <u>108,918</u> | <u>158,777</u> | <u>49,859</u> |
| Fund balance at end of the year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 155,083</u> | <u>\$ 155,083</u> |

Actual revenues on a budgetary basis for 2008 in the General Corporate Fund totaled \$349,696,000 or \$12,927,000 more than budgeted revenues, a 3.8% variation. Property taxes and personal property replacement taxes were \$5,748,000 more than the budget because of the adjustment for estimated tax collections over and above the working cash borrowings. User charge receipts were \$6,142,000 more than the budget because of several large commercial users increasing their loadings and associated expenses. Interest on investments had a \$4,112,000 negative variance over budget because of the collapse of major financial markets in the fourth quarter of 2008. Land rentals increased by \$456,000 due to new and updated lease terms. All other revenues had a \$4,693,000 positive variance because of better-than-expected results for land sales, fines, and revenues from tax increment financing districts.

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The 2008 General Corporate Fund final appropriation of \$452,687,000 did not change from the original amount. Actual budgetary expenditures totaled \$360,390,000, or 79.6%, of the total appropriation. The \$92,297,000 excess of appropriations over actual expenditures was primarily due to claims and judgments being \$47,873,000 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 \$15,412,000 below appropriations, mainly because of variances for electricity, chemicals, waste disposal costs, repairs, and repair parts. The increase in the Human Resources budget was due mainly to funding OPEB. Budget versus actual variances of \$7,955,000 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, 2008, amounted to \$5,776,028,000. Reportable capital assets, net of accumulated depreciation, for 2008 as compared to 2007 are as follows (in thousands of dollars):

| | <u>2008</u> | <u>2007</u> | <u>Increase (Decrease)</u> | <u>Percent Increase (Decrease)</u> |
|----------------------------|---------------------|---------------------|--------------------------------|--|
| Land | \$ 127,043 | \$ 127,043 | \$ - | 0.0 % |
| Buildings | 8,650 | 8,835 | (185) | (2.1) |
| Machinery and equipment | 34,285 | 16,921 | 17,364 | 102.6 |
| Depreciable infrastructure | 1,697,988 | 1,705,172 | (7,184) | (0.4) |
| Modified infrastructure | 3,397,976 | 3,354,350 | 43,626 | 1.3 |
| Construction in progress | 510,086 | 479,569 | 30,517 | 6.4 |
| Total | <u>\$ 5,776,028</u> | <u>\$ 5,691,890</u> | <u>\$ 84,138</u> | 1.5 % |

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

- Modified infrastructure assets increased by \$43,626,000 in 2008 as a result of completed infrastructure projects. Total capital asset additions exceeded retirements by \$84,138,000 in 2008.
- Construction in progress increased by \$30,517,000 from 2007 to 2008 due to the ongoing construction of infrastructure projects. Major projects such as the McCook Reservoir accounted for \$17,000,000 in 2008, and on going work on the Calumet Isolation Chamber amounted to \$29,000,000.

In addition to the above, commitments totaling \$688,932,400 remain outstanding for ongoing construction projects. Additional disclosure on construction commitments can be found in Note 9 to the basic financial statements.

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

The Kirie, Hanover, Egan, Central (Stickney), North Side, Calumet, Lemont, and Waterways network assets had their initial condition assessments completed between 2002 and 2006. The Kirie network had a additional condition assessments completed in 2005 and 2008, the Hanover network had a second condition assessment completed in 2006, and Egan and Northside had second assessments in 2007. Central (Stickney) and Waterways network had a second condition assessment completed in 2008 (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, 2008, totaled \$ 1,555,431,000. The breakdown of this debt and changes from 2007 to 2008 are as follows (in thousands of dollars):

| | 2008 | 2007 | Increase (Decrease) | Percent Increase (Decrease) |
|-------------------------|--------------|--------------|--------------------------------|--|
| Bonds payable, net | \$ 1,429,273 | \$ 1,503,471 | \$ (74,198) | (4.9)% |
| Bond anticipation notes | 64,894 | 63,131 | 1,763 | 2.8 |
| Claims payable | 30,813 | 29,265 | 1,548 | 5.3 |
| Compensated absences | 30,451 | 28,551 | 1,900 | 6.7 |
| Total | \$ 1,555,431 | \$ 1,624,418 | \$ (68,987) | (4.2)% |

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

- Bonds payable, net, decreased by \$74,198,000 in 2008 as a result of the conversion to bonds of \$39,422,000 in bond anticipation note principal and interest, the reduction of bond principal of \$112,577,000, and the amortization of \$1,043,000 for issuance costs, premiums, and refunding transactions.
- Bond anticipation notes increased by \$1,763,000 in 2008 as a result of the issuance of \$31,501,000 in notes, the accrual of \$9,684,000 in note receivables, and the conversion of \$39,422,000 from bond anticipation notes to bonds.
- Claims payable increased due to increased environmental remediation liability.
- Compensated absences increased as a result of fewer retirement payouts.

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+ |

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

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 \$155,972,794,427 for the 2007 property tax levy. At December 31, 2008, the District's statutory debt limit of \$8,968,436,000 exceeded the applicable net debt amount of \$1,489,034,000 by \$7,479,402,000.

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, 2008 and 2007 are \$600,000,000 and \$400,000,000, 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, 2008, the District's outstanding capital improvement and refunding bonds (excluding bonds treated as outstanding State Revolving Fund bonds) of \$1,029,775,000 did not exceed the limitation of \$5,225,088,600.

Outstanding capital improvement and refunding bonds related to the Clean-up and Flood Control Program and the remaining authorization at December 31, 2008, are indicated in the following schedule (in millions of dollars):

Capital Improvement and Refunding Bonds Outstanding and Remaining Authorization

| <u>Year of Issue</u> | <u>Total</u> | <u>Capital Improvement</u> | <u>Refunding</u> |
|---|--------------|--------------------------------|------------------|
| 1992 | 15 | - | 15 |
| 1997 | 16 | - | 16 |
| 2002 | 79 | 79 | - |
| 2006 | 537 | 140 | 397 |
| 2007 | 383 | - | 383 |
| Total bonds outstanding at December 31, 2008 | 1,030 | \$ 219 | \$ 811 |
| Remaining bond authorization at December 31, 2008 | 4,195 | | |
| Total bond authorization at December 31, 2008 | \$ 5,225 | | |

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, 2008, the District's remaining Corporate Working Cash Fund bond authorization is \$271,616,000.

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

ECONOMY AND OTHER CONDITIONS IMPACTING THE DISTRICT

The equalized assessed valuation of the District has experienced a 7.78% average growth rate over the last ten years. The Cook County Assessor's office is in the process of gauging the impact of housing price declines and foreclosures on property values, which may result in decreased valuations in the next reassessment. The boundaries of the District encompass 91% of the area of Cook County. The District is located in one of the strongest and economically diverse geographical areas of Cook County. While the area's economy held up longer than other areas of the country, the recession is now significantly impacting the area. Unemployment for the Chicago-Naperville-Joliet Metropolitan Division increased to a seasonally adjusted rate of 6.3% for 2008 from 4.9% a year earlier. Employment, tourism, manufacturing, and the commercial and residential real estate markets have all been negatively impacted. This trend is expected to continue through most, if not all, of 2009.

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 2009. The total appropriation for the Corporate Fund in 2009 is \$395.0 million, a decrease of \$2.2 million, or .05 percent from 2008.

The 2009 tax levy for the Corporate Fund is \$242.0 million, an increase of \$2.7 million or 1.1 percent compared to 2008. 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 fund balance and achieve the intended level, \$69.7 million of the 2008 ending fund balance projected at \$90.6 million will be appropriated to fund 2009 expenditures.

Continuing through 2009 economically sensitive non-property tax revenues are expected to increase slightly based on declining 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 2009 is 15.52 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 2009 project awards, land, support, future projects, and projects under construction, with a total cost of approximately \$3.4 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.

Management's Discussion and Analysis (MD&A)

Year ended December 31, 2008

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 2009 totals \$35.6 million, an increase of \$3.5 million from 2008. Five projects are budgeted for award in 2009, at a total contract cost of \$10.2 million and requiring an appropriation of \$5.8 million. The remaining \$29.8 million appropriation is required for salaries, support, and projects under construction. In 2008, five new projects were appropriated for \$17.2 million; and the appropriation for projects under construction, salaries, and support required \$29.7 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 2009, 45 positions are budgeted in the Construction Fund and 191 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 2009 tax levy for the Construction Fund of \$11.4 million is a 100.0 percent increase from 2008, when there was no levy.

Capital Improvements Bond Fund. The 2009 appropriation for the Capital Improvements Bond Fund is \$932.9 million, an increase of \$189.5 million, or 25.5 percent from 2008. The appropriation is based on the scheduled award of \$861.2 million in projects. Capital Improvements Bond Fund projects scheduled for award in 2009 with estimated award values consist of two Tunnel and Reservoir Plan projects at \$317.0 million, six plant expansion and improvement projects at \$102.6 million; four solids management projects at \$106.1 million; seven collection projects at \$70.2 million and thirteen replacements of facilities projects at \$265.3 million.

The increase in appropriation for the Capital Improvements Bond Fund of \$189.5 million reflects the pattern in the award of major projects. An appropriation for the open value of existing contracts is also carried forward from the prior year.

The remaining \$71.7 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 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 for 2007 and 2008.

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. In 2008, an additional \$22,000,000 was budgeted and transferred into the OPEB trust fund making the fund balance \$47,797,000 as of December 31, 2008.

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

Energy. In April 2006, the District accepted a proposal and entered into a three-year open market agreement with Integrys Energy Services also known as Peoples Energy for supplying electricity beginning January 1, 2007 for the District's major facilities. A two-year extension of the agreement was signed with an expiration date of December 31, 2011. 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 \$2.1 million in 2009.

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. Three-year successor agreements were negotiated with all bargaining units in 2008 and will expire in 2011.

REQUESTS FOR ADDITIONAL INFORMATION

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

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

December 31, 2008 (with comparative amounts for prior year)

| | (in thousands of dollars) | | | | | |
|--|---------------------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| | General | | Debt Service | | Capital Improvements | |
| | Corporate Fund | | Fund | | Bond Fund | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Cash | \$ 1,510 | \$ 326 | \$ 3,531 | \$ 341 | \$ 168 | \$ 100 |
| Certificates of deposit (note 4) | 142,674 | 10,187 | 55,755 | - | 133,391 | 141,154 |
| Investments (note 4) | 67,574 | 187,226 | 30,111 | 77,258 | 160,554 | 314,062 |
| Taxes receivable, net (note 5) | 237,713 | 231,208 | 134,097 | 137,832 | - | - |
| Other receivables, net (note 5) | 1,983 | 6,735 | - | - | 9,685 | 5,741 |
| Due from other funds (note 12) | 682 | 475 | - | - | - | - |
| Inventories | 38,067 | 35,787 | - | - | - | - |
| Restricted cash | 1,878 | 1,851 | - | - | - | 553 |
| Capital assets not being depreciated (note 6) | - | - | - | - | - | - |
| Capital assets being depreciated, net (note 6) | - | - | - | - | - | - |
| Total assets | <u>\$ 492,081</u> | <u>\$ 473,795</u> | <u>\$ 223,494</u> | <u>\$ 215,431</u> | <u>\$ 303,798</u> | <u>\$ 461,610</u> |
| Liabilities, Fund Balances / Net assets | | | | | | |
| Liabilities: | | | | | | |
| Deferred tax revenue (note 5) | \$ 216,839 | \$ 196,695 | \$ 122,441 | \$ 117,939 | \$ - | \$ - |
| Other deferred/unearned revenue (note 5) | 2,115 | 2,348 | - | - | - | - |
| Accounts payable and other liabilities (note 5) | 43,410 | 39,942 | - | - | 32,824 | 29,124 |
| Due to Pension Trust Fund (note 12) | - | - | - | - | - | - |
| Due to other funds (note 12) | 300 | 300 | - | - | 453 | 297 |
| Accrued interest payable | - | - | - | - | - | - |
| Net OPEB obligation (note 8) | - | - | - | - | - | - |
| Net pension liability (note 7) | - | - | - | - | - | - |
| Long-term liabilities: (note 11) | | | | | | |
| Due within one year | - | - | - | - | - | - |
| Due in more than one year | - | - | - | - | - | - |
| Total liabilities | <u>262,664</u> | <u>239,285</u> | <u>122,441</u> | <u>117,939</u> | <u>33,277</u> | <u>29,421</u> |
| Fund balances/net assets | | | | | | |
| Fund balances: | | | | | | |
| Reserved for working cash | 272,120 | 267,842 | - | - | - | - |
| Unreserved (note 1.p): | | | | | | |
| General corporate fund | (42,703) | (33,332) | - | - | - | - |
| Debt service fund | - | - | 101,053 | 97,492 | - | - |
| Capital projects funds | - | - | - | - | 270,521 | 432,189 |
| Total fund balances | <u>229,417</u> | <u>234,510</u> | <u>101,053</u> | <u>97,492</u> | <u>270,521</u> | <u>432,189</u> |
| Total liabilities and fund balances | <u>\$ 492,081</u> | <u>\$ 473,795</u> | <u>\$ 223,494</u> | <u>\$ 215,431</u> | <u>\$ 303,798</u> | <u>\$ 461,610</u> |
| 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.

Metropolitan Water Reclamation District of Greater Chicago

| Construction Fund | | Other Governmental / Nonmajor Funds | | Total Governmental Activities | | Adjustments (Note 2a) | | Statements of Net Assets | |
|-------------------|------------------|-------------------------------------|------------------|-------------------------------|---------------------|-----------------------|---------------------|--------------------------|---------------------|
| 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| \$ 1,331 | \$ 17 | \$ 854 | \$ 11 | \$ 7,394 | \$ 795 | \$ - | \$ - | \$ 7,394 | \$ 795 |
| 23,476 | 15,161 | 24,176 | 26,879 | 379,472 | 193,381 | - | - | 379,472 | 193,381 |
| 24,445 | 36,110 | 21,852 | 24,443 | 304,536 | 639,099 | - | - | 304,536 | 639,099 |
| - | 4,999 | 43,893 | 33,871 | 415,703 | 407,910 | - | - | 415,703 | 407,910 |
| - | - | - | - | 11,668 | 12,476 | - | - | 11,668 | 12,476 |
| 302 | 300 | - | - | 984 | 775 | (984) | (775) | - | - |
| - | - | - | - | 38,067 | 35,787 | - | - | 38,067 | 35,787 |
| - | - | - | - | 1,878 | 2,404 | - | - | 1,878 | 2,404 |
| - | - | - | - | - | - | 4,035,105 | 3,960,962 | 4,035,105 | 3,960,962 |
| - | - | - | - | - | - | 1,740,923 | 1,730,928 | 1,740,923 | 1,730,928 |
| <u>\$ 49,554</u> | <u>\$ 56,587</u> | <u>\$ 90,775</u> | <u>\$ 85,204</u> | <u>\$ 1,159,702</u> | <u>\$ 1,292,627</u> | <u>\$ 5,775,044</u> | <u>\$ 5,691,115</u> | <u>\$ 6,934,746</u> | <u>\$ 6,983,742</u> |
| | | | | | | | | | |
| \$ (10) | \$ 3,317 | \$ 36,119 | \$ 22,572 | \$ 375,389 | \$ 340,523 | \$ (375,389) | \$ (340,523) | \$ - | \$ - |
| - | - | - | - | 2,115 | 2,348 | (17) | (23) | 2,098 | 2,325 |
| 2,855 | 2,662 | 1,470 | 1,179 | 80,559 | 72,907 | - | - | 80,559 | 72,907 |
| - | - | 6,605 | 9,828 | 6,605 | 9,828 | 22,608 | 20,237 | 29,213 | 30,065 |
| 126 | 106 | 105 | 72 | 984 | 775 | (984) | (775) | - | - |
| - | - | - | - | - | - | 10,392 | 10,121 | 10,392 | 10,121 |
| - | - | - | - | - | - | 16,325 | 7,405 | 16,325 | 7,405 |
| - | - | - | - | - | - | 18,829 | 2,423 | 18,829 | 2,423 |
| - | - | - | - | - | - | 82,939 | 87,296 | 82,939 | 87,296 |
| - | - | - | - | - | - | 1,472,492 | 1,537,122 | 1,472,492 | 1,537,122 |
| <u>2,971</u> | <u>6,085</u> | <u>44,299</u> | <u>33,651</u> | <u>465,652</u> | <u>426,381</u> | <u>1,247,195</u> | <u>1,323,283</u> | <u>1,712,847</u> | <u>1,749,664</u> |
| | | | | | | | | | |
| 27,005 | 26,313 | 37,902 | 35,275 | 337,027 | 329,430 | (337,027) | (329,430) | | |
| - | - | - | - | (42,703) | (33,332) | 42,703 | 33,332 | | |
| - | - | - | - | 101,053 | 97,492 | (101,053) | (97,492) | | |
| <u>19,578</u> | <u>24,189</u> | <u>8,574</u> | <u>16,278</u> | <u>298,673</u> | <u>472,656</u> | <u>(298,673)</u> | <u>(472,656)</u> | | |
| <u>46,583</u> | <u>50,502</u> | <u>46,476</u> | <u>51,553</u> | <u>694,050</u> | <u>866,246</u> | <u>(694,050)</u> | <u>(866,246)</u> | | |
| <u>\$ 49,554</u> | <u>\$ 56,587</u> | <u>\$ 90,775</u> | <u>\$ 85,204</u> | <u>\$ 1,159,702</u> | <u>\$ 1,292,627</u> | | | | |
| | | | | | | | | | |
| | | | | | | 4,575,974 | 4,580,604 | 4,575,974 | 4,580,604 |
| | | | | | | 272,120 | 267,848 | 272,120 | 267,848 |
| | | | | | | 35,817 | 31,295 | 35,817 | 31,295 |
| | | | | | | 212,353 | 203,656 | 212,353 | 203,656 |
| | | | | | | 13,412 | 18,656 | 13,412 | 18,656 |
| | | | | | | 27,005 | 26,313 | 27,005 | 26,313 |
| | | | | | | 37,902 | 35,275 | 37,902 | 35,275 |
| | | | | | | 47,316 | 70,431 | 47,316 | 70,431 |
| | | | | | | <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> | <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> |

Exhibit A-2

Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balances/Statements of Activities

Year ended December 31, 2008
(with comparative amounts for prior year)

| (in thousands of dollars) | General Corporate Fund | | Debt Service Fund | | Capital Improvements Bond Fund | |
|--|---------------------------|------------|----------------------|------------|-----------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | | | |
| General revenues: | | | | | | |
| Property taxes | \$ 234,857 | \$ 207,566 | \$ 131,086 | \$ 116,574 | \$ - | \$ - |
| Personal property replacement tax | 34,862 | 35,032 | - | - | - | - |
| Interest on investments | 6,493 | 11,473 | 3,147 | 5,266 | 14,322 | 27,214 |
| Land sales | 6 | 28 | - | - | - | - |
| Tax increment financing distributions | 797 | 644 | - | - | - | - |
| Claims and damage settlements | 606 | 64 | - | - | - | - |
| Miscellaneous | 5,170 | 2,824 | 222 | 229 | 44 | - |
| Gain on sale of capital assets | - | - | - | - | - | - |
| Program revenues: | | | | | | |
| Charges for services: | | | | | | |
| User charges | 49,139 | 53,817 | - | - | - | - |
| Land rentals | 9,572 | 9,243 | - | - | - | - |
| Fees, forfeits and penalties | 3,884 | 2,422 | - | - | - | - |
| Capital grants and contributions: | | | | | | |
| Federal grants | 761 | - | - | - | - | - |
| Total revenues | 346,147 | 323,113 | 134,455 | 122,069 | 14,366 | 27,214 |
| Expenditures/Expenses | | | | | | |
| Operations: | | | | | | |
| Board of Commissioners | 3,721 | 3,496 | - | - | - | - |
| General Administration | 17,958 | 16,491 | - | - | - | - |
| Monitoring and Research | 27,146 | 25,892 | - | - | - | - |
| Procurement and Materials Management | 5,341 | 6,556 | - | - | - | - |
| Human Resources | 61,385 | 61,841 | - | - | - | - |
| Information Technology | 19,328 | 16,125 | - | - | - | - |
| Law | 7,211 | 6,121 | - | - | - | - |
| Finance | 3,205 | 3,093 | - | - | - | - |
| Engineering | 6,703 | 4,331 | - | - | - | - |
| Maintenance and Operations | 194,916 | 179,012 | - | - | - | - |
| Pension costs | - | - | - | - | - | - |
| OPEB costs | - | - | - | - | - | - |
| Claims and judgments | 7,626 | 9,353 | - | - | - | - |
| Construction costs | - | - | - | - | 165,645 | 177,093 |
| Loss on disposal of capital assets | - | - | - | - | - | - |
| Depreciation (unallocated) | - | - | - | - | - | - |
| Debt service: | | | | | | |
| Redemption of bonds | - | - | 112,577 | 90,466 | - | - |
| Interest on bonds | - | - | 66,591 | 68,148 | - | - |
| Total expenditures/expenses | 354,540 | 332,311 | 179,168 | 158,614 | 165,645 | 177,093 |
| Revenues over (under) expenditures | (8,393) | (9,198) | (44,713) | (36,545) | (151,279) | (149,879) |
| Other financing sources (uses): | | | | | | |
| Payment to escrow agent for refunded bonds | - | - | - | (437,621) | - | - |
| State revolving fund loans | - | - | - | - | 41,185 | 47,104 |
| Bond anticipation notes converted | - | - | - | - | 39,422 | 9,234 |
| Bond anticipation notes refunded | - | - | - | - | (39,422) | (9,234) |
| Refunding bonds issued | - | - | - | 382,020 | - | - |
| Premium on sale of bonds | - | - | - | 53,098 | - | - |
| Transfers | 3,300 | (1,270) | 48,274 | 12,000 | (51,574) | (8,000) |
| Total other financing sources (uses) | 3,300 | (1,270) | 48,274 | 9,497 | (10,389) | 39,104 |
| Revenues and other financing sources (uses) over (under) expenditures | (5,093) | (10,468) | 3,561 | (27,048) | (161,668) | (110,775) |
| Change in net assets | - | - | - | - | - | - |
| Fund balances/net assets: | | | | | | |
| Beginning of the year | 234,510 | 244,978 | 97,492 | 124,540 | 432,189 | 542,964 |
| End of the year | \$ 229,417 | \$ 234,510 | \$ 101,053 | \$ 97,492 | \$ 270,521 | \$ 432,189 |

See accompanying notes to the basic financial statements.

Metropolitan Water Reclamation District of Greater Chicago

| Construction Fund | | Other Governmental / Nonmajor Funds | | Total Governmental Activities | | Adjustments (Note 2b) | | Statements of Activities | |
|-------------------|------------------|-------------------------------------|------------------|-------------------------------|-------------------|-----------------------|------------------|--------------------------|---------------------|
| 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| \$ 4,682 | \$ 15,409 | \$ 29,292 | \$ 37,208 | \$ 399,917 | \$ 376,757 | \$ 32,495 | \$ (5,980) | \$ 432,412 | \$ 370,777 |
| 1,000 | 1,097 | 6,665 | 9,806 | 42,527 | 45,935 | - | - | 42,527 | 45,935 |
| 1,592 | 2,321 | 1,558 | 2,476 | 27,112 | 48,750 | - | - | 27,112 | 48,750 |
| - | - | - | - | 6 | 28 | (6) | (28) | - | - |
| - | - | - | - | 797 | 644 | - | - | 797 | 644 |
| - | - | - | - | 606 | 64 | - | - | 606 | 64 |
| 8 | 413 | 6 | 29 | 5,450 | 3,495 | - | (61) | 5,450 | 3,434 |
| - | - | - | - | - | - | - | 21 | - | 21 |
| 300 | 300 | - | - | 49,439 | 54,117 | - | 495 | 49,439 | 54,612 |
| - | - | - | - | 9,572 | 9,243 | - | - | 9,572 | 9,243 |
| 473 | 961 | - | - | 4,357 | 3,383 | - | - | 4,357 | 3,383 |
| - | - | 135 | 253 | 896 | 253 | - | - | 896 | 253 |
| <u>8,055</u> | <u>20,501</u> | <u>37,656</u> | <u>49,772</u> | <u>540,679</u> | <u>542,669</u> | <u>32,489</u> | <u>(5,553)</u> | <u>573,168</u> | <u>537,116</u> |
| - | - | - | - | 3,721 | 3,496 | 27 | 17 | 3,748 | 3,513 |
| - | - | - | - | 17,958 | 16,491 | 480 | 384 | 18,438 | 16,875 |
| - | - | - | - | 27,146 | 25,892 | 466 | 286 | 27,612 | 26,178 |
| - | - | - | - | 5,341 | 6,556 | 57 | 75 | 5,398 | 6,631 |
| - | - | - | - | 61,385 | 61,841 | 80 | 37 | 61,465 | 61,878 |
| - | - | - | - | 19,328 | 16,125 | 1,439 | 350 | 20,767 | 16,475 |
| - | - | - | - | 7,211 | 6,121 | 63 | 26 | 7,274 | 6,147 |
| - | - | - | - | 3,205 | 3,093 | 33 | 16 | 3,238 | 3,109 |
| - | - | - | - | 6,703 | 4,331 | 1,441 | 152 | 8,144 | 4,483 |
| - | - | - | - | 194,916 | 179,012 | 1,696 | 926 | 196,612 | 179,938 |
| - | - | 28,937 | 31,115 | 28,937 | 31,115 | 16,406 | 18,776 | 45,343 | 49,891 |
| - | - | - | - | - | - | 8,920 | 7,405 | 8,920 | 7,405 |
| - | - | - | - | 7,626 | 9,353 | 1,548 | 8,253 | 9,174 | 17,606 |
| 11,974 | 9,534 | 13,796 | 7,524 | 191,415 | 194,151 | (97,994) | (137,237) | 93,421 | 56,914 |
| - | - | - | - | - | - | 750 | 273 | 750 | 273 |
| - | - | - | - | - | - | 9,224 | 9,216 | 9,224 | 9,216 |
| - | - | - | - | 112,577 | 90,466 | (112,577) | (90,466) | - | - |
| - | - | - | - | 66,591 | 68,148 | (772) | (3,564) | 65,819 | 64,584 |
| <u>11,974</u> | <u>9,534</u> | <u>42,733</u> | <u>38,639</u> | <u>754,060</u> | <u>716,191</u> | <u>(168,713)</u> | <u>(185,075)</u> | <u>585,347</u> | <u>531,116</u> |
| <u>(3,919)</u> | <u>10,967</u> | <u>(5,077)</u> | <u>11,133</u> | <u>(213,381)</u> | <u>(173,522)</u> | <u>201,202</u> | <u>179,522</u> | | |
| - | - | - | - | - | (437,621) | - | 437,621 | - | - |
| - | - | - | - | 41,185 | 47,104 | (41,185) | (47,104) | - | - |
| - | - | - | - | 39,422 | 9,234 | (39,422) | (9,234) | - | - |
| - | - | - | - | (39,422) | (9,234) | 39,422 | 9,234 | - | - |
| - | - | - | - | - | 382,020 | - | (382,020) | - | - |
| - | - | - | - | - | 53,098 | - | (53,098) | - | - |
| - | (2,730) | - | - | - | - | - | - | - | - |
| - | (2,730) | - | - | 41,185 | 44,601 | (41,185) | (44,601) | - | - |
| (3,919) | 8,237 | (5,077) | 11,133 | (172,196) | (128,921) | 172,196 | 128,921 | - | - |
| - | - | - | - | - | - | (12,179) | 6,000 | (12,179) | 6,000 |
| 50,502 | 42,265 | 51,553 | 40,420 | 866,246 | 995,167 | - | - | 5,234,078 | 5,228,078 |
| <u>\$ 46,583</u> | <u>\$ 50,502</u> | <u>\$ 46,476</u> | <u>\$ 51,553</u> | <u>\$ 694,050</u> | <u>\$ 866,246</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,221,899</u> | <u>\$ 5,234,078</u> |

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

Year ended December 31, 2008

(in thousands of dollars)

| | Budget | | Actual Amounts | Actual Variance With Final Budget - Positive (Negative) |
|--|------------|------------|-------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes: | | | | |
| Gross levy | \$ 239,262 | \$ 239,262 | \$ 239,262 | \$ - |
| Allowance for uncollectible taxes | (8,374) | (8,374) | (8,374) | - |
| Net property tax levy | 230,888 | 230,888 | 230,888 | - |
| Property tax collections | 6,328 | 6,328 | 6,753 | 425 |
| Personal property replacement tax: | | | | |
| Entitlement | 26,002 | 26,002 | 26,002 | - |
| Collections | 4,450 | 4,450 | 4,619 | 169 |
| Total tax revenue | 267,668 | 267,668 | 268,262 | 594 |
| Adjustment for working cash borrowing | (4,890) | (4,890) | (4,890) | - |
| Adjustment for estimated tax collections | - | - | 5,154 | 5,154 |
| Tax revenue available for current operation | 262,778 | 262,778 | 268,526 | 5,748 |
| Interest on investments | 10,766 | 10,766 | 6,654 | (4,112) |
| Land sales | 2 | 2 | - | (2) |
| Tax increment financing distributions | 925 | 925 | 858 | (67) |
| Miscellaneous | 3,090 | 3,090 | 8,552 | 5,462 |
| User charges | 48,000 | 48,000 | 54,142 | 6,142 |
| Land rentals | 9,001 | 9,001 | 9,457 | 456 |
| Claims and damage settlements | 5 | 5 | 606 | 601 |
| Fees, forfeits and penalties | 2,202 | 2,202 | 901 | (1,301) |
| Total revenues | 336,769 | 336,769 | 349,696 | 12,927 |
| Expenditures: | | | | |
| Board of Commissioners | 4,277 | 4,277 | 3,724 | 553 |
| General Administration | 29,205 | 29,705 | 21,594 | 8,111 |
| Monitoring and Research | 30,059 | 29,984 | 26,535 | 3,449 |
| Procurement and Materials Management | 9,808 | 9,808 | 8,719 | 1,089 |
| Human Resources | 64,434 | 64,434 | 61,379 | 3,055 |
| Information Technology | 21,883 | 21,783 | 19,250 | 2,533 |
| Law | 7,970 | 9,020 | 7,207 | 1,813 |
| Finance | 3,655 | 3,655 | 3,201 | 454 |
| Engineering | 16,027 | 14,652 | 6,697 | 7,955 |
| Maintenance and Operations | 209,869 | 209,869 | 194,457 | 15,412 |
| Claims and judgments | 55,500 | 55,500 | 7,627 | 47,873 |
| Total expenditures | 452,687 | 452,687 | 360,390 | 92,297 |
| Revenues over (under) expenditures | (115,918) | (115,918) | (10,694) | 105,224 |
| Other financing sources (uses) | | | | |
| Transfers | 7,000 | 7,000 | 7,000 | - |
| Fund balances at beginning of year | 148,497 | 148,497 | 158,777 | 10,280 |
| Net assets available for future use | (39,579) | (39,579) | - | 39,579 |
| Fund balances at beginning of the year as adjusted | 108,918 | 108,918 | 158,777 | 49,859 |
| Fund balances at end of year | \$ - | \$ - | \$ 155,083 | \$ 155,083 |

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, 2008
(with comparative amounts for prior year)

(in thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|---------------------|
| <u>Assets</u> | | |
| Cash | \$ 131 | \$ 112 |
| Receivables | | |
| Employer contributions-taxes (net of allowance for uncollectibles of \$3,991 in 2008; \$5,554 in 2007) | 31,314 | 30,067 |
| Securities sold | 2,798 | 7,391 |
| Accrued interest and dividends | 1,013 | 1,757 |
| Accounts receivable | 52 | 51 |
| Total receivables | <u>35,177</u> | <u>39,266</u> |
| Investments at fair value | | |
| U.S. Treasuries | 11,212 | 27,888 |
| U.S. Agencies | 4,036 | 19,285 |
| Corporate bonds and notes | 6,567 | 34,590 |
| Mortgage backed securities | 14,787 | 34,375 |
| Asset backed securities | 1,794 | 8,275 |
| Collateralized mortgage obligations | - | 18,725 |
| Pooled funds- fixed income | 402,598 | 402,465 |
| Pooled funds - equities | 50,274 | 171,943 |
| Common and preferred stocks | 392,504 | 488,380 |
| Short-term investments | 14,487 | 14,517 |
| Total investments | <u>898,259</u> | <u>1,220,443</u> |
| Securities lending capital | <u>20,173</u> | <u>171,496</u> |
| Total assets | <u>\$ 953,740</u> | <u>\$ 1,431,317</u> |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 902 | \$ 713 |
| Securities lending collateral | 20,173 | 171,496 |
| Securities purchased | 6,071 | 2,015 |
| Total liabilities | <u>27,146</u> | <u>174,224</u> |
| Net assets held in trust for pension and OPEB benefits | <u>\$ 926,594</u> | <u>\$ 1,257,093</u> |

See accompanying notes to the basic financial statements.

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

Year ended December 31, 2008
(with comparative amounts for prior year)

(in thousands of dollars)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|---------------------|
| Additions: | | |
| Contributions: | | |
| Employer contributions | \$ 55,407 | \$ 52,947 |
| Employee contributions | 14,778 | 15,628 |
| Total contributions | <u>70,185</u> | <u>68,575</u> |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value of investments | (311,205) | 51,318 |
| Interest on fixed income investments | 4,106 | 5,399 |
| Interest on short-term investments | 1,472 | 847 |
| Dividend income | 9,192 | 7,487 |
| Total investment income (loss) | <u>(296,435)</u> | <u>65,051</u> |
| Less investment expenses | <u>(2,507)</u> | <u>(2,563)</u> |
| Investment income net of expenses | <u>(298,942)</u> | <u>62,488</u> |
| Security lending activities | | |
| Security lending income | 3,691 | 1,860 |
| Borrower rebates | (2,913) | (1,655) |
| Bank fees | (195) | (51) |
| Net income from securities lending activities | <u>583</u> | <u>154</u> |
| Other | <u>18</u> | <u>54</u> |
| Total additions | <u>(228,156)</u> | <u>131,271</u> |
| Deductions: | | |
| Annuities and benefits | | |
| Employee annuitants | 83,948 | 79,417 |
| Surviving spouse annuitants | 14,934 | 13,961 |
| Child annuitants | 123 | 126 |
| Ordinary disability benefits | 846 | 1,100 |
| Duty disability benefits | 218 | 242 |
| Total annuities and benefits | <u>100,069</u> | <u>94,846</u> |
| Refunds of employee contributions | 965 | 1,164 |
| Administrative expenses | <u>1,309</u> | <u>1,465</u> |
| Total deductions | <u>102,343</u> | <u>97,475</u> |
| Net increase (decrease) | <u>(330,499)</u> | <u>33,796</u> |
| Net assets held in trust for pension and OPEB benefits | | |
| Beginning of year | <u>1,257,093</u> | <u>1,223,297</u> |
| End of year | <u>\$ 926,594</u> | <u>\$ 1,257,093</u> |

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements

Metropolitan Water Reclamation District of Greater Chicago

1. Summary of Significant Accounting Policies

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

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

The government-wide financial statements include the Statements of Net 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 major governmental funds. The emphasis of the governmental fund financial statements is on major funds, with each major fund displayed as a separate column. The governmental fund financial statements include a budgetary statement for the General Corporate Fund.

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

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008, are as follows (in thousands of dollars):

| | <u>Total General Corporate Fund</u> | <u>Reclass- ification</u> | <u>Corporate Division</u> | <u>Corporate Working Cash Division</u> | <u>Reserve Claim Division</u> |
|---|---|-------------------------------|-------------------------------|--|---------------------------------------|
| Assets | | | | | |
| Cash | \$ 1,510 | \$ - | \$ 853 | \$ 555 | \$ 102 |
| Certificates of deposit | 142,674 | - | 102,050 | 19,501 | 21,123 |
| Investments | 67,574 | - | 28,644 | 64 | 38,866 |
| Receivables: | | | | | |
| Property taxes receivable | 272,835 | - | 264,949 | 117 | 7,769 |
| Allowance for uncollectible taxes | (35,122) | - | (34,062) | (117) | (943) |
| Taxes receivable, net | 237,713 | - | 230,887 | - | 6,826 |
| User charges | 1,242 | - | 1,242 | - | - |
| Miscellaneous | 741 | - | 741 | - | - |
| Due from Capital Improvements Bond Fund | 453 | - | 453 | - | - |
| Due from Construction Fund | 124 | - | 124 | - | - |
| Due from Stormwater Management Fund | 105 | - | 105 | - | - |
| Due from Corporate Fund | - | - | (252,000) | 252,000 | - |
| Inventories | 38,067 | - | 38,067 | - | - |
| Restricted cash | 1,878 | - | 1,878 | - | - |
| Total assets | <u>\$ 492,081</u> | <u>\$ -</u> | <u>\$ 153,044</u> | <u>\$ 272,120</u> | <u>\$ 66,917</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Deferred tax revenue | \$ 216,839 | \$ - | \$ 210,610 | \$ - | \$ 6,229 |
| Other deferred revenue | 2,115 | - | 2,115 | - | - |
| Accounts payable and other liabilities | 43,410 | - | 42,374 | - | 1,036 |
| Due to other funds | 300 | - | 300 | - | - |
| Total liabilities | <u>262,664</u> | <u>-</u> | <u>255,399</u> | <u>-</u> | <u>7,265</u> |
| Fund balances-reserved: | | | | | |
| Working cash | 272,120 | - | - | 272,120 | - |
| Fund balances-unreserved: | | | | | |
| Designated for payment of future claims (note 13) | - | (59,652) | - | - | 59,652 |
| Undesignated | (42,703) | 59,652 | (102,355) | - | - |
| Total fund balances | <u>229,417</u> | <u>-</u> | <u>(102,355)</u> | <u>272,120</u> | <u>59,652</u> |
| Total liabilities and fund balances | <u>\$ 492,081</u> | <u>\$ -</u> | <u>\$ 153,044</u> | <u>\$ 272,120</u> | <u>\$ 66,917</u> |

Metropolitan Water Reclamation District of Greater Chicago

The revenues, expenditures, and changes in fund balances of the General Corporate Fund, detailed as to the Corporate, Working Cash, and Reserve Claim account divisions for the year ended December 31, 2008, are as follows (in thousands of dollars):

| | Total General Corporate Fund | Corporate Division | Corporate Working Cash Division | Reserve Claim Division |
|--|---|-------------------------------|--|---------------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 234,857 | \$ 228,477 | \$ (30) | \$ 6,410 |
| Personal property replacement tax | 34,862 | 25,988 | 4,255 | 4,619 |
| Total tax revenue | 269,719 | 254,465 | 4,225 | 11,029 |
| Interest on investments | 6,493 | 4,353 | 53 | 2,087 |
| Land sales | 6 | 6 | - | - |
| Tax increment financing distributions | 797 | 797 | - | - |
| Claims and damage settlements | 606 | - | - | 606 |
| Miscellaneous | 5,170 | 5,159 | - | 11 |
| User charges | 49,139 | 49,139 | - | - |
| Land rentals | 9,572 | 9,572 | - | - |
| Fees, forfeits and penalties | 3,884 | 3,884 | - | - |
| Federal grants | 761 | 761 | - | - |
| Total revenues | 346,147 | 328,136 | 4,278 | 13,733 |
| Operations: | | | | |
| Board of Commissioners | 3,721 | 3,721 | - | - |
| General Administration | 17,958 | 17,958 | - | - |
| Research and Development | 27,146 | 27,146 | - | - |
| Purchasing | 5,341 | 5,341 | - | - |
| Personnel | 61,385 | 61,385 | - | - |
| Information Technology | 19,328 | 19,328 | - | - |
| Law | 7,211 | 7,211 | - | - |
| Finance | 3,205 | 3,205 | - | - |
| Engineering | 6,703 | 6,703 | - | - |
| Maintenance and Operations | 194,916 | 194,916 | - | - |
| Claims and judgments | 7,626 | - | - | 7,626 |
| Total expenditures | 354,540 | 346,914 | - | 7,626 |
| Revenues over (under) expenditures | (8,393) | (18,778) | 4,278 | 6,107 |
| Other financing sources (uses): | | | | |
| Transfer from the Debt Service Fund | 3,300 | 3,300 | - | - |
| Net Change in Fund Balance | (5,093) | (15,478) | 4,278 | 6,107 |
| Fund balance at the beginning of year | 234,510 | (86,877) | 267,842 | 53,545 |
| Fund balance at the end of year | \$ 229,417 | \$ (102,355) | \$ 272,120 | \$ 59,652 |

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008, are as follows (in thousands of dollars):

| | Total Construction Fund | Construction Division | Construction Working Cash Division |
|--|--|----------------------------------|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash | \$ 1,331 | \$ 113 | \$ 1,218 |
| Certificates of deposit | 23,476 | 7,009 | 16,467 |
| Investments | 24,445 | 15,125 | 9,320 |
| Receivables: | | | |
| Interfund receivable - Corporate Fund | 302 | 302 | - |
| Total assets | <u>\$ 49,554</u> | <u>\$ 22,549</u> | <u>\$ 27,005</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Deferred tax revenue | \$ (10) | \$ (10) | \$ - |
| Accounts payable and other liabilities | 2,855 | 2,855 | - |
| Due to Corporate Fund | 126 | 126 | - |
| Total liabilities | <u>2,971</u> | <u>2,971</u> | <u>-</u> |
| Fund balances-reserved: | | | |
| Working cash | 27,005 | - | 27,005 |
| Fund balances-unreserved: | | | |
| Undesignated | 19,578 | 19,578 | - |
| Total fund balances | <u>46,583</u> | <u>19,578</u> | <u>27,005</u> |
| Total liabilities and fund balances | <u>\$ 49,554</u> | <u>\$ 22,549</u> | <u>\$ 27,005</u> |

Metropolitan Water Reclamation District of Greater Chicago

The revenues, expenditures, and changes in fund balances of the Construction Fund, detailed as to the Construction and Working Cash account divisions for the year ended December 31, 2008, are as follows (in thousands of dollars):

| | Total Construction Fund | Construction Division | Construction Working Cash Division |
|---------------------------------------|--|----------------------------------|---|
| Revenues: | | | |
| Property taxes | \$ 4,682 | \$ 4,682 | \$ - |
| Personal property replacement tax | 1,000 | 1,000 | - |
| Total tax revenue | <u>5,682</u> | <u>5,682</u> | - |
| Interest on investments | 1,592 | 900 | 692 |
| Miscellaneous | 8 | 8 | - |
| User charge | 300 | 300 | - |
| Fees, forfeits and penalties | 473 | 473 | - |
| Total revenues | <u>8,055</u> | <u>7,363</u> | <u>692</u> |
| Construction Costs: | | | |
| Personal services | 8,446 | 8,446 | - |
| Contractual services | 391 | 391 | - |
| Materials and supplies | 116 | 116 | - |
| Machinery and equipment | 340 | 340 | - |
| Capital projects | 2,681 | 2,681 | - |
| Total expenditures | <u>11,974</u> | <u>11,974</u> | <u>-</u> |
| Revenues over (under) expenditures | (3,919) | (4,611) | 692 |
| Net change in fund balance | (3,919) | (4,611) | 692 |
| Fund balance at the beginning of year | 50,502 | 24,189 | 26,313 |
| Fund balance at the end of year | <u>\$ 46,583</u> | <u>\$ 19,578</u> | <u>\$ 27,005</u> |

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.

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008, are as follows (in thousands of dollars):

| | Total Stormwater Management Fund | Stormwater Management Division | Stormwater Working Cash Division |
|--|---|---|---|
| Assets | | | |
| Cash | \$ 854 | \$ 251 | \$ 603 |
| Certificates of deposit | 24,176 | 12,686 | 11,490 |
| Investments | 21,852 | 10,443 | 11,409 |
| Receivables: | | | |
| Property taxes receivable | 15,767 | 15,767 | - |
| Allowance for uncollectible taxes | <u>(1,088)</u> | <u>(1,088)</u> | <u>-</u> |
| Taxes receivable, net | <u>14,679</u> | <u>14,679</u> | <u>-</u> |
| Total assets | <u>\$ 61,561</u> | <u>\$ 38,059</u> | <u>\$ 23,502</u> |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Deferred tax revenue | \$ 13,510 | \$ 13,510 | \$ - |
| Accounts payable and other liabilities | 1,470 | 1,470 | - |
| Due to Corporate Fund | 105 | 105 | - |
| Due to Stormwater Management Fund | <u>-</u> | <u>14,400</u> | <u>(14,400)</u> |
| Total liabilities | <u>15,085</u> | <u>29,485</u> | <u>(14,400)</u> |
| Fund balances-reserved: | | | |
| Working cash | 37,902 | - | 37,902 |
| Fund balances-unreserved: | | | |
| Undesignated | <u>8,574</u> | <u>8,574</u> | <u>-</u> |
| Total fund balances | <u>46,476</u> | <u>8,574</u> | <u>37,902</u> |
| Total liabilities and fund balances | <u>\$ 61,561</u> | <u>\$ 38,059</u> | <u>\$ 23,502</u> |

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, 2008, are as follows (in thousands of dollars):

| | Total Stormwater Management Fund | Stormwater Management Division | Stormwater Working Cash Division |
|---------------------------------------|---|---|---|
| Revenues: | | | |
| Property taxes | \$ 5,048 | \$ 5,048 | \$ - |
| Personal property replacement tax | 1,972 | - | 1,972 |
| Total tax revenue | 7,020 | 5,048 | 1,972 |
| Interest on investments | 1,558 | 903 | 655 |
| Miscellaneous | 6 | 6 | - |
| Federal grants | 135 | 135 | - |
| Total revenues | <u>8,719</u> | <u>6,092</u> | <u>2,627</u> |
| Construction Costs: | | | |
| Personal services | 9,898 | 9,898 | - |
| Contractual services | 2,516 | 2,516 | - |
| Materials and supplies | 56 | 56 | - |
| Machinery and equipment | 384 | 384 | - |
| Capital projects | 942 | 942 | - |
| Total expenditures | <u>13,796</u> | <u>13,796</u> | <u>-</u> |
| Revenues over (under) expenditures | <u>(5,077)</u> | <u>(7,704)</u> | <u>2,627</u> |
| Net change in fund balance | (5,077) | (7,704) | 2,627 |
| Fund balance at the beginning of year | 51,553 | 16,278 | 35,275 |
| Fund balance at end of year | <u>\$ 46,476</u> | <u>\$ 8,574</u> | <u>\$ 37,902</u> |

In addition, the District reports the following fiduciary funds:

Pension Trust Fund

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

OPEB Trust Fund

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

Notes to the Basic Financial Statements

Year ended December 31, 2008

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 Executive Director, become his recommendations for presentation to the Committee on Budget and Employment;
- (2) The Committee on Budget and Employment comprises all nine Commissioners and holds hearings with the Executive Director and with the Department Heads. These hearings are open to the public. After these budgetary reviews, the Committee on Budget and Employment submits its Tentative Budget to the Board of Commissioners;
- (3) The Tentative Budget is put on public display for ten to twenty days. A public hearing is held during the ten to twenty day time frame where citizen groups, including civic groups, labor, and the press, are invited to critique the tentative budget;
- (4) Shortly after the public hearings, the Board of Commissioners adopts the budget for the coming year;

- (5) Then, after a minimum five-day waiting period following budget adoption, and at a Regular Board Meeting, the Commissioners consider and approve any budget amendments. The Adopted Budget, along with any approved amendments, is the final budget document. This process must be completed prior to December 31 preceding the year to which the budget applies;
 - (6) The budget implementation phase, performed by the Executive Director and Department Heads, begins January 1;
 - (7) The legal level of control for the District's appropriations (the level at which the Board of Commissioners must approve any transfers of appropriated amounts) is on a line item (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 Executive Director is authorized to transfer appropriations between line items within an object class of expenditure within a department. After March 1, transfers of appropriations between objects of expenditures or between departments can be made with the approval of the Board of Commissioners;
 - (9) Budgets are adopted on a basis not consistent with generally accepted accounting principles. In the General Corporate Fund budget, revenues are recognized on a cash basis except for property and personal property replacement taxes, which are recognized based on working cash borrowing plus an estimate of collections of property and property replacement taxes over and above the working cash borrowing. Expenditures are recognized on a GAAP basis except for inventory expenditures, which are accounted for on the purchase method for budgetary purposes and on the consumption method for GAAP financial reporting purposes. Transfers out to other funds are budgeted as expenditures, while transfers in are considered other financing sources. The Capital Improvements Bond Fund is budgeted on an "obligation" basis of accounting, which records total expenditures and grant revenues in the period in which contracts or grants are awarded. Appropriations lapse at year-end for the General Corporate, Retirement, Construction, Stormwater Management, and Debt Service Funds. Appropriations for the Capital Improvements Bond Fund lapse at the end of the year to the extent of the unencumbered balances. Encumbered balances are not reported as reservations of fund balances, as the amounts are re-appropriated in the following year;
 - (10) All governmental funds have legally adopted budgets.
- e. **Deposits with escrow agent** (if any) represent cash with the escrow agent for the subsequent payment of interest on debt.
 - f. **Certificates of deposit** are stated at cost plus accrued interest.
 - g. **Investments** of the Governmental Funds are stated at fair value plus accrued interest. The investment with the State Treasurer's Illinois Funds is at fair value, which is the same value as the pool shares. The Illinois Funds 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.)

Notes to the Basic Financial Statements

Year ended December 31, 2008

- i. **Restricted assets** represent cash and investments set aside pursuant to real estate escrow and intergovernmental agreements.
- j. **Interfund transactions** represent governmental fund transactions for: a) loans between funds reported as due to /due from other funds; b) reimbursements between funds reported in the fund financials as expenditures in the reimbursing fund and a corresponding reduction in expenditures in the reimbursed fund; and c) transfers between funds. All interfund transactions are eliminated in the government-wide financial statements. See note 12 for further disclosure of interfund transactions.
- k. **Capital assets** including land (and land improvements), buildings, equipment, 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 and 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 WRPs at Kirie, Central (Stickney), Hanover, North Side, Egan, Calumet, Lemont, and the 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. Subsequent condition assessments were performed in 2008 on Central (Stickney), Waterways, and Kirie in 2008. 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, 2008, are liabilities for compensated absences of \$1,243,000, due within one year, and \$29,208,000, 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 a method that approximates the effective interest method, in the government-wide financial statements. In addition, the refunding transaction cost, representing the excess of the amount required to refund debt over the book value of the old debt, is reported with bonds payable and amortized over the shorter of the life of the old debt or new debt in the government-wide financial statements.

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

- n. Fund Balances 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 \$598,609,000 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, it is generally the District's practice 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 70 ILCS 2305/7.1, 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.

Notes to the Basic Financial Statements

Year ended December 31, 2008

- p. **Comparative data and reclassifications** – The basic financial statements present comparative data for the prior year to provide an understanding of the changes in financial position and results of operations. Certain reclassifications have been made to the prior period financial statements in order to conform to the current period presentation.
- 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** - Issued in 2008, 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.

Issued in 2008, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The District is required to implement this Statement for the year ending December 31, 2010.

Issued in 2009, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The District is required to implement this Statement for the year ending December 31, 2011.

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, 2008 (in thousands of dollars):

| | |
|--|---------------------|
| Total fund balances of governmental funds | \$ 694,050 |
| <i>Amounts reported for governmental activities in the Statements of Net Assets are different because:</i> | |
| Capital assets are not current financial resources and therefore are not reported as assets in governmental funds. However, capital assets are reported in the Statements of Net Assets. The cost of capital assets and accumulated depreciation is as follows: | |
| Capital assets | 5,944,659 |
| Accumulated depreciation | (168,631) |
| Capital assets, net | <u>5,776,028</u> |
| Long-term liabilities are not due and payable in the current period and accordingly are not reported as liabilities in governmental funds. However, long-term liabilities are reported in the Statements of Net Assets. The long-term liabilities consist of : | |
| Compensated absences | (30,451) |
| Claims and judgments | (30,813) |
| Bond anticipation notes | (64,894) |
| General obligation debt | (1,392,699) |
| Total long-term liabilities | <u>(1,518,857)</u> |
| Bond issuance costs are recorded as expenditures in governmental funds while bond premiums and discounts are recorded as other financing sources and uses, respectively. These items are deferred and amortized over the life of the bonds for the Statements of Net Assets. They consist of: | |
| Deferral of bond premium | (69,286) |
| Deferral of bond issuance costs and refunding transactions | 32,712 |
| Total deferrals | <u>(36,574)</u> |
| Interest on debt is not accrued in governmental funds, but rather is recognized as a liability and an expenditure when due. Interest is recorded as a liability as it is incurred in the Statements of Net Assets. The 2008 amount is: | |
| Accrued interest | <u>(10,392)</u> |
| Some assets reported in governmental funds do not increase fund balance because the assets are not "available" to pay for current-period expenditures. These assets are offset by deferred revenues (liabilities) in the governmental funds. However, these assets increase net assets in the Statements of Net Assets. They consist of: | |
| Property taxes and personal property replacement tax deferrals | 375,389 |
| Adjustment for pension trust fund | (22,608) |
| Installment sale | 17 |
| Adjustment to deferred revenues | <u>352,798</u> |
| 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 | (18,829) |
| Net OPEB obligation | (16,325) |
| Adjustment to liabilities | <u>(35,154)</u> |
| Interfund transactions are eliminated for Government-wide reporting. These transactions consist of: | |
| Due from other funds | 984 |
| Due to other funds | (984) |
| Total interfund | <u>-</u> |
| Total net assets of governmental activities | <u>\$ 5,221,899</u> |

Notes to the Basic Financial Statements

Year ended December 31, 2008

- 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, 2008 (in thousands of dollars):

| | |
|---|---------------------|
| Net change in fund balances of governmental funds | <u>\$ (172,196)</u> |
|---|---------------------|

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

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

| | |
|---|----------------|
| Construction costs and other capital outlays | 97,994 |
| Depreciation expense-allocated to various departments | (3,882) |
| Depreciation expense-unallocated | <u>(9,224)</u> |
| Excess of construction and capital outlay costs over depreciation expense | <u>84,888</u> |

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

| | |
|--------------------------------|-----------------|
| Bond anticipation notes issued | <u>(41,185)</u> |
| Debt proceeds total | <u>(41,185)</u> |

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

| | |
|---------------------------------|----------------|
| Bond principal retirement | <u>112,577</u> |
| Bond principal retirement total | <u>112,577</u> |

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

| | |
|---|-----------------|
| Change in compensated absences-allocated to various departments | (1,900) |
| Change in claims and judgments | (1,548) |
| Change in bond interest | 226 |
| Bond anticipation notes accrued interest | (497) |
| Change in net pension asset/obligation | (16,406) |
| Amortization of bond issuance/refunding costs | (3,209) |
| Amortization of bond premium | 4,252 |
| Change in OPEB costs | <u>(8,920)</u> |
| Total additional expenses | <u>(28,002)</u> |

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

| | |
|--------------------------------|--------------|
| Total land and equipment sales | <u>(756)</u> |
|--------------------------------|--------------|

Deferred tax revenues and certain other revenues that are earned but "unavailable" for the current period are not recognized in governmental funds. These revenues consist of:

| | |
|--------------------|---------------|
| Property tax - net | <u>32,495</u> |
| Total adjustments | <u>32,495</u> |

| | |
|---|--------------------|
| Change in net assets of governmental activities | <u>\$ (12,179)</u> |
|---|--------------------|

3. Reconciliation of Budgetary Basis Accounting to GAAP Basis Accounting

In reporting to the public, the District prepares its budget in conformity with practices prescribed or permitted by the applicable statutes of the State of Illinois, which differ from GAAP. In order to reconcile the budgetary 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 | \$ (10,694) |
| Adjustment from Budget to GAAP for: | |
| Tax revenues | 1,193 |
| Transfers (to) from other funds | |
| Transfer from Capital Improvement Bond Fund to Corporate Fund | 7,000 |
| Transfer from Corporate Fund to Debt Service Fund | (3,700) |
| Cash basis other revenues | (4,742) |
| GAAP versus budgetary expenditure differences | 5,850 |
| Revenues and other sources (uses) over (under) expenditures on GAAP Basis | \$ (5,093) |

4. Deposits and Investments

Deposits

As of December 31, 2008, 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, 2008 (in thousands of dollars):

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | |
|--|-----------------------|---|-------------------|
| | | <u>Less Than 1 Year</u> | <u>1- 3 Years</u> |
| U.S. Agencies | \$ 228,230 | \$ 163,290 | \$ 64,940 |
| Commercial Paper | 25,235 | 25,235 | - |
| State Treasurer’s Illinois Funds and Prime Funds | 49,211 | 49,211 | - |
| Treasury Bills | 1,860 | 1,860 | - |
| Total Investments | \$ 304,536 | \$ 239,596 | \$ 64,940 |

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.

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008 (excluding investments in U.S. Treasuries, if any, which are not considered to have credit risk), are as follows:

| <u>Investment Type</u> | <u>Credit Ratings</u> | <u>% of Investment Type</u> | <u>% of Total Investments</u> |
|--|-----------------------|-----------------------------|-------------------------------|
| U.S. Agencies | AAA/Aaa | 100.0% | 75% |
| Commercial Paper | A-1/P-1 | 91.5% | 8% |
| Commercial Paper | A-3/P-2 | 8.5% | 1% |
| State Treasurer's Illinois Funds and Prime Funds | AAAm | 100.0% | 16% |

Concentration of Credit Risk

The District goal is to limit the amount that can be invested in commercial paper to one-third of the District's total investments, and no more than 20% of the amount invested in commercial paper can be invested in any one entity. In 2008 the market value of commercial paper represented 9% of the District's total investments. With the collapse of the commercial paper market, the District made the decision to liquidate the majority of its holdings as they matured. The commercial papers of three entities were held at year end; one entity representing two thirds of the total par value. All three investments matured at par value in January 2009. As of December 31, 2008, the following investments were greater than 5% of total investments:

| <u>Investment</u> | <u>Market Value</u> |
|--|-----------------------|
| Federal National Mortgage Association | \$ 67,344,405 |
| Federal Home Loan Banks | 64,612,152 |
| Federal Home Loan Mortgage Corporation | 94,501,667 |
| | <u>\$ 226,458,224</u> |

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 weighted average maturity method) for the Pension Trust Fund's investments at December 31, 2008, (in thousands of dollars):

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Average Maturities (years)</u> |
|---------------------------------------|-------------------|-----------------------------------|
| Fixed Income: | | |
| U.S. Treasuries | \$ 11,212 | 6.9 |
| U.S. Agencies | 4,036 | 3.0 |
| Corporate Bonds and Notes | 6,557 | 12.6 |
| Mortgage-Backed Securities | 14,787 | 1.6 |
| Asset-Backed Securities | 1,794 | 0.8 |
| Pooled Funds - Long Term investments | 354,790 | 5.4 |
| Pooled Funds - Short Term investments | 14,487 | 0.1 |
| Total Fixed Income | 407,663 | |
| Equities: | | |
| Common and Preferred Stock | 392,504 | |
| Pooled Funds and Mutual Funds | 50,274 | |
| Securities lending collateral | 20,173 | |
| Total Equities | 462,951 | |
| Total Investments | \$ 870,614 | |

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, the price for which 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, 2008, (in thousands of dollars):

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | |
|-----------------------------|-------------------|---|---------------------|------------------------------|
| | | <u>0 - 5 Years</u> | <u>6 - 10 Years</u> | <u>Greater than 10 Years</u> |
| Fixed Income: | | | | |
| Pooled Funds & Mutual Funds | \$ 47,808 | \$ 47,808 | \$ - | \$ - |
| Total Investments | \$ 47,808 | \$ 47,808 | \$ - | \$ - |

Notes to the Basic Financial Statements

Year ended December 31, 2008

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 Barclay Capital U.S. 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 30 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, 2008, (in thousands of dollars); excluded are U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government which are classified under the headings U.S. Treasuries which are not considered to have credit risk:

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

| <u>Credit Rating</u> | <u>Investment Type</u> | <u>Fair Value</u> | <u>%</u> |
|----------------------|---------------------------------------|-------------------|----------|
| AAA | U.S. Agencies | \$ 4,036 | 1.0 |
| AAA | Mortgage-Backed Securities | 14,787 | 3.7 |
| AAA | Asset-Backed Securities | 1,794 | 0.4 |
| AAA/Aaa | Pooled Funds - Long Term investments | 282,298 | 71.2 |
| AA/Aa-/Aa | Pooled Funds - Long Term investments | 15,773 | 4.0 |
| A | Pooled Funds - Long Term investments | 33,857 | 8.5 |
| BAA/Baa | Pooled Funds - Long Term investments | 22,827 | 5.8 |
| below Baa/NR | Pooled Funds - Long Term investments | 35 | 0.0 |
| AAA | Pooled Funds - Short Term investments | 14,487 | 3.7 |
| BBB+ | Corporate bonds and notes | 6,557 | 1.7 |
| | | \$ 396,451 | 100.0% |

The OPEB Trust Fund does not have a written investment policy. As of December 31, 2008, 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)

| | |
|-------------------------------|----------------|
| Pooled Funds and Mutual Funds | AAA 100.00% |
|-------------------------------|----------------|

Foreign Currency Risk

The Pension Trust Fund recognizes foreign currency risk as the risk of loss arising from changes in currency exchange rates. All foreign currency-denominated investments are in equities and cash. The Plan does not maintain an investment policy relative to foreign currency risk. The Plan's exposure to foreign currency risk at December 31, 2008, was as follows:

| <u>Currency</u> | <u>Fair Value</u> | <u>%</u> |
|------------------------|----------------------|----------|
| Australian Dollar | 1,627,307 | 4.6% |
| Belgium Euro | 147,048 | 0.4% |
| Danish Krone | 363,374 | 1.0% |
| Euro | 12,513,663 | 35.6% |
| Hong Kong Dollar | 1,424,516 | 4.1% |
| Japanese Yen | 8,411,289 | 23.9% |
| Norwegian Krone | 279,147 | 0.8% |
| Swedish Krona | 521,139 | 1.5% |
| Swiss Franc | 3,662,535 | 10.4% |
| British Pound Sterling | <u>6,217,960</u> | 17.7% |
| Total | <u>\$ 35,167,978</u> | |

The OPEB does not hold any foreign currency and therefore does not have any foreign currency risk.

Securities Lending

The Pension Trust Fund (Fund) lends its equity securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank of New York Mellon, the Fund's master custodian, lends for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities' market value, and international securities for collateral worth at least 105%. Securities lent at year end (totaling \$19,988,574 at fair value) were all collateralized with cash collateral. At year-end, the Fund has no credit risk exposure to borrowers because the exact amount the Fund owes to the borrowers exceeds the amounts the borrowers owe to the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted average maturity of 2 days. The lending agent's short-term investment pool is not rated.

The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine.

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008 in the District's governmental funds and government-wide financial statements, net of uncollectible accounts, are detailed as follows (in thousands of dollars):

| | <u>General Corporate</u> | <u>Debt Service</u> | <u>Capital Improve- ments Bond</u> | <u>Construc- tion</u> | <u>Other Govern- mental /</u> | <u>Total Govern- mental /</u> | <u>Statement of Net Assets</u> |
|--|------------------------------|-------------------------|--|---------------------------|---------------------------------------|---------------------------------------|--|
| Receivables at December 31, 2008: | | | | | | | |
| Property taxes: | \$ 272,835 | \$ 156,612 | \$ - | \$ 2,189 | \$ 44,524 | \$ 476,160 | \$ 476,160 |
| Allowance for uncollectible taxes | (35,122) | (22,515) | - | (2,189) | (5,079) | (64,905) | (64,905) |
| Net property taxes | 237,713 | 134,097 | - | - | 39,445 | 411,255 | 411,255 |
| Personal property replacement tax | - | - | - | - | 4,448 | 4,448 | 4,448 |
| Total taxes receivable, net | 237,713 | 134,097 | - | - | 43,893 | 415,703 | 415,703 |
| Other receivables: | | | | | | | |
| User charges | 1,242 | - | - | - | - | 1,242 | 1,242 |
| State revolving fund loans | - | - | 9,685 | - | - | 9,685 | 9,685 |
| Miscellaneous | 741 | - | - | - | - | 741 | 741 |
| Total other receivables, net | 1,983 | - | 9,685 | - | - | 11,668 | 11,668 |
| Total net receivables, December 31, 2008 | <u>\$ 239,696</u> | <u>\$ 134,097</u> | <u>\$ 9,685</u> | <u>\$ -</u> | <u>\$ 43,893</u> | <u>\$ 427,371</u> | <u>\$ 427,371</u> |

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, 2008 is as follows (in thousands of dollars).

| | <u>General Corporate</u> | <u>Debt Service</u> | <u>Construction</u> | <u>Other Govern- mental /</u> | <u>Total Govern- mental /</u> | <u>Adjust- ments</u> | <u>Statement of Net Assets</u> |
|--|------------------------------|-------------------------|---------------------|---------------------------------------|---------------------------------------|--------------------------|--|
| Deferred revenue at December 31, 2008: | | | | | | | |
| Deferred tax revenue | \$ 216,839 | \$ 122,441 | \$ (10) | \$ 36,119 | \$ 375,389 | \$(375,389) | \$ - |
| Other deferred revenue: | | | | | | | |
| Rental income | 2,115 | - | - | - | 2,115 | 6 | 2,121 |
| Grant revenue | - | - | - | - | - | (23) | (23) |
| Total other deferred revenue | 2,115 | - | - | - | 2,115 | (17) | 2,098 |
| Total deferred revenue at December 31, 2008 | <u>\$ 218,954</u> | <u>\$ 122,441</u> | <u>\$ (10)</u> | <u>\$ 36,119</u> | <u>\$ 377,504</u> | <u>\$(375,406)</u> | <u>\$ 2,098</u> |

Payables

Payables reported as “Accounts payable and other liabilities” as of December 31, 2008 in the District’s governmental funds and government-wide financial statements are detailed as follows (in thousands of dollars):

| | General Corporate | Capital Improve- ments Bond | Construc- tion | Other Govern- mental / | Total Govern- mental / | Statement of Net Assets |
|---|------------------------------|--|---------------------------|---------------------------------------|---------------------------------------|--|
| Accounts payable and other liabilities at December 31, 2008: | | | | | | |
| Vouchers payable and other liabilities | \$ 34,439 | \$ 32,824 | \$ 2,855 | \$ 1,470 | \$ 71,588 | \$ 71,588 |
| Accrued payroll and withholdings | 5,936 | - | - | - | 5,936 | 5,936 |
| Bid deposits | 3,035 | - | - | - | 3,035 | 3,035 |
| Total accounts payable and other liabilities as of December 31, 2008 | <u>\$ 43,410</u> | <u>\$ 32,824</u> | <u>\$ 2,855</u> | <u>\$ 1,470</u> | <u>\$ 80,559</u> | <u>\$ 80,559</u> |

6. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2008, are as follows (in thousands of dollars):

| | Balances January 1, 2008 | Additions | Retirements | Balances December 31, 2008 |
|---|-------------------------------------|-------------------|--------------------|---------------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 127,043 | \$ - | \$ - | \$ 127,043 |
| Construction in progress | 479,569 | 96,011 | 65,494 | 510,086 |
| Infrastructure under modified approach | 3,354,350 | 44,470 | 844 | 3,397,976 |
| Total capital assets not being depreciated | <u>3,960,962</u> | <u>140,481</u> | <u>66,338</u> | <u>4,035,105</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 13,226 | - | - | 13,226 |
| Equipment | 31,614 | 21,811 | 2,371 | 51,054 |
| Infrastructure | 1,843,234 | 2,040 | - | 1,845,274 |
| Total capital assets being depreciated | <u>1,888,074</u> | <u>23,851</u> | <u>2,371</u> | <u>1,909,554</u> |
| Less accumulated depreciation: | | | | |
| Buildings | 4,391 | 185 | - | 4,576 |
| Equipment | 14,693 | 3,697 | 1,621 | 16,769 |
| Infrastructure | 138,062 | 9,224 | - | 147,286 |
| Total accumulated depreciation | <u>157,146</u> | <u>13,106</u> | <u>1,621</u> | <u>168,631</u> |
| Total capital assets being depreciated, net | <u>1,730,928</u> | <u>10,745</u> | <u>750</u> | <u>1,740,923</u> |
| Governmental activities capital assets, net | <u>\$ 5,691,890</u> | <u>\$ 151,226</u> | <u>\$ 67,088</u> | <u>\$ 5,776,028</u> |

Notes to the Basic Financial Statements

Year ended December 31, 2008

Depreciation expense in the government-wide Statements of Activities, for the year ended December 31, 2008, was charged to the District's governmental functions as follows (in thousands of dollars):

| <u>Department</u> | <u>Amount</u> |
|---|------------------|
| Board of Commissioners | \$ 10 |
| General Administration | 361 |
| Monitoring and Research | 211 |
| Procurement and Materials Management | 7 |
| Human Resources | 16 |
| Information Technology | 1,354 |
| Law | 10 |
| Finance | 9 |
| Engineering | 1,151 |
| Maintenance and Operations | 753 |
| Total allocated depreciation | 3,882 |
| Unallocated infrastructure depreciation | 9,224 |
| Total depreciation | <u>\$ 13,106</u> |

7. Pension Plan

Plan Description

The Metropolitan Water Reclamation District Retirement Fund (Pension Trust Fund) is the administrator of a single employer defined benefit pension plan (Plan) established by the State of Illinois. The defined benefits of the Plan, as well as the employer and employee contribution levels of the Plan, are mandated by Illinois State Statutes and may be amended only by the Illinois Legislature. The Pension Trust Fund provides retirement benefits, as well as death and disability benefits, to qualifying employees. Covered employees are required to contribute 9% of their salary to the Plan. The District is required to contribute the remaining amounts necessary to finance the requirements of the Plan on an actuarially funded basis. The District is required to levy a tax at a rate not more than an amount equal to the employee plan contributions made in the calendar year two years prior to that for which the annual applicable tax is levied, multiplied by 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 contributions are recognized as additions in the period in which employee services are performed. Employer contributions 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. 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, 2008, were as follows:

| | |
|--|----------------------|
| Annual required contribution | \$ 49,758,238 |
| Interest on net pension obligation | 187,783 |
| Adjustment to annual required contribution | <u>(133,301)</u> |
| Annual pension cost | 49,812,720 |
| Contributions made | <u>33,406,819</u> |
| Increase in net pension obligation | 16,405,901 |
| Net pension obligation beginning of year | <u>2,423,005</u> |
| Net pension obligation end of year | <u>\$ 18,828,906</u> |

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

Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the December 31, 2008, 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, 2008, 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, 2008, are presented below:

| <u>Fiscal Year Ending</u> | <u>Employer Contributions</u> | | <u>Net Pension Asset (Obligation)</u> |
|-------------------------------|--------------------------------------|--|---|
| | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | |
| 12/31/2008 | \$ 49,812,720 | 67.06% | \$ (18,828,906) |
| 12/31/2007 | 46,722,753 | 59.81% | (2,423,005) |
| 12/31/2006 | 46,725,756 | 73.78% | 16,352,652 |

Funding Status of Plan

The funding status of the plan as of December 31, 2008, is presented below (in thousands of dollars):

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll (b-a/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/2008 | \$ 1,211,838 | \$ 1,852,280 | \$ 640,442 | 65.40% | \$ 167,865 | 381.52% |

Notes to the Basic Financial Statements

Year ended December 31, 2008

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2008, there are 1,964 active employees and 1,873 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 2008 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. In 2008, \$22,000,000 was contributed to the Trust.

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 2008 by the District was \$35,819,281, which includes \$22,000,000 for the funding of the Trust and \$13,819,281 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, 2008.

| | |
|---------------------------------|----------------------|
| Annual OPEB cost | \$ 44,739,006 |
| Contributions made | <u>35,819,281</u> |
| Increase in net OPEB obligation | 8,919,725 |
| Net OPEB obligation at 12/31/07 | <u>7,405,141</u> |
| Net OPEB obligation at 12/31/08 | <u>\$ 16,324,866</u> |

(*) The trust was established in 2007. The actuarial valuation performed on January 1, 2007, was the first valuation performed. As such, there is no interest on the NPO and there is no actuarial adjustment to the ARC.

Funding Status and Progress

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

| Actuarial Valuation Date | Actuarial 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%) |

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The 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 information included in this report is based on the actuarial valuation performed January 1, 2007. An actuarial valuation is required to be performed biennially for the Trust. The next valuation date is January 1, 2009. As such, all actuarial valuation information presented in this report is the same as that which was presented in the Comprehensive Annual Financial Report (CAFR) for the period ended December 31, 2007.

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.

Notes to the Basic Financial Statements

Year ended December 31, 2008

The annual required contribution for the current year was determined as part of the January 1, 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 | January 1, 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, 2008 and 2007, are presented below:

| Period Ended | <u>Schedule of Employer Contributions</u> | | | Net OPEB Obligation |
|--------------|---|---------------------------|----|------------------------|
| | OPEB Cost | Percentage Contributed | | |
| 12/31/2008 | \$ 44,739,006 | 80.1% | \$ | 16,324,866 |
| 12/31/2007 | 44,739,006 | 83.4% | | 7,405,141 |

* The OPEB Trust was first established in 2007.

9. Commitments and Rebatable Arbitrage Earnings

The General Corporate Fund has existing purchase order encumbrances of \$10,745,900 at December 31, 2008. Construction, Stormwater Management, and Capital Improvements Bond Funds' contract commitments (encumbrances) were \$688,932,400 at December 31, 2008. State Revolving Fund Loan commitments of \$69,928,600 at December 31, 2008, 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. Acceptance testing of the process is anticipated to begin in May 2009. 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 first payment is a facility fee estimated at \$4.7 million annually for the first 19 years of operation. 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 \$7.1 million (based on 54,600 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 are estimated at \$258,866,476 for the full term of the contract. 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, 2008, the District owes an arbitrage rebate of \$748,512. 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, 2008, is between \$14.5 million and \$46.0 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 \$30,250,000 with an estimated cost recoverable of \$21,650,000 resulting in \$11,600,000 being recognized at December 31, 2008, 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. 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 \$3,041,000 in the government-wide financial statement at December 31, 2008, for its self-insured plans. This amount is based on claims incurred in prior periods. There was a \$18,000 decrease in the estimate from 2007.

Notes to the Basic Financial Statements

Year ended December 31, 2008

Additional insurance policies in effect at December 31, 2008, are listed below. There were no reductions in insurance coverage from the prior year. Settled claims have not exceeded this coverage in any of the past four fiscal years.

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

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

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

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| Claims Payable at January 1 | \$ 29,265 | \$ 21,012 |
| Claims incurred | 7,626 | 9,353 |
| Changes in prior years' claims estimate | 1,548 | 8,253 |
| Claim payments | (7,626) | (9,353) |
| Claims Payable at December 31 | <u>\$ 30,813</u> | <u>\$ 29,265</u> |

11. Long-Term Debt

The following is a summary of general long-term liability activity of the District for the year ended December 31, 2008, (in thousands of dollars):

| | Balance January 1, 2008 | Additions | Reductions | Balance December 31, 2008 | Due Within One Year |
|--|-------------------------------|------------------|---------------------|---------------------------------|---------------------------|
| Governmental long-term liabilities: | | | | | |
| Bonds and notes payable: | | | | | |
| General obligation debt | \$ 1,456,620 | \$ - | \$ (112,577) | \$ 1,344,043 | \$ 46,000 |
| Converted bond anticipation notes | 9,234 | 39,422 | - | 48,656 | 27,103 |
| Total general obligation debt | 1,465,854 | 39,422 | (112,577) | 1,392,699 | 73,103 |
| Deferred amounts: | | | | | |
| Issuance costs | (1,313) | - | 171 | (1,142) | (171) |
| Premium | 73,538 | - | (4,252) | 69,286 | 4,252 |
| Refunding transactions | (34,608) | - | 3,038 | (31,570) | (3,038) |
| Bonds payable, net | 1,503,471 | 39,422 | (113,620) | 1,429,273 | 74,146 |
| Bond anticipation notes | 63,131 | 41,185 | (39,422) | 64,894 | - |
| Net bonds and notes payable | 1,566,602 | 80,607 | (153,042) | 1,494,167 | 74,146 |
| Other liabilities: | | | | | |
| Claims and judgments | 29,265 | 9,174 | (7,626) | 30,813 | 7,550 |
| Compensated absences | 28,551 | 1,994 | (94) | 30,451 | 1,243 |
| Total governmental long-term liabilities | <u>\$ 1,624,418</u> | <u>\$ 91,775</u> | <u>\$ (160,762)</u> | <u>\$ 1,555,431</u> | <u>\$ 82,939</u> |

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

As of December 31, 2008, 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 12/91 to 03/07) | Total Principal | Total Interest |
|-----------|--|---|---|---------------------|-------------------|
| | 2009 | \$ 14,400 | \$ 31,600 | \$ 27,103 | \$ 73,103 |
| 2010 | 29,730 | - | 27,828 | 57,558 | 57,992 |
| 2011 | 28,795 | - | 28,574 | 57,369 | 55,788 |
| 2012 | 28,880 | - | 28,262 | 57,142 | 53,620 |
| 2013 | 17,400 | - | 27,321 | 44,721 | 51,442 |
| 2014-2018 | 46,430 | 96,990 | 118,253 | 261,673 | 230,032 |
| 2019-2023 | 53,130 | 128,220 | 79,123 | 260,473 | 177,383 |
| 2024-2028 | - | 215,965 | 26,460 | 242,425 | 121,241 |
| 2029-2033 | - | 246,390 | - | 246,390 | 62,098 |
| 2034-2035 | - | 91,845 | - | 91,845 | 7,230 |
| | <u>\$ 218,765</u> | <u>\$ 811,010</u> | <u>\$ 362,924</u> | <u>\$ 1,392,699</u> | <u>\$ 878,171</u> |

Expenditures for principal and interest made on January 1, 2009, approximated \$13,461,800 and \$4,755,000 respectively.

Notes to the Basic Financial Statements

Year ended December 31, 2008

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

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. \$57,900,000 of principal related to the bonds was refunded as part of the 2007 Unlimited Tax Series A Capital Refunding Bond issuance. Also in December 2002, the District issued \$100,000,000 of Fixed Rate General Obligation Capital Improvement Bonds, Limited Tax Series D, with maturity dates from 2008 to 2013. The bonds were issued at a premium of \$8,677,545. Interest on the bonds accrues at rates ranging from 3.00% to 5.375%, payable June 1 and December 1. The outstanding balances of Unlimited Tax Series C and Limited Tax Series D at December 31, 2008 were \$6,100,000 and \$73,100,000, 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. Under this authority, the IEPA has subsequently approved the following loan amounts:

| | |
|-----------|--------------|
| 2008..... | \$11,559,927 |
|-----------|--------------|

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:

| | |
|-----------|--------------|
| 2007..... | \$2,065,000 |
| 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 |

Notes to the Basic Financial Statements

Year ended December 31, 2008

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 \$39,422,000 in 2008 represented the sum of bond anticipation note principal of \$38,400,000 and interest of \$1,022,000.

2008 Bond Issues and adjustments to existing issues under the IEPA 1997, 2001, 2004, and 2007 authority included:

- June 2008 – The District issued \$5,095,000 of Capital Improvement Bonds – IEPA Series 01C, through the conversion of the sum of bond anticipation note principal of \$4,896,000 and interest of \$199,000 with maturity dates from January 1, 2009 to January 1, 2026. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.
- June 2008 – The District issued \$8,023,000 of Capital Improvement Bonds – IEPA Series 04A, through the conversion of the sum of bond anticipation note principal of \$7,798,000 and interest of \$225,000 with maturity dates from January 1, 2009 to July 1, 2027. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.
- June 2008 – The District issued \$20,678,000 of Capital Improvement Bonds – IEPA Series 04B, through the conversion of the sum of bond anticipation note principal of \$20,125,000 and interest of \$553,000 with maturity dates from January 1, 2009 to July 1, 2027. Interest on the bonds accrues at a rate of 2.5%, payable January 1 and July 1.
- June 2008 - The District issued \$5,626,000 of Capital Improvement Bonds - IEPA Series 04E, through the conversion of the sum of bond anticipation note principal of \$5,581,000 and interest of \$45,000 with maturity dates from January 1, 2009 to January 1, 2028. Interest on the bonds accrues at a rate of 2.5%, 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 \$66,987,038 at December 31, 2008. Of the bond anticipation notes outstanding at December 31, 2008, \$1,396,300 will be refinanced through IEPA Series 2007 bonds. The remaining \$65,590,738 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.

Total amounts converted through the issuance of capital improvement bonds and still owing as of December 31, 2008, total approximately \$363 million.

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 \$593,095,000 were considered defeased at December 31, 2008.

Redemption Transactions

On December 1, 2008, the District redeemed \$43,700,000 of General Obligation Refunding Bonds-Series of July 1997, at the redemption price of 102%. During July 1997, the District issued \$116.33 million of General Obligation Refunding Bonds – Series of July 1997 with maturity dates ranging from December 1, 1997, to December 14, 2014, and interest rates ranging from 3.75% to 5.25%. The outstanding balance of General Obligation Refunding Bonds - Series of July 1997 at December 31, 2008 was \$16,200,000.

12. Interfund Transactions

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

Individual interfund receivable and payable balances at December 31, 2008 are as follows (in thousands of dollars):

| | Interfund | |
|--------------------------------|-------------|----------|
| | Receivables | Payables |
| General Corporate Fund | \$ 682 | \$ 300 |
| Capital Projects Funds: | | |
| Capital Improvements Bond Fund | - | 453 |
| Construction Fund | 302 | 126 |
| Stormwater Management Fund | - | 105 |
| | \$ 984 | \$ 984 |

In addition to the above, amounts were due from the Primary Government to the Pension Trust Fund at December 31, 2008 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, 2008, the Board of Commissioners authorized net transfers to the Corporate Fund of \$3,300,000 (\$7,000,000 to the Corporate Fund from the Capital Improvement Bond Fund and \$3,700,000 from the Corporate Fund to the Debt Service Fund.) In addition, the Board authorized a transfer of \$44,574,000 from the Capital Improvements Bond Fund to the Debt Service Fund. The purpose of the transfer of \$44,574,000 to the Debt Service Fund is to fund the bond call of July 1997 bonds.

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 \$59,652,000 at December 31, 2008. 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.

Notes to the Basic Financial Statements

Year ended December 31, 2008

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, 2008, (in thousands of dollars):

| | | |
|-------------|----|---------|
| 2009 | \$ | 6,441 |
| 2010 | | 6,383 |
| 2011 | | 6,274 |
| 2012 | | 6,247 |
| 2013 | | 6,240 |
| Later Years | | 181,032 |

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

On January 22, 2009, the District authorized the issuance of \$258,000,000 of Capital Improvement Bonds, 2009 IEPA Series, for capital improvements related to sewage treatment works and flood control facilities. The 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.

Subsequent to the end of the District's fiscal year, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Pension Trust Fund's investments have likely incurred a decline in fair value since December 31, 2008. In addition, certain non-readily marketable investments are significantly less liquid than they have been historically.

APPENDIX B

CAPITAL IMPROVEMENTS PROGRAM

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CAPITAL IMPROVEMENTS PROGRAM

Overview

The District currently serves the City of Chicago and 128 other municipalities encompassing an area of approximately 884 square miles. In carrying out its responsibilities, the District collects and treats wastewater from a population equivalent of about 10.35 million people; this includes domestic wastewater from approximately 5.25 million people, a commercial and industrial equivalent of approximately 4.5 million people, and a combined sewer overflow equivalent of approximately 0.6 million people. Its operating facilities are estimated to have a present day replacement cost of \$31.9 billion.

Treated wastewater, along with runoff from rainfall, enters the rivers and streams of the Cook County area, waterways that serve as headwaters of the Illinois waterway system. Stringent water quality standards imposed by the Federal and State governments require that wastewater treatment result in unpolluted streams for the residents of Cook, DuPage and Will Counties, and other downstream communities. Each of the District's Water Reclamation Plants operates under a National Pollutant Discharge Elimination system (NPDES) permit issued by the Illinois Environmental Protection Agency (EPA). All of the District's Water Reclamation Plants are in compliance with their NPDES permit. In order to maintain compliance, the District's facilities are continuously rehabilitated and upgraded to provide cost effective collection and treatment.

The District's Capital Improvement Program consists of those projects identified as necessary to assure safe and uninterrupted operation of its facilities, meet existing and new statutory and regulatory requirements, and increase efficiency through facility upgrades and modernization. The District anticipates constructing its Capital Improvement Program projects with funding from the Illinois EPA State Revolving Fund, U.S. Army Corps of Engineers, Construction and Storm Water Management Fund tax levy collections, and the District's bonding authority. A description of the major elements in the Capital Improvement Program follows, together with the estimated cost of projects identified to date (based upon current price levels).

Collection System

In order to collect wastewater from local sewer systems for conveyance to its water reclamation plants, the District has constructed or has under construction approximately 22 pump stations and 559 miles of intercepting sewers and force mains ranging in size from 12 inches to 27 feet in diameter.

The District has an ongoing and extensive Interceptor Inspection and Rehabilitation Program with respect to the interceptor sewers and force mains which it owns and operates. The program is designed to identify deterioration and deficiencies and take action to make necessary repairs.

Within the next five years, award of construction projects with a cost of approximately \$244 million is currently anticipated for collection system improvements.

Water Reclamation Plant Expansions and Improvements

The District has a total secondary treatment capacity of approximately 2 billion gallons per day. The Capital Improvement Program includes projects for enhancements at all of the District's Water Reclamation Plants. Typically studies are conducted to determine future needs when facilities are operating near or at capacity, or when new facilities are anticipated to be required as a result of pending regulations. The Engineering Department has completed its Master Plan studies for the Stickney, Calumet and North Side Water Reclamation Plants and service areas, which will identify the capital improvements needed to serve wastewater flows projected through the year 2040. Award of construction projects with a cost of approximately \$1.1 billion is currently anticipated for Water Reclamation Plant expansions and upgrades, within the next five years. This figure includes several projects at the Stickney, Calumet and North Side Water Reclamation Plants that have already been identified and added to the program as a result of the ongoing Master Plan studies. Some major projects are highlighted below.

04-128-3P, West Side Circular Primary Settling Tanks – Battery A, at the Stickney Water Reclamation Plant, is scheduled to be awarded late 2011, at an estimated value of \$150 million. This project will provide conventional primary treatment to flows through the Westside Plant by converting the existing Imhoff tanks to circular primary tanks. Nine 160 foot diameter tanks will be constructed in existing Battery A of the Imhoff tank area. This project will increase the amount of digester gas used in the plant thus reducing the District's reliance on natural gas, improve sludge capture, and improve effluent quality to secondary treatment. Annual maintenance costs will be reduced.

06-020-3P, Battery E at the North Side Water Reclamation Plant, is scheduled to be awarded in mid 2012, at an estimated value of \$315 million. This project will provide new primary settling tanks, aeration tanks, and final settling tanks comprising Battery E. All major influent and effluent conduits, power distribution, force mains and air mains are included in this work. This project will upgrade the North Side Water Reclamation Plant to its rated capacity of 333 MGD.

09-176-3P, Sludge Thickening Facilities at the Stickney Water Reclamation Plant, is scheduled to be awarded in early 2010. This project will separate the three sludge streams-Preliminary, Northside and Waste Activated Sludge (WAS) and thicken them individually by the best available method. The existing centrifuges will be replaced, and Northside sludge will be thickened in four new centrifuges. WAS will be thickened in twelve new centrifuges. Preliminary sludge from Southwest and future West Side Preliminary will be thickened in a new gravity thickening building. The three thickened sludge streams will be recombined and sent to the digesters. In addition to this, a new 13.2kV/480V substation will be installed to replace the existing substation currently located near the aerated grit tanks.

Biosolids Management

Improved wastewater treatment and greater plant efficiency will result in the District's collection of increased quantities of biosolids. The effective handling of biosolids is a major program of the District. Efficiencies can be gained by improved dewatering facilities. Award of construction projects with a cost of approximately \$312 million is currently anticipated for biosolids management within the next five years.

Tunnel and Reservoir Plan

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

Prior to the startup of TARP, combined sewer overflow (CSO), a mix of raw sewage and stormwater runoff, discharged to the waterways approximately 100 times a year. During periods of heavy rain, the pollution effect of the CSO was equivalent to a polluted wastewater load from a population of about 4.5 million people. The discharge exceeded the capacity of local sewers and waterways and resulted in basement and street flooding in the area and, during the heaviest rains, backflows to Lake Michigan.

TARP Tunnel System. The TARP Tunnel System is comprised of the Upper Des Plaines, Des Plaines, Mainstream and Calumet tunnel systems and the Mainstream and Calumet TARP pumping stations. The TARP tunnel system eliminates about 85% of the pollution load attributable to CSOs by capturing and storing the most polluted fractions until they can be treated in the District's Water Reclamation Plants.

TARP Reservoirs. Three storage reservoirs will serve as outlets for the sewage and stormwater runoff flows from CSOs. The three Chicago Underflow Plan reservoirs – O'Hare, Thornton and McCook – will provide 15.2 billion gallons of flood control storage when completed. Currently the O'Hare reservoir is on-line. Work on the Thornton and McCook reservoirs is underway. The combined construction and land rights cost for all three reservoirs is estimated at \$1,371 million, with the Corps and the District providing approximately \$835 million and \$536 million, respectively. Award of construction projects with a cost of approximately \$377 million is currently anticipated for TARP reservoir construction, over the next five years.

Stormwater Management

The District began developing Detailed Watershed Plans (DWPs) in 2007. The DWPs will provide comprehensive evaluations of existing conditions and stormwater management concerns in each of Cook County's watersheds, and will include recommendations as to the remedial measures that should be taken. In 2008, the District continued work on the DWPs for the Little Calumet River, Calumet-Sag Channel, Upper Salt Creek, Lower Des Plaines River, North Branch of the Chicago River, and Poplar Creek watersheds. It is anticipated the initial DWPs will be completed in 2009. The projects recommended in the DWPs will then be prioritized by the District's Board of Commissioners for funding under the Stormwater Management Fund. Prior to 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 (Corps) and the Illinois Department of Natural Resources/Office of Water Resources. One such project

currently under consideration is a compensatory storage facility necessary for the construction of Levee 37, a Corps project proposed in their approved 1999 Des Plaines River Phase I Study. Award of construction projects with a cost of approximately \$1 million is currently anticipated for Stormwater Management.

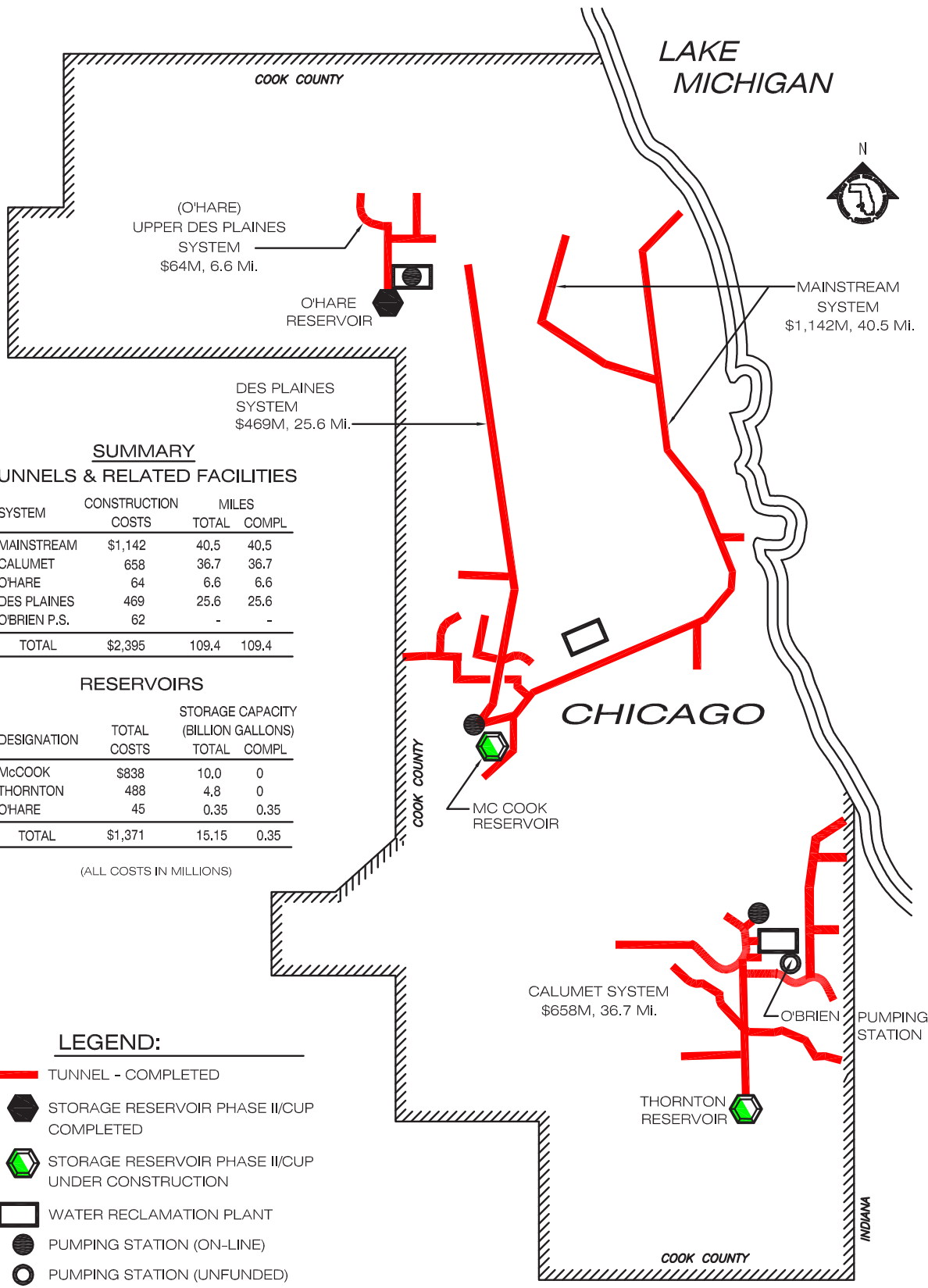
Replacement of Facilities

Many of the District’s plants and interceptors were placed in service over 50 years ago. In order to maintain continuous operations, physically deteriorating process facilities must be replaced through major remodeling, alteration or expansion. Award of construction projects with a cost of approximately \$267 million is currently anticipated for replacement of facilities.

Means of Financing

The only USEPA grant funding available to the District in recent years has been limited to Congressional earmarks for District TARP projects. Most of the funding of the District’s planned improvements of its plants and continued construction of TARP facilities is expected to be accomplished through State Revolving Fund Loans (“SRF Loans”) and the issuance of bonds by the District. The District funding needed to complete the Capital Improvements Program is approximately \$2.30 billion.

| Capital Improvements Program | District Bonds & Construction Fund, and Stormwater Management Fund (millions) |
|---|---|
| Intercepting Sewers | \$ 244 |
| Water Reclamation Plant Expansions & Improvements | 1,100 |
| Biosolids Management | 312 |
| Tunnel & Reservoir Plan CUP (District Portion) | 377 |
| Stormwater Management | 1 |
| Replacement of Facilities | <u>267</u> |
| Total | <u><u>\$2,301</u></u> |



SUMMARY

TUNNELS & RELATED FACILITIES







| SYSTEM | CONSTRUCTION COSTS | MILES | |
|--------------|--------------------|--------------|--------------|
| | | TOTAL | 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 | \$838 | 10.0 | 0 |
| THORNTON | 488 | 4.8 | 0 |
| O'HARE | 45 | 0.35 | 0.35 |
| TOTAL | \$1,371 | 15.15 | 0.35 |

(ALL COSTS IN MILLIONS)

LEGEND:

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

**TUNNEL AND RESERVOIR PLAN
PROJECT STATUS**

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

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APPENDIX C

REPORT OF THE CONSULTING ACTUARY ON THE DISTRICT RETIREMENT FUND

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**REPORT OF THE CONSULTING ACTUARY
ON THE DISTRICT RETIREMENT FUND**

The Metropolitan Water Reclamation District has a contributory pension fund which provides coverage for all Water Reclamation District employees and Commissioners. The total number of covered employees in active service at the end of 2008 was 2,052. The total number of beneficiaries was 2,272.

The pension fund is financed by employee contributions and Water Reclamation District contributions. Both are fixed by State Statute. The employee rate is a fixed percentage of salary. The Water Reclamation District contribution is a multiple of the employee contributions made two years prior. The employee rate of contribution was eight and one-half percent of salary until January 1, 1988. Beginning January 1, 1988, the rate was raised to nine percent of salary. The Water Reclamation District multiple was 2.19 for 1988 and each year thereafter. An exception is made to this 2.19 multiplier for all employee contributions made to the Optional Plan beginning in 2003, for which the tax levy is made on dollar-for-dollar basis.

The actuarial funding method used is the Entry Age Normal Method. The Entry Age Normal Method is an immediate gain valuation method. This means that any deviation of plan experience from the actuarial assumptions is reflected immediately in the Unfunded Liability.

This Entry Age Normal Method assigns to each year of employment a constant percentage of an employee's salary, called the Current Service Cost, sufficient to accumulate the necessary funds to provide for the full prospective costs of the employee's projected retirement pension. The amount of pension must be estimated using various assumptions as to future compensation levels, employee turnover, mortality, and pension fund investment earnings, since the actual pension can only be known at the time of retirement. These are called actuarial assumptions and reflect long range expectations of the plan on an ongoing or permanent basis. An annual review of these assumptions is made and appropriate changes are made when required.

The Accrued Liability of the fund at any point in time is the accumulated value of all Current Service Costs which should have been paid to that time for active employees plus full prospective cost of pensions for all retired employees. The extent that the actual Plan Assets are less than the Accrued Liability is called the Unfunded Liability.

An amount of money is required each year to amortize the Unfunded Liability over a span of thirty years. This amount is called the 30-Year Amortization of the Unfunded Liability.

The total required Annual Actuarial Contribution to the fund (financed by the employee and employer) is equal to the Current Service Cost plus 30-Year Amortization of the Unfunded Liability as a level percent of payroll. This conforms to GASB No. 25.

In 2008, employer contributions to the Fund amounted to 67.1% of the actuarially determined contribution requirement.

Financial Position

| Year End | Employee Contributions (1) | Employer Contributions (2) | Investment Income (3) | Total Income |
|-------------|----------------------------------|----------------------------------|-----------------------------|---------------|
| 1982 | \$ 6,460,582 | \$ 9,563,040 | \$ 15,295,138 | \$ 31,318,760 |
| 1983 | 6,414,035 | 10,862,820 | 16,420,032 | 33,696,887 |
| 1984 | 6,411,941 | 12,755,070 | 21,513,095 | 40,680,106 |
| 1985 | 6,434,970 | 12,648,060 | 28,535,244 | 47,618,274 |
| 1986 | 6,759,007 | 12,598,470 | 42,745,421 | 62,102,898 |
| 1987 | 8,163,128 | 12,648,060 | 33,013,009 | 53,824,197 |
| 1988 | 10,342,392 | 12,078,210 | 29,998,459 | 52,419,061 |
| 1989 | 9,827,954 | 14,636,010 | 40,679,380 | 65,143,344 |
| 1990 | 9,855,430 | 18,725,010 | 29,647,678 | 58,228,118 |
| 1991 | 10,179,776 | 17,306,040 | 43,500,015 | 70,985,831 |
| 1992 | 11,225,282 | 17,491,350 | 50,598,051 | 79,314,683 |
| 1993 | 12,471,164 | 18,662,412 | 51,147,300 | 82,280,876 |
| 1994 | 12,675,109 | 20,585,604 | 37,113,201 | 70,373,914 |
| 1995 | 13,489,654 | 22,486,337 | 60,949,701 | 96,925,692 |
| 1996 | 15,532,480 | 22,067,934 | 83,238,392 | 120,838,807 |
| 1997 | 19,467,663 | 23,588,927 | 78,226,986 | 121,283,576 |
| 1998 | 13,283,910 | 26,057,744 | 113,535,607 | 152,877,261 |
| 1999 | 14,238,418 | 32,268,460 | 52,828,196 | 99,335,074 |
| 2000 | 14,332,384 | 27,208,901 | 26,489,809 | 68,031,094 |
| 2001 | 14,986,546 | 28,138,415 | (13,622,833) | 29,502,128 |
| 2002 | 16,308,414 | 28,663,736 | (68,092,272) | (23,120,122) |
| 2003 | 14,230,224 | 28,789,850 | 172,748,408 | 215,768,482 |
| 2004 | 15,150,846 | 30,986,177 | 98,895,448 | 145,032,471 |
| 2005 | 14,468,188 | 26,179,018 | 55,859,896 | 96,507,102 |
| 2006 | 14,955,252 | 34,478,941 | 108,686,551 | 158,120,744 |
| 2007 | 15,627,673 | 27,947,096 | 65,179,863 | 108,739,906 |
| 2008 | 14,778,404 | 33,406,819 | (296,653,132) | (248,467,909) |

| Year End | Benefits | Administrative and Investment Expenses | Refunds | Total (4) | Income Less Payouts (5) | Return on Invested Assets (6) |
|----------|--------------|--|------------|--------------|-------------------------|-------------------------------|
| 1982 | \$ 7,613,737 | \$ 504,815 | \$ 639,353 | \$ 8,757,905 | \$22,560,855 | 12.38% |
| 1983 | 8,359,571 | 619,781 | 404,655 | 9,384,007 | 24,312,880 | 11.30 |
| 1984 | 9,350,655 | 829,684 | 580,433 | 10,760,772 | 29,919,334 | 12.76 |
| 1985 | 10,501,440 | 960,113 | 506,842 | 11,968,395 | 35,649,879 | 14.46 |
| 1986 | 12,014,183 | 1,271,392 | 595,895 | 13,881,470 | 48,221,428 | 18.34 |
| 1987 | 13,200,781 | 1,311,027 | 661,121 | 15,172,929 | 38,651,268 | 11.73 |
| 1988 | 16,389,401 | 1,743,756 | 606,055 | 18,739,212 | 33,679,849 | 9.42 |
| 1989 | 18,486,744 | 2,116,868 | 623,811 | 21,227,423 | 43,915,921 | 11.58 |
| 1990 | 21,535,758 | 2,109,427 | 549,382 | 24,194,567 | 34,033,551 | 7.55 |
| 1991 | 23,620,406 | 2,348,838 | 723,460 | 26,692,704 | 44,293,127 | 10.28 |
| 1992 | 25,625,511 | 2,645,653 | 644,818 | 28,915,982 | 50,398,701 | 10.80 |
| 1993 | 29,057,232 | 2,865,952 | 836,893 | 32,760,077 | 49,520,799 | 9.88 |
| 1994 | 32,316,436 | 2,913,129 | 852,963 | 36,082,528 | 34,291,386 | 6.56 |
| 1995 | 36,322,288 | 2,892,250 | 997,650 | 40,222,188 | 56,703,504 | 10.21 |
| 1996 | 40,677,511 | 2,923,870 | 1,496,844 | 45,098,224 | 75,740,583 | 12.78 |
| 1997 | 45,887,945 | 3,167,580 | 1,238,978 | 50,294,503 | 70,989,073 | 11.02 |
| 1998 | 49,994,286 | 3,096,256 | 1,011,193 | 54,101,735 | 98,775,526 | 12.31 |
| 1999 | 54,801,214 | 3,053,373 | 892,443 | 58,747,030 | 40,588,044 | 5.08 |
| 2000 | 58,666,730 | 2,679,373 | 872,955 | 62,219,058 | 5,812,036 | 2.40 |
| 2001 | 62,542,156 | 2,733,296 | 701,766 | 65,977,218 | (36,475,090) | (1.50) |
| 2002 | 67,574,253 | 2,701,495 | 951,614 | 71,227,362 | (94,347,484) | (6.90) |
| 2003 | 73,231,227 | 2,885,338 | 1,041,560 | 77,158,125 | 138,616,357 | 18.90 |
| 2004 | 78,113,259 | 3,236,471 | 1,320,740 | 82,670,470 | 62,362,001 | 9.32 |
| 2005 | 83,293,069 | 3,381,747 | 1,287,679 | 87,962,495 | 8,544,607 | 4.85 |
| 2006 | 89,079,089 | 3,646,960 | 1,410,954 | 94,137,003 | 63,983,741 | 9.58 |
| 2007 | 94,846,021 | 4,012,931 | 1,164,218 | 100,023,170 | 8,716,736 | 5.39 |
| 2008 | 100,068,749 | 3,787,807 | 964,846 | 104,821,402 | (353,289,311) | (23.59) |

- (1) Includes Deductions in Lieu for Disability, made by the District.
- (2) Net Tax Levy and Miscellaneous Income.
- (3) Includes realized net gain/loss on sale and exchange of bonds and stocks.
- (4) Includes Pensions, Benefits, Refunds and Administrative Expenses.
- (5) Does not include Prior Years Tax Adjustments.
- (6) Computed on assets shown, less taxes receivable and cash.

Distribution of Cash and Security Holdings

| Year | Cash | Federal Government Securities | State and Local Government Securities | Corporate Stocks and Bonds | Short Term | Convertible Securities | Other Bonds |
|------|-------|-------------------------------------|---|----------------------------------|------------|---------------------------|-------------|
| 1982 | 0.3% | 32.5% | 0.0% | 45.5% | 20.4% | 1.3% | 0.0% |
| 1983 | 0.0 | 36.9 | 0.0 | 44.5 | 18.1 | 0.5 | 0.0 |
| 1984 | 0.1 | 56.5 | 0.0 | 33.8 | 8.8 | 0.3 | 0.5 |
| 1985 | (0.1) | 57.2 | 0.0 | 29.7 | 12.6 | 0.1 | 0.5 |
| 1986 | (0.3) | 19.6 | 0.0 | 60.5 | 17.2 | 0.0 | 3.0 |
| 1987 | 0.2 | 22.0 | 0.0 | 65.0 | 10.7 | 0.0 | 2.1 |
| 1988 | 0.3 | 17.7 | 0.0 | 68.3 | 11.0 | 0.3 | 2.4 |
| 1989 | 0.1 | 27.9 | 0.0 | 62.4 | 7.1 | 0.8 | 1.7 |
| 1990 | 0.3 | 29.8 | 0.0 | 64.9 | 3.5 | 0.0 | 1.5 |
| 1991 | 0.1 | 37.8 | 0.0 | 55.5 | 4.5 | 1.0 | 1.1 |
| 1992 | 0.1 | 33.1 | 0.6 | 62.2 | 3.1 | 0.0 | 0.9 |
| 1993 | 0.0 | 26.7 | 0.7 | 63.4 | 8.4 | 0.0 | 0.8 |
| 1994 | 0.0 | 33.0 | 0.5 | 60.1 | 5.6 | 0.1 | 0.7 |
| 1995 | 0.0 | 33.1 | 0.0 | 60.4 | 6.5 | 0.0 | 0.0 |
| 1996 | 0.1 | 29.4 | 0.0 | 66.2 | 4.3 | 0.0 | 0.0 |
| 1997 | 0.0 | 21.1 | 0.0 | 75.2 | 0.0 | 0.0 | 0.0 |
| 1998 | 0.0 | 17.3 | 0.0 | 81.0 | 1.7 | 0.0 | 0.0 |
| 1999 | 0.0 | 8.6 | 0.0 | 89.4 | 1.3 | 0.0 | 0.7 |
| 2000 | 0.1 | 6.7 | 0.0 | 91.5 | 1.3 | 0.0 | 0.4 |
| 2001 | 0.0 | 5.2 | 0.1 | 93.2 | 1.5 | 0.0 | 0.0 |
| 2002 | 0.0 | 6.0 | 0.1 | 92.7 | 1.2 | 0.0 | 0.0 |
| 2003 | 0.0 | 5.3 | 0.3 | 93.3 | 1.0 | 0.0 | 0.1 |
| 2004 | 0.0 | 5.2 | 0.3 | 93.2 | 1.1 | 0.0 | 0.2 |
| 2005 | 0.0 | 5.1 | 0.1 | 92.8 | 1.8 | 0.0 | 0.2 |
| 2006 | 0.0 | 4.9 | 0.1 | 93.8 | 1.0 | 0.0 | 0.2 |
| 2007 | 0.0 | 4.7 | 0.1 | 94.0 | 1.0 | 0.0 | 0.2 |
| 2008 | 0.0 | 1.8 | 0.0 | 96.5 | 1.7 | 0.0 | 0.0 |

Schedule of Funding Progress

| Year | Accrued Liability (1) | Assets at Actuarial Value (2) | Funded Ratio | Unfunded Accrued Liability | Payroll at Year End | Unfunded Accrued % Payroll (Surplus) |
|----------|-----------------------|-------------------------------|--------------|----------------------------|---------------------|--------------------------------------|
| 1982 (a) | \$222,156,451 | \$139,675,176 | 62.9% | \$ 82,481,275 | \$ 72,947,568 | 113% |
| 1983 (b) | 249,838,650 | 161,194,219 | 64.5 | 88,644,431 | 74,710,224 | 119 |
| 1984 | 264,660,119 | 192,992,985 | 72.9 | 71,667,134 | 73,630,944 | 97 |
| 1985 (b) | 309,156,699 | 235,247,736 | 76.1 | 73,908,963 | 73,698,576 | 100 |
| 1986 (a) | 313,485,737 | 293,954,711 | 93.8 | 19,531,026 | 76,854,312 | 25 |
| 1987 (c) | 391,175,897 | 332,541,047 | 85.0 | 58,634,850 | 80,528,592 | 73 |
| 1988 (c) | 429,018,394 | 366,307,954 | 85.4 | 62,710,440 | 83,010,120 | 76 |
| 1989 (c) | 463,309,078 | 413,497,817 | 89.2 | 49,811,261 | 86,038,752 | 58 |
| 1990 | 504,634,130 | 440,414,796 | 87.3 | 64,219,334 | 89,549,112 | 72 |
| 1991 | 549,689,042 | 487,748,803 | 88.7 | 61,940,239 | 96,340,824 | 64 |
| 1992 (b) | 656,033,027 | 551,203,578 | 84.0 | 104,829,449 | 101,680,704 | 103 |
| 1993 (a) | 710,513,440 | 614,482,235 | 86.5 | 96,031,205 | 107,316,480 | 90 |
| 1994 | 768,089,962 | 648,452,502 | 84.4 | 119,637,460 | 109,730,544 | 109 |
| 1995 | 824,719,564 | 725,094,323 | 87.9 | 99,625,241 | 109,728,192 | 91 |
| 1996 | 875,462,004 | 809,145,160 | 92.4 | 66,316,844 | 109,385,064 | 61 |
| 1997 (c) | 1,063,733,052 | 894,545,980 | 84.1 | 169,187,072 | 111,870,144 | 151 |
| 1998 (a) | 1,132,408,470 | 969,114,418 | 85.6 | 163,294,052 | 118,068,366 | 138 |
| 1999 | 1,211,787,971 | 1,046,966,301 | 86.4 | 164,821,670 | 122,536,313 | 135 |
| 2000 | 1,267,179,677 | 1,110,337,457 | 87.6 | 156,842,220 | 126,929,425 | 124 |
| 2001 | 1,346,223,065 | 1,155,825,153 | 85.9 | 190,397,912 | 136,382,287 | 140 |
| 2002 (c) | 1,470,938,987 | 1,136,907,158 | 77.3 | 334,031,829 | 137,679,573 | 243 |
| 2003 (a) | 1,517,868,687 | 1,146,520,634 | 75.5 | 371,348,053 | 142,593,596 | 260 |
| 2004 | 1,578,366,508 | 1,161,778,511 | 73.6 | 416,587,997 | 146,360,302 | 285 |
| 2005 | 1,654,188,382 | 1,171,844,612 | 70.8 | 482,343,770 | 149,246,356 | 323 |
| 2006 (a) | 1,724,705,199 | 1,209,601,736 | 70.1 | 515,103,463 | 152,767,396 | 337 |
| 2007 | 1,795,176,667 | 1,256,889,942 | 70.0 | 538,286,725 | 158,831,772 | 339 |
| 2008 | 1,852,279,634 | 1,211,838,320 | 65.4 | 640,441,314 | 167,865,254 | 382 |

(a) Change in actuarial assumptions.

(b) Reflects benefit changes.

(c) Changes in both benefits and actuarial assumptions.

(1) The 1982, 1983, 1984 and 1985 valuation results shown hereinbefore are based on 7% interest rate compounded annually and 6.5% salary scale rate compounded annually. The 1986 and 1987 valuation results are based on 7.5% interest and 6.5% salary. The 1988 valuation results are based on 7.5% interest and 6% salary. The 1989, 1990, 1991, 1992, 1993, 1994, 1995 and 1996 valuation results are based on 8% interest and 6% salary. The 1997-2001 results are based on 8% interest and 5.5% salary scale. The 2002-2005 results are based on 7.75% interest and 5.5% salary scale. The 2006 results are based on 7.75% interest and 5.0% salary scale.

(2) The book value of all funds as of December 31, 1997 was \$824,801,489, and the market value was \$935,442,920. All asset values shown here have been restated to the actuarial asset value 5-year smoothed average ratio of market over book) to comply with GASB No. 25.

Prioritized Solvency Test

The prioritized solvency test is another means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with actuarial accrued liabilities classified into the following categories: (1) liability for active member contributions on deposit; (2) liability for future benefits to present retired lives; and (3) liability for the employer financed portion of service already rendered by active members. In a system that has been following the discipline of level percent of payroll financing the obligation for active member contributions on deposit (present value 1) and the present value of future benefits to present retired lives (present value 2) will be fully covered by present assets (except in rare circumstances). In addition, the present value of credited projected benefits for present active members (present value 3) will be partially covered by the remainder

of present assets. Generally, if the system has been using a level cost financing, the funded portion of present value 3 will increase over time.

| Valuation Date 12/31 | Aggregate Accrued Liabilities for: | | | | Portion (%) of Present Value Covered by Assets | | |
|----------------------|------------------------------------|----------------------------|--|-------------------------------------|--|------|-----|
| | (1) | (2) | (3) | Actuarial Asset Values for GASB (b) | (1) | (2) | (3) |
| | Active Member Contributions | Retirees and Beneficiaries | Active Members (ER Financed Portion) (a) | | | | |
| 1989 (c), (d) | \$ 80,559,411 | \$175,213,324 | \$207,536,343 | \$ 407,723,140 | 100% | 100% | 73% |
| 1990 (c), (d) | 87,056,422 | 207,949,173 | 209,628,535 | 441,773,934 | 100 | 100 | 70 |
| 1991 | 93,595,388 | 225,131,907 | 230,961,747 | 486,146,943 | 100 | 100 | 72 |
| 1992 (d) | 100,963,312 | 279,794,008 | 275,275,707 | 536,682,971 | 100 | 100 | 57 |
| 1993 (d) | 107,748,624 | 302,428,502 | 300,336,314 | 586,300,787 | 100 | 100 | 59 |
| 1994 (c), (d) | 111,174,754 | 350,425,921 | 306,489,287 | 620,929,441 | 100 | 100 | 52 |
| 1995 (d) | 115,703,307 | 394,570,156 | 314,446,101 | 677,845,575 | 100 | 100 | 53 |
| 1996 | 119,176,139 | 443,261,374 | 313,024,491 | 753,812,416 | 100 | 100 | 61 |
| 1997 (c), (d) | 122,296,471 | 540,830,802 | 400,605,779 | 894,545,980 | 100 | 100 | 58 |
| 1998 (c) | 126,612,234 | 612,581,611 | 393,214,625 | 969,114,418 | 100 | 100 | 59 |
| 1999 | 130,913,783 | 676,294,737 | 404,579,451 | 1,046,966,301 | 100 | 100 | 59 |
| 2000 | 136,896,791 | 712,892,554 | 417,390,332 | 1,110,337,457 | 100 | 100 | 62 |
| 2001 | 146,917,082 | 760,159,510 | 439,146,473 | 1,155,825,153 | 100 | 100 | 57 |
| 2002 (c), (d) | 151,994,419 | 849,986,869 | 468,975,699 | 1,136,907,158 | 100 | 100 | 29 |
| 2003 (c) | 157,910,357 | 886,174,665 | 473,783,665 | 1,146,520,634 | 100 | 100 | 22 |
| 2004 | 163,674,928 | 929,904,220 | 484,787,360 | 1,161,778,511 | 100 | 100 | 14 |
| 2005 | 170,744,447 | 988,212,377 | 495,231,558 | 1,171,844,612 | 100 | 100 | 3 |
| 2006 (c) | 176,844,639 | 1,075,659,908 | 472,200,652 | 1,209,601,736 | 100 | 96 | 0 |
| 2007 | 181,077,729 | 1,139,967,612 | 474,131,326 | 1,256,889,942 | 100 | 94 | 0 |
| 2008 | 190,017,921 | 1,176,701,786 | 485,559,927 | 1,211,838,320 | 100 | 87 | 0 |

- (a) Active Members (ER Financed Portion) was based on credited projected value of benefits prior to 1997.
 (b) Assets at book value 1989-1996; 1997 forward 5-year smoothed market value.
 (c) Change in actuarial assumptions.
 (d) Change in benefits.

Actuarial Requirements

The total required Annual Actuarial Contribution to the Fund (financed by the employee and the Water Reclamation District) is equal to the Current Service Cost plus an amount to amortize the Unfunded Liability over a period of 30 years as required by GASB No. 25. Prior to the December 31, 1998 valuation, a 40-year amortization period had been used. This method of financing has evolved over the years and seeks to give effect to all interested groups including opinions often expressed by the Civic Federation and was the minimum recommended by the former Illinois Public Employees' Pension Laws Commission.

For the year 2008 (based on a tax multiple of 2.19) the Water Reclamation District contributed \$33,406,819 or 21.03% of payroll. For 2008, employee contributions were \$14,778,404 or 9.31% of payroll. The total required annual actuarial contribution, consisting of the Current Service Cost plus the amount to amortize the Unfunded Liability over a 30-year period was 31.33% of payroll.

As the Water Reclamation District tax levy is expressed as a multiple of the total salary deductions made two years prior, the Water Reclamation District is effectively contributing a level annual percentage of payroll.

| Year | Total Required Actual Actuarial Contribution Rate | Actual Contribution | | Deficiency (Excess) in Annual Contribution |
|----------|---|---------------------|----------|---|
| | | Employer | Employee | |
| 1987 (a) | 19.40 | 16.46 | 10.62 | (7.67) |
| 1988 (c) | 26.05 | 15.00 | 12.84 | (1.79) |
| 1989 (c) | 25.14 | 17.63 | 11.84 | (4.43) |
| 1990 (c) | 22.00 | 21.76 | 11.45 | (11.22) |
| 1991 | 22.53 | 19.33 | 11.37 | (8.16) |
| 1992 | 22.14 | 18.16 | 11.65 | (8.25) |
| 1993 (b) | 26.54 | 18.35 | 12.27 | (4.08) |
| 1994 (a) | 25.85 | 19.18 | 11.81 | (5.14) |
| 1995 | 27.34 | 20.49 | 12.29 | (5.45) |
| 1996 | 25.89 | 20.11 | 14.16 | (8.37) |
| 1997 | 24.10 | 24.45 | 17.80 | (15.15) |
| 1998 (c) | 35.99 | 22.94 | 11.87 | 1.18 |
| 1999 (a) | 34.46 | 26.91 | 12.06 | 4.51 |
| 2000 | 33.59 | 22.35 | 11.70 | (0.46) |
| 2001 | 32.55 | 22.25 | 11.81 | (1.51) |
| 2002 | 34.51 | 21.02 | 11.96 | 1.53 |
| 2003 | 37.26 | 20.91 | 10.34 | 6.01 |
| 2004 | 37.89 | 21.73 | 10.62 | 5.54 |
| 2005 | 39.21 | 17.89 | 9.89 | 11.43 |
| 2006 | 41.38 | 23.10 | 10.02 | 8.26 |
| 2007 (a) | 40.53 | 18.29 | 10.22 | 12.02 |
| 2008 | 40.33 | 21.03 | 9.31 | 9.99 |
| 2009 | 41.64 | 13.00 Est | 9.00 Est | 19.64 Est |

(a) Change in actuarial assumptions.

(b) Reflects benefit changes.

(c) Changes in both benefits and actuarial assumptions.

Note: The total required annual contribution rate is calculated as the normal cost plus 40-year amortization of the unfunded liability for 1998 and prior years. For 1999 and later, a 30-year amortization period is used.

GASB Disclosure

The Governmental Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans, is effective for periods beginning after June 15, 1996. The Purpose of the Statement is to make the pension information more understandable and more useful. In the past, the measures of a plan's funded status and the employer's required contributions have been reported consistent with GASB Statement No. 5.

The Actuarial Asset Value, a smoothed market related value of assets technique, is calculated by smoothing unexpected gains or losses over a period of 5 years.

A level-percent amortization of the unfunded actuarial liability (level-dollar prior to 2003) with an open amortization period of 30 years (40 years prior to December 31, 1998) is the method used for computing the amortization requirements.

Schedule of Employer Contributions

| Fiscal Year | Annual Required Contributions (ARC) (1) | Required Statutory Basis (2) | Actual | Percent of ARC Contributed by Employer |
|-------------|--|---------------------------------|--------------|--|
| 1986 | \$12,455,167 | \$12,598,470 | \$12,598,470 | 101.15% |
| 1987 | 8,285,512 | 12,648,060 | 12,648,060 | 152.65 |
| 1988 | 13,469,279 | 12,078,210 | 12,078,210 | 89.67 |
| 1989 | 13,117,803 | 14,636,010 | 14,636,010 | 111.57 |
| 1990 | 10,977,397 | 18,725,010 | 18,725,010 | 170.58 |
| 1991 | 11,885,881 | 17,306,040 | 17,306,040 | 145.60 |
| 1992 | 12,420,304 | 17,491,350 | 17,491,350 | 140.83 |
| 1993 | 17,392,877 | 18,662,370 | 18,662,412 | 107.30 |
| 1994 | 17,623,058 | 20,582,460 | 20,585,604 | 116.81 |
| 1995 | 19,574,366 | 22,486,020 | 22,486,337 | 114.88 |
| 1996 | 17,990,260 | 22,037,175 | 22,067,934 | 122.67 |
| 1997 | 16,513,219 | 23,464,852 | 23,464,471 | 142.10 |
| 1998 | 26,513,219 | 25,662,082 | 25,662,082 | 95.60 |
| 1999 | 28,918,530 | 29,786,600 | 31,771,825 | 109.87 |
| 2000 | 28,905,278 | 25,310,000 | 27,390,683 | 94.76 |
| 2001 | 28,552,646 | 27,128,300 | 28,249,866 | 98.94 |
| 2002 | 33,414,603 | 27,307,600 | 28,663,736 | 85.78 |
| 2003 | 38,039,355 | 28,554,300 | 28,789,850 | 75.68 |
| 2004 | 40,146,454 | 31,072,100 | 30,986,177 | 77.18 |
| 2005 | 43,164,572 | 25,958,000 | 26,179,018 | 60.65 |
| 2006 | 47,368,878 | 27,580,000 | 34,478,941 | 72.78 |
| 2007 | 47,090,445 | 30,312,000 | 27,947,096 | 59.35 |
| 2008 | 49,758,238 | 24,766,200 | 33,406,819 | 67.14 |

(1) Normal cost plus 40-year level dollar amortization, less expected employee contributions, restated back for all prior years. 30 year amortization starting 1999. Level-percent amortization starting 2003.

(2) Tax levy.

In the Schedule of Funding Progress, analysis of the dollar amount of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Actuarial Assumptions and Cost Method

The actuarial assumptions used for the December 31, 2008 actuarial valuation were based on our experience analysis of the fund for the three-year period 2003 through 2005.

The major actuarial assumptions used for the December 31, 2008 valuation are summarized below:

- **Investment return:** 7.75% per year, compounded annually.
- **Salary increase:** 5.0% per year, compounded annually.
- **Retirement Rates:** Rates of retirement for each age from 50 to 70, based on the recent experience of the fund.
- **Termination Rates:** Termination rates, varying by age and length of service, based on the recent experience of the fund.
- **Mortality Rates:** The UP-1994 Mortality Table for Males, rated down 1 year, for male participants. The UP-1994 Mortality Table for Females, rated up 1 year, for female participants.

In our opinion, the actuarial assumptions used for the valuation are reasonable, in the aggregate, taking into account Fund experience and future expectations and represent our best estimate of anticipated experience.

The entry age actuarial cost method was used for the December 31, 2008 valuation, with costs allocated on the basis of earnings. This is the same actuarial cost method that was used for the December 31, 2007 valuation.

SANDOR GOLDSTEIN, F.S.A.
Consulting Actuary
Goldstein and Associates

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APPENDIX D

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Demographic and economic developments are best understood in a comparative framework. This section provides material for analyzing and comparing trends in Cook County with those in other major counties in the nation. To maximize the value of the comparisons, the counties utilized in the tables were selected on the basis of several criteria in addition to size. These include:

(1) Governmental functions similar in magnitude and scope to those of Cook County. This requirement resulted in the exclusion of counties that exist in form but perform no, or only minor, government activities. This group includes, among others, the five counties comprising New York City, Middlesex, Massachusetts; and such city-counties as Philadelphia and Baltimore.

(2) A large central city within the county. This requirement led to the exclusion of such populous counties as Orange, California and Nassau and Suffolk in New York State.

Several tables in this section compare economic trends in metropolitan areas rather than in counties, since timely data are available only on a metropolitan area basis.

Extensive revisions have been made to the definitions of U.S. metropolitan areas. These changes have not affected all metropolitan areas equally. For example, “Primary Metropolitan Statistical Areas” are now obsolete. Under the 2000 standards, “Metropolitan Statistical Area” (“MSA”) is the term used for the basic set of county-based areas defined under this classification. In addition, eleven (11) MSAs were deemed large enough to be subdivided into “Metropolitan Divisions” (“MD”). The MDs are the most comparable in concept to the now obsolete Primary Metropolitan Statistical Area.

Population of Ten Major Counties

| County | 2008* | 2000 | 1990 | 1980 | 1970 |
|-----------------------|-----------|-----------|-----------|-----------|-----------|
| Los Angeles, CA | 9,862,049 | 9,519,338 | 8,863,164 | 7,477,657 | 7,041,980 |
| Cook, IL | 5,294,664 | 5,376,741 | 5,105,067 | 5,253,190 | 5,493,766 |
| Harris, TX | 3,984,349 | 3,400,578 | 2,818,199 | 2,409,544 | 1,741,912 |
| Maricopa, AZ | 3,954,598 | 3,072,149 | 2,122,101 | 1,508,030 | 971,228 |
| San Diego, CA | 3,001,072 | 2,813,833 | 2,498,016 | 1,861,946 | 1,357,854 |
| Miami-Dade, FL | 2,398,245 | 2,253,362 | 1,937,094 | 1,625,946 | 1,267,792 |
| Dallas, TX | 2,412,827 | 2,218,899 | 1,852,810 | 1,556,549 | 1,327,695 |
| Wayne, MI | 1,949,929 | 2,061,162 | 2,111,687 | 2,337,240 | 2,670,368 |
| Cuyahoga, OH | 1,283,925 | 1,393,978 | 1,412,140 | 1,498,295 | 1,720,835 |
| Allegheny, PA | 1,215,103 | 1,281,666 | 1,336,449 | 1,450,085 | 1,605,133 |

Source: U.S. Department of Commerce, Bureau of the Census.
 *2008 Population Estimates.

Per Capita Personal Income (1)

| County | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|----------|----------|----------|----------|----------|
| Los Angeles, CA..... | \$39,794 | \$37,991 | \$35,147 | \$33,167 | \$31,611 |
| Cook, IL..... | 45,230 | 42,177 | 39,754 | 37,772 | 35,790 |
| Harris, TX..... | 49,634 | 46,132 | 43,028 | 39,796 | 36,900 |
| Wayne, MI..... | 31,724 | 30,272 | 29,621 | 29,081 | 28,987 |
| San Diego, CA..... | 44,430 | 42,721 | 40,406 | 38,567 | 35,743 |
| Miami-Dade, FL..... | 36,081 | 34,708 | 31,863 | 29,830 | 27,908 |
| Dallas, TX..... | 45,131 | 43,488 | 41,354 | 39,031 | 36,844 |
| Cuyahoga, OH..... | 40,838 | 38,715 | 36,800 | 35,544 | 33,659 |
| Maricopa, AZ..... | 36,135 | 35,667 | 33,739 | 31,715 | 29,933 |
| Allegheny, PA..... | 46,699 | 43,904 | 40,683 | 39,289 | 37,566 |
| U.S. Average, Metropolitan Counties..... | 38,615 | 36,794 | 34,690 | 33,157 | 31,530 |

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2003-2007 reflect county population estimates available as of April 2009.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Nonfarm Payroll Employment in Metropolitan Statistical Areas and Metropolitan Divisions (1)

| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|------------------------|---------|---------|---------|---------|---------|---------|
| New York, NY..... | 5,276.1 | 5,231.6 | 5,139.9 | 5,070.5 | 5,007.5 | 4,991.9 |
| Los Angeles, CA..... | 4,069.3 | 4,122.1 | 4,092.5 | 4,016.5 | 3,992.1 | 3,982.9 |
| Chicago, IL..... | 3,846.2 | 3,873.1 | 3,843.7 | 3,790.9 | 3,748.5 | 3,756.9 |
| Philadelphia, PA..... | 1,923.0 | 1,919.1 | 1,906.0 | 1,890.1 | 1,868.3 | 1,869.9 |
| Detroit, MI..... | 759.1 | 784.2 | 804.2 | 821.5 | 836.7 | 844.0 |
| Dallas, TX..... | 2,109.1 | 2,076.1 | 2,017.3 | 1,951.5 | 1,904.8 | 1,882.9 |
| Houston, TX..... | 2,602.7 | 2,544.6 | 2,446.1 | 2,350.2 | 2,287.9 | 2,273.9 |
| San Francisco, CA..... | 995.0 | 989.1 | 967.7 | 943.6 | 938.4 | 950.1 |
| Cleveland, OH..... | 1,059.1 | 1,072.3 | 1,075.0 | 1,070.8 | 1,073.4 | 1,074.1 |
| Pittsburgh, PA..... | 1,149.1 | 1,146.1 | 1,137.1 | 1,136.9 | 1,134.7 | 1,134.0 |

(1) Number of persons, in thousands, not seasonally adjusted.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Unemployment Rates in Metropolitan Statistical Areas and Metropolitan Divisions (1)

| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------------------------|------|------|------|------|------|------|
| New York, NY (t) | 5.5% | 4.7% | 4.8% | 5.3% | 6.4% | 7.4% |
| Los Angeles, CA (t) | 7.5 | 5.1 | 4.8 | 5.3 | 6.5 | 7.0 |
| Chicago, IL (m) | 6.2 | 4.9 | 4.5 | 6.0 | 6.2 | 6.9 |
| Philadelphia, PA (t) | 5.4 | 4.4 | 4.5 | 4.9 | 5.4 | 5.6 |
| Detroit, MI (m) | 9.9 | 8.7 | 8.4 | 8.7 | 8.6 | 8.6 |
| San Francisco, CA (t) | 5.0 | 4.0 | 3.9 | 4.6 | 5.2 | 6.1 |
| Dallas, TX (t) | 5.1 | 4.4 | 4.8 | 5.3 | 6.0 | 6.8 |
| Houston, TX (t) | 4.8 | 4.3 | 5.0 | 5.6 | 6.2 | 6.7 |
| Pittsburgh, PA (t) | 5.1 | 4.3 | 4.7 | 5.2 | 5.7 | 5.9 |
| Cleveland, OH (m) | 6.6 | 5.9 | 5.5 | 5.7 | 5.9 | 6.0 |

(1) Not seasonally adjusted.

(t) Reflects revised inputs, reestimation, and new statewide controls through 2008.

(m) Reflects revised population controls and model re-estimation through 2008.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Unemployment Rates for the Civilian Labor Force

| | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|-----------------------------|------|------|------|------|------|------|
| United States | 5.8 | 4.6 | 4.6 | 5.1% | 5.5% | 6.0% |
| State of Illinois (m) | 6.5 | 5.1 | 4.6 | 5.8 | 6.2 | 6.7 |
| Cook County, IL (t) | 6.5 | 5.2 | 4.8 | 6.4 | 6.7 | 7.4 |
| Chicago—MD (t) | 6.2 | 4.9 | 4.5 | 6.0 | 6.2 | 6.9 |

(m) Reflects revised population controls and model re-estimation through 2008.

(t) Reflects revised inputs, reestimation, and new statewide controls through 2008.

Source: U.S. Department of Labor, Bureau of Labor Statistics and Illinois Department of Employment Security.

Housing Units Authorized by Building Permits

| Metropolitan Area – MSA/MD | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|----------------------------|--------|--------|--------|--------|--------|--------|
| Chicago, IL | 16,058 | 33,933 | 46,772 | 53,908 | 47,541 | 49,954 |
| Cleveland, OH | 2,685 | 4,075 | 5,194 | 6,438 | 7,409 | 7,040 |
| Dallas, TX | 36,321 | 43,568 | 56,514 | 59,895 | 53,470 | 52,813 |
| Detroit, MI | 2,590 | 4,325 | 8,920 | 16,392 | 21,080 | 19,900 |
| Houston, TX | 42,728 | 63,274 | 71,719 | 62,125 | 53,331 | 56,571 |
| Los Angeles, CA | 15,045 | 26,616 | 33,505 | 30,641 | 35,785 | 30,151 |
| Miami, FL | 7,821 | 15,145 | 35,110 | 45,562 | 46,084 | 39,595 |
| New York, NY | 51,590 | 56,405 | 60,987 | 67,207 | 56,833 | 49,812 |
| Philadelphia, PA | 10,570 | 13,477 | 17,212 | 20,242 | 21,010 | 21,080 |
| Phoenix, AZ | 18,533 | 37,373 | 44,280 | 62,617 | 65,259 | 54,860 |
| San Diego, CA | 5,357 | 7,435 | 9,191 | 14,306 | 15,587 | 18,031 |
| San Francisco, CA | 7,555 | 10,560 | 14,483 | 14,883 | 15,239 | 14,828 |

Source: U.S. Department of Commerce, Bureau of the Census, Building Permits Branch, Construction Statistics Division.

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APPENDIX E

FORM OF OPINION OF CO-BOND COUNSEL

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PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

TO BE DATED THE CLOSING DATE

[To be provided on the letterheads, respectively, of
the law offices of Chapman and Cutler LLP, Chicago, Illinois,
and Pugh, Jones, Johnson & Quandt, P.C., Chicago, Illinois]

We hereby certify that we have examined certified copy of the proceedings (the “*Proceedings*”) of the Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago, County of Cook, State of Illinois (the “*District*”), passed preliminary to the issue by the District of its fully registered Taxable General Obligation Capital Improvement Bonds, Limited Tax Series of August, 2009 (Build America Bonds–Direct Payment) (the “*Bonds*”), to the amount of \$600,000,000, dated August 26, 2009, in denominations of \$5,000 or any integral multiple thereof, due and payable (subject to right of prior redemption) on December 1, 2038, and bearing interest at the rate of 5.72% per annum, which Bonds have been issued for the purpose of repairing, improving and extending the various works of the District. Each of the Bonds bears interest from the later of its dated date as stated above or from the most recent interest payment date to which interest has been paid or duly provided for, until the principal amount of each such Bond, respectively, is paid or duly provided for, such interest (computed upon the basis of a 360-day year of twelve 30-day months) being payable on June 1 and December 1 of each year, commencing on June 1, 2010.

The Bonds are subject to redemption prior to maturity at the option of the District, from any available funds, in whole or in part, on any Business Day (as defined in the Proceedings) at the Make-Whole Redemption Price (as defined in the Proceedings), which will be determined under the formula set out in the Proceedings, plus accrued interest to the date fixed for redemption.

The Bonds are further subject to extraordinary optional redemption prior to their maturity at the option of the District, in whole or in part, upon the occurrence of an Extraordinary Event (as defined in the Proceedings) at the Extraordinary Optional Redemption Price (as defined in the Proceedings) which will be determined under the formula set out in the Proceedings, plus accrued interest to the date fixed for redemption.

The Bonds are subject to mandatory redemption, in integral multiples of \$5,000 selected by the Bond Registrar, at a redemption price of par plus accrued interest to the redemption date, on December 1 of the years and in the principal amounts as follows:

| YEAR | PRINCIPAL AMOUNT |
|------|------------------|
| 2033 | 45,000,000 |
| 2034 | 100,000,000 |
| 2035 | 105,000,000 |
| 2036 | 110,000,000 |
| 2037 | 115,000,000 |

with \$125,000,000 remaining to be paid at maturity on December 1, 2038.

We are of the opinion that the Proceedings show lawful authority for the issuance of the Bonds under the laws of the State of Illinois now in force.

We further certify that we have examined the form of Bond prescribed and find the same in due form of law; and in our opinion the Bonds, to the amount named, are valid and legally binding direct and general obligations of the District, the payment for which the full faith and credit of the District has been pledged, and all taxable property in the District is subject to the levy of taxes to pay the same without limitation as to rate, all except that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion. The amount of said taxes that may be extended to pay the Bonds is, however, limited as provided by the Property Tax Extension Limitation Law of the State of Illinois, as amended (the "*Law*"). The Law provides that the annual amount of said taxes to be extended to pay the Bonds and all other limited bonds (as defined in the Local Government Debt Reform Act of the State of Illinois, as amended) previously or hereafter issued by the District shall not exceed the debt service extension base (as defined in the Law) of the District less the amount extended to pay certain other non-referendum bonds previously and hereafter issued by the District, as more fully described in the Proceedings.

It is also our opinion that under present law, interest on the Bonds is not excludable from gross income of the owners thereof for federal income tax purposes. Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers. Bondholders should consult their own tax advisors concerning tax consequences of ownership of the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

In rendering this opinion, we have relied upon certifications of the District with respect to certain material facts within the District's knowledge. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Metropolitan Water Reclamation District of Greater Chicago

Multi-Year Awards

1975 – 2007

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

1993 – 2007

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

1985 – 2008

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

2007

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

Individual Year Awards (partial listing)

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 I, "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-intrade Program

Illinois Safety Council
2001 Transportation Award for Outstanding Safety Performance

2003

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

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

Metropolitan Water Reclamation District of Greater Chicago

Individual Year Awards (continued)

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

2007

Chicago Wilderness and United States Environmental Protection Agency
*Conservation and Native Landscape Award for Native Prairie Restoration
At the Lemont and North Side Water Reclamation Plants*

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewerage Agencies
*NACWA Award for Compliance with National Pollutant Discharge Elimination System - Platinum Award
For 16 concurrent years of full compliance for the Calumet Water Reclamation Plant and
For 11 concurrent years of full compliance for the Stickney and Lemont Water Reclamation Plants*

National Association of Clean Water Agencies, formerly known as Association of Metropolitan Sewerage Agencies
*NACWA Award for Full Compliance with National Pollutant Discharge Elimination System-Gold Award
For the John Egan, James Kirie and North Water Reclamation Plants*

2008

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



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