

City of Chicago, Illinois
Water Fund

*Basic Financial Statements as of and for the
Years Ended December 31, 2006 and 2005,
Required Supplementary Information,
Additional Information, Statistical Data and
Independent Auditors' Report*

CITY OF CHICAGO, ILLINOIS WATER FUND

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INDEPENDENT AUDITORS' REPORT

The Honorable Richard M. Daley, Mayor,
and Members of the City Council
City of Chicago, Illinois

We have audited the accompanying basic financial statements of the Water Fund (Water Fund) of the City of Chicago, Illinois (City) as of December 31, 2006 and 2005, and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting for the Water Fund. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the basic financial statements referred to above present only the Water Fund and are not intended to present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Water Fund as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The Management's Discussion and Analysis is the responsibility of the City's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion or any other form of assurance on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the foregoing table of contents, which is also the responsibility of the City's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly presented, in all material respects, when considered in relation to the basic financial statements taken as a whole.

The statistical data, as listed in the foregoing table of contents, is also presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such statistical data has not been subjected to auditing procedures and, accordingly, we do not express an opinion or any other form of assurance on it.

Deloitte + Touche LLP

June 27, 2007

CITY OF CHICAGO, ILLINOIS

WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of City of Chicago, Illinois, Water Fund's financial performance provides an introduction and overview of the Water Fund's financial activities for the fiscal years ended December 31, 2006 and 2005. Please read this discussion in conjunction with the Water Fund's basic financial statements and the notes to basic financial statements following this section.

FINANCIAL HIGHLIGHTS

2006

- Operating revenues for 2006 decreased by \$13.8 million compared to prior year operating revenues. This decrease is primarily due to the decrease in pumpage/usage due to the mild summer during the year. There was no rate increase in the year 2006 and the discount of 2.5% to customers paying before the due date was discontinued effective January 1, 2006.
- Operating expenses before depreciation and amortization for 2006 decreased by \$2.7 million compared to 2005 due to decreases in gas charges of about \$2.1 million and judgments of approximately \$3 million, offset by an increase in electricity charges and in professional services.
- The Water Fund's total net assets at December 31, 2006 were \$960.9 million. This is an increase of \$18.2 million over total net assets at December 31, 2005.
- Total utility plant increased in 2006 by \$124.3 million due to the continuing capital improvement program.

2005

- Operating revenues for 2005 increased by \$16.8 million compared to prior year operating revenues. This increase is primarily due to the water rate increase of three percent effective January 1, 2005 and an increase in pumpage/usage during the summer season.
- Operating expenses before depreciation and amortization increased by \$21.3 million compared to 2004 due to increases in the gas rate as well as consumption, increase in salaries due to new labor contracts and increase in indirect costs.
- The Water Fund's total net assets at December 31, 2005 were \$942.7 million. This is an increase of \$23.6 million over total net assets at December 31, 2004.
- Total utility plant increased in 2005 by \$102 million due to the continuing capital improvement program.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Water Fund's basic financial statements. The Water Fund's basic financial statements comprise the Financial Statements and the Notes to Financial Statements. In addition to the basic financial statements this report also presents Additional Information and Statistical Data after the Notes to Basic Financial Statements.

The Statements of Net Assets present all of the Water Fund's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private-sector companies. The difference between assets and liabilities is reported as net assets. The increase or decrease in net assets may serve as an indicator, over time, whether the Water Fund's financial position is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Assets present all current year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net assets.

The Statements of Cash Flows report how cash and cash equivalents are provided and used by the Water Fund's operating, capital financing and investing activities. These statements are prepared on a cash basis and present the cash received and disbursed, the net increase or decrease in cash and cash equivalents for the year and the cash and cash equivalents balance at year-end.

The Notes to Basic Financial Statements are an integral part of the financial statements; accordingly, such disclosures are essential to a full understanding of the information provided in the financial statements. The Notes to Basic Financial Statements begin on page 15.

In addition to the basic financial statements, this report includes Additional Information and Statistical Data. The Additional Information section presents a schedule of utility plant. The Statistical Data section presents unaudited debt service coverage calculations and certain unaudited information related to the Water Fund's nonfinancial data and capital activities.

FINANCIAL ANALYSIS

At December 31, 2006, the Water Fund's financial position continued to be strong with total assets of \$2,301 million, total liabilities of \$1,341 million and net assets of \$961 million. A comparative condensed summary of the Water Fund's net assets at December 31, 2006, 2005 and 2004 is as follows:

(In thousands of dollars)	Net Assets		
	2006	2005	2004
Current assets	\$ 109,251	\$ 151,391	\$ 108,502
Restricted and other assets	266,918	160,778	210,615
Utility plant — net	<u>1,925,223</u>	<u>1,833,545</u>	<u>1,764,374</u>
Total assets	<u>\$ 2,301,392</u>	<u>\$ 2,145,714</u>	<u>\$ 2,083,491</u>
Current liabilities	\$ 106,358	\$ 144,281	\$ 109,460
Long-term and restricted liabilities	<u>1,234,168</u>	<u>1,058,775</u>	<u>1,054,940</u>
Total liabilities	<u>\$ 1,340,526</u>	<u>\$ 1,203,056</u>	<u>\$ 1,164,400</u>
Net assets:			
Invested in capital assets — net of related debt	\$ 902,843	\$ 819,025	\$ 742,173
Restricted	1,998	76,233	125,577
Unrestricted	<u>56,025</u>	<u>47,400</u>	<u>51,341</u>
Total net assets	<u>\$ 960,866</u>	<u>\$ 942,658</u>	<u>\$ 919,091</u>

2006

Current assets of \$109.3 million at December 31, 2006 decreased by \$42.1 million (27.8%) over 2005 as a result of a decrease in cash and cash equivalents of \$34.9 million, a decrease in receivables of \$5.7 million, offset by an increase in inventories of \$3.8 million and an increase in due from other city funds of \$2.4 million. Restricted and other assets increased by \$106.1 million (66.0%) and utility plant-net increased by \$91.7 million (5.0%) due principally to the ongoing capital improvement program.

The reduction in current liabilities of \$37.9 million (26.3%) is directly related to the timing of payments of accounts payable and due to other City funds balances during 2006 and a decrease in accrued liabilities. Long-term liabilities and restricted liabilities increased by \$175.4 million (16.6%) mainly due to issuance of new Water Revenue Bonds in 2006, \$96.2 million of which was used to retire outstanding commercial paper.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2006, total net assets were \$960.9 million, an increase of \$18.2 million (1.9%) over 2005.

2005

Current assets of \$151.4 million at December 31, 2005 increased by \$42.9 million (39.5%) over 2004 as a result of an increase in cash and cash equivalents of \$30.2 million and an increase in investments of \$8.7 million. Restricted and other assets decreased by \$49.8 million (23.7%) and utility plant-net increased by \$69.2 million (3.9%) due principally to the ongoing capital improvement program.

Current liabilities as of December 31, 2005 increased by \$34.8 million (31.8%) due to the timing of payments made. Long-term liabilities and restricted liabilities increased by \$3.8 million (0.4%) mainly due to additional draws on commercial paper offset by payments made on revenue bonds.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2005, total net assets were \$942.7 million, an increase of \$23.6 million (2.6%) over 2004.

The primary sources of Water Fund's operating revenues are water usage fees. These revenues fund all Water Fund operating expenses, fund deposits and debt service requirements. A comparative condensed summary of the Water Fund's revenues, expenses, and changes in net assets for the years ended December 31, 2006, 2005 and 2004 is as follows:

(In thousands of dollars)	<u>Revenues, Expenses, and Changes in Net Assets</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Operating revenues			
Water sales — net	\$ 317,183	\$ 333,685	\$ 314,533
Other operating revenues	<u>13,256</u>	<u>10,582</u>	<u>12,981</u>
Total operating revenues	330,439	344,267	327,514
Nonoperating revenues	<u>11,844</u>	<u>5,744</u>	<u>5,454</u>
Total revenues	<u>342,283</u>	<u>350,011</u>	<u>332,968</u>
Expenses:			
Operating expenses	243,185	245,880	224,584
Depreciation and amortization	33,749	37,466	32,798
Nonoperating expenses	<u>47,141</u>	<u>43,098</u>	<u>40,521</u>
Total expenses	<u>324,075</u>	<u>326,444</u>	<u>297,903</u>
Change in net assets	18,208	23,567	35,065
Net assets, beginning of year	<u>942,658</u>	<u>919,091</u>	<u>884,026</u>
Net assets, end of year	<u>\$ 960,866</u>	<u>\$ 942,658</u>	<u>\$ 919,091</u>

2006

Water sales and other operating revenues comprise the Water Fund's \$330.4 million operating revenues. Water sales and other operating revenues for 2006 were \$317.2 million and \$13.2 million, respectively. The decrease in 2006 operating revenues of \$13.8 million (4.0%) from 2005 was primarily due to a reduction in water usage, offset by the discontinued discount effective January 1, 2006. In addition, no rate increase occurred in 2006.

Fiscal year 2006 nonoperating revenues of \$11.8 million were comprised mainly of interest income of \$3.8 million and other revenue of \$8.0 million. During 2006, were nonoperating revenues increased principally due to an increase in construction activity for other City Funds and private companies.

2005

Water sales, net of discounts and other operating revenues comprise the Water Fund's \$344.3 million operating revenues. Water sales, net of discounts and other operating revenues for 2005, were \$333.7 million and \$10.6 million, respectively. The increase in 2005 operating revenues of \$16.8 million (5.1%) over 2004

was primarily due to the three percent water rate increase effective January 1, 2005 and increase in water consumption during the summer season as compared to summer of 2004.

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2006, 2005 and 2004 is as follows:

(In thousands of dollars)	Operating Expenses		
	2006	2005	2004
Source of supply	\$ 236	\$ 224	\$ 407
Power and pumping	49,827	50,558	42,095
Purification	41,933	43,252	40,644
Transmission and distribution	41,547	39,374	39,071
Provision for doubtful accounts	3,563	2,736	3,727
Customer accounting and collection	16,943	16,315	14,851
Administrative and general Central services and General Fund reimbursements	15,103	13,194	11,497
	<u>74,033</u>	<u>80,227</u>	<u>72,292</u>
Operating expenses before depreciation and amortization	243,185	245,880	224,584
Depreciation and amortization	<u>33,749</u>	<u>37,466</u>	<u>32,798</u>
Total operating expenses	<u>\$ 276,934</u>	<u>\$ 283,346</u>	<u>\$ 257,382</u>

2006

Operating expenses before depreciation and amortization for the year 2006 decreased by \$2.7 million (1.1%) from year 2005. A decrease in Central Services and General Fund Reimbursement expense of \$6.2 million (7.7%) was primarily due to decreases in premiums and legal settlement of about \$3.0 million compared to 2005. Transmission and Distribution expenses increased by \$2.2 million due to increases in professional services, inventory usage and charges for waste disposal services. The increase in Administrative and General expenses is a result of increases in professional services and rental of property. Depreciation and amortization expense decreased in 2006 by \$3.7 million.

Nonoperating expenses of \$47.1 million and \$43.1 million for the years 2006 and 2005, respectively, consisted primarily of interest expense related to long-term bonds and notes.

2005

Operating expenses before depreciation and amortization for the year 2005 increased by \$21.3 million (9.5%) from year 2004. The increase was generally due to an increase in salaries and wages which includes payments for prior years due to a new labor contract approved in 2005. Increase in operating expenses also includes an increase in natural gas costs due to increase in gas rates and usage. Central Services and General Fund reimbursements increased approximately \$7.9 million, due to an increase in indirect costs of about \$5 million and a legal settlement of about \$3 million. Depreciation and amortization expense increased in 2005 by \$4.7 million (14.2%) as a result of the continuing capital improvement activities.

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2006, 2005 and 2004 is as follows:

(In thousands of dollars)	Cash Flows		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash from activities:			
Operating	\$ 48,752	\$ 129,169	\$ 90,948
Capital and related financing	2,362	(145,501)	(156,166)
Investing	<u>(64,718)</u>	<u>5,562</u>	<u>91,006</u>
Net change in cash and cash equivalents	(13,604)	(10,770)	25,788
Cash and cash equivalents:			
Beginning of year	<u>100,608</u>	<u>111,378</u>	<u>85,590</u>
End of year	<u>\$ 87,004</u>	<u>\$ 100,608</u>	<u>\$ 111,378</u>

2006

As of December 31, 2006, the Water Fund's cash and cash equivalents of \$87.0 million decreased by \$13.6 million due to the cash provided of \$48.8 million from operating activities and cash inflow of \$2.4 million from capital and related financing activities, offset by outflows of cash from investing activities of \$64.7 million. Total cash and cash equivalents at December 31, 2006 comprised unrestricted and restricted cash and cash equivalents of \$18.0 million and \$69.0 million, respectively.

2005

As of December 31, 2005, the Water Fund's cash and cash equivalents of \$100.6 million decreased by \$10.8 million due to the cash inflows of \$129.2 million and \$5.6 million from operating and investing activities, respectively, offset by cash used for capital and related financing activities of \$145.5 million. Total cash and cash equivalents at December 31, 2005 comprised unrestricted and restricted cash and cash equivalents of \$52.9 million and \$47.7 million, respectively.

UTILITY PLANT AND DEBT ADMINISTRATION

2006

At the end of 2006 and 2005, the Water Fund had \$1,925.2 million and \$1,833.5 million, respectively, invested in utility plant, net of accumulated depreciation. During 2006, the Water Fund expended \$127.5 million on capital activities. This included \$4.7 million for structures and improvements, \$53.3 million for distribution plant, \$10.3 million for equipment and \$59.2 million for construction in progress.

During 2006, completed projects totaling \$48.3 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to the structures and improvements such as the Chicago Avenue Pumping Station's lighting and landscaping (\$3.8 million) and Jardine Water Purification Plant window replacement (\$1.2 million); fluoride equipment replacement (\$6.8 million) and replacements of water mains (\$28.3 million).

2005

At the end of 2005 and 2004, the Water Fund had \$1,833.5 million and \$1,764.4 million, respectively, invested in utility plant, net of accumulated depreciation. During 2005, the Water Fund expended \$107 million on capital activities. This included \$2.4 million for structures and improvements, \$35.5 million for distribution plant, \$5.6 million for equipment and \$63.5 million for construction in progress.

During 2005, completed projects totaling \$36.9 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related primarily to water mains installed in various districts (approximately \$34.2 million).

The Water Fund's utility plant at December 31, 2006, 2005 and 2004 is summarized as follows:

(In thousands of dollars)	Net Utility Plant at Year-End		
	2006	2005	2004
Utility plant not depreciated:			
Land and land rights	\$ 5,083	\$ 5,083	\$ 5,083
Construction in progress	<u>107,764</u>	<u>98,049</u>	<u>72,336</u>
Total utility plant not depreciated	<u>112,847</u>	<u>103,132</u>	<u>77,419</u>
Utility plant being depreciated:			
Structures and improvements	462,553	452,673	448,682
Distribution plant	1,522,227	1,435,884	1,367,554
Equipment	<u>456,685</u>	<u>438,327</u>	<u>434,343</u>
Total utility plant being depreciated	<u>2,441,465</u>	<u>2,326,884</u>	<u>2,250,579</u>
Less accumulated depreciation:			
Structures and improvements	(148,348)	(142,214)	(136,180)
Distribution plant	(263,362)	(249,310)	(235,625)
Equipment	<u>(217,379)</u>	<u>(204,947)</u>	<u>(191,819)</u>
Total accumulated depreciation	<u>(629,089)</u>	<u>(596,471)</u>	<u>(563,624)</u>
Total utility plant being depreciated — net	<u>1,812,376</u>	<u>1,730,413</u>	<u>1,686,955</u>
Total utility plant — net	<u>\$ 1,925,223</u>	<u>\$ 1,833,545</u>	<u>\$ 1,764,374</u>

The Water Fund's capital activities are funded through Water Fund revenue bonds and Water Fund revenue. Additional information on the Water Fund's capital assets is presented in Note 5 of the notes to basic financial statements on page 27 of this report.

The Water Fund's long-term liabilities at December 31, 2006, 2005 and 2004 are summarized as follows:

(In thousands of dollars)	Long-Term Liabilities at Year-End		
	2006	2005	2004
Revenue bonds and notes payable	\$ 1,199,988	\$ 1,045,744	\$ 1,037,099
Add accretion of Capital			
Appreciation Bonds	37,960	36,732	34,816
Less unamortized:			
Bond discount/premium	8,605	1,988	2,060
Deferred loss on bond refunding	<u>(43,394)</u>	<u>(45,362)</u>	<u>(47,330)</u>
 Total revenue bonds/notes payable — net	 1,203,159	 1,039,102	 1,026,645
Less current portion of accretion	(3,198)	(4,292)	(4,359)
Less current bonds/notes payable	<u>(30,764)</u>	<u>(14,656)</u>	<u>(14,666)</u>
 Total long-term revenue bonds/notes payable — net	 1,169,197	 1,020,154	 1,007,620
Long-term purchase obligations			
Water pipe extension certificates	<u>1,662</u>	<u>1,662</u>	<u>1,722</u>
 Total long-term debt	 <u>\$ 1,170,859</u>	 <u>\$ 1,021,816</u>	 <u>\$ 1,009,342</u>

Additional information on the Water Fund's long-term debt is presented in Note 4 of the notes to basic financial statements on page 22 and in the unaudited Statistical Data section on page 33 of this report.

The Water Fund's revenue bonds at December 31, 2006 have underlying credit ratings with each of the three major rating agencies as follows:

	Moody's Investor Services	Standard & Poor's	Fitch Ratings
Senior Lien Water Revenue Bonds	Aa3	AA-	AA+
Junior Lien Water Revenue Bonds	A1	A+	AA

At December 31, 2006, the Water Fund was in compliance with the debt covenants as stated within the bond ordinances. Additional information on certain of the Water Fund's debt covenants and debt service coverage calculation is presented in Note 4 of the notes to basic financial statements on page 22 and in the unaudited Statistical Data section on page 33 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the Water Fund's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2006 AND 2005
(In thousands of dollars)**

	2006	2005		2006	2005
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 17,964	\$ 52,866	Accounts payable	\$ 17,584	\$ 40,386
Investments (Note 2)	1,578	9,410	Due to other City funds	30,899	36,864
Accounts receivable, net of allowance for doubtful accounts of approximately \$10,312 in 2006 and \$8,460 in 2005	59,954	65,619	Accrued liabilities	45,703	55,292
Interest receivable	37	21	Deferred revenue	<u>12,172</u>	<u>11,739</u>
Due from other City funds	14,974	12,530			
Inventories	<u>14,744</u>	<u>10,945</u>	Current unrestricted liabilities	<u>106,358</u>	<u>144,281</u>
Current unrestricted assets	<u>109,251</u>	<u>151,391</u>	Liabilities payable from restricted assets:		
Restricted assets (Notes 2 and 3):			Accounts payable	20,785	10,697
Cash and cash equivalents	69,040	47,742	Due to other City funds	1,379	1,310
Investments	185,346	103,466	Interest payable	7,183	6,004
Interest receivable	<u>1,998</u>	<u>698</u>	Current portion of long-term debt (Note 4)	<u>33,962</u>	<u>18,948</u>
Current restricted assets	<u>256,384</u>	<u>151,906</u>	Current liabilities payable from restricted assets	<u>63,309</u>	<u>36,959</u>
NONCURRENT ASSETS:			NONCURRENT LIABILITIES:		
Other assets	<u>10,534</u>	<u>8,872</u>	Long-term debt:		
			Long-term debt — net of current maturities (Note 4)	1,169,197	1,020,154
Utility plant (Note 5):			Water pipe extension certificates	<u>1,662</u>	<u>1,662</u>
Land and land rights	5,083	5,083			
Structures and improvements	462,553	452,673	Total noncurrent long-term debt	<u>1,170,859</u>	<u>1,021,816</u>
Distribution plant	1,522,227	1,435,884			
Equipment	456,685	438,327	Total noncurrent liabilities	<u>1,170,859</u>	<u>1,021,816</u>
Construction in progress	<u>107,764</u>	<u>98,049</u>			
			Total liabilities	<u>1,340,526</u>	<u>1,203,056</u>
Total utility plant	2,554,312	2,430,016			
Less accumulated depreciation	<u>629,089</u>	<u>596,471</u>	NET ASSETS (Note 1):		
Utility plant — net	<u>1,925,223</u>	<u>1,833,545</u>	Invested in capital assets — net of related debt	902,843	819,025
Total noncurrent assets	<u>1,935,757</u>	<u>1,842,417</u>	Restricted net assets — capital projects	1,998	76,233
			Unrestricted net assets	<u>56,025</u>	<u>47,400</u>
TOTAL	<u>\$2,301,392</u>	<u>\$2,145,714</u>	Total net assets	<u>960,866</u>	<u>942,658</u>
			TOTAL	<u>\$2,301,392</u>	<u>\$2,145,714</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of dollars)**

	2006	2005
OPERATING REVENUES:		
Water sales	\$ 317,183	\$ 339,315
Less discounts allowed		<u>5,630</u>
Water sales — net	317,183	333,685
Other operating revenues	<u>13,256</u>	<u>10,582</u>
Total operating revenues	<u>330,439</u>	<u>344,267</u>
OPERATING EXPENSES:		
Source of supply	236	224
Power and pumping	49,827	50,558
Purification	41,933	43,252
Transmission and distribution	41,547	39,374
Provision for doubtful accounts	3,563	2,736
Customer accounting and collection	16,943	16,315
Administrative and general	15,103	13,194
Central services and General Fund reimbursements	<u>74,033</u>	<u>80,227</u>
Total operating expenses before depreciation and amortization	<u>243,185</u>	<u>245,880</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	87,254	98,387
DEPRECIATION AND AMORTIZATION	<u>33,749</u>	<u>37,466</u>
OPERATING INCOME	<u>53,505</u>	<u>60,921</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	3,834	2,559
Interest expense	(47,141)	(43,098)
Other	<u>8,010</u>	<u>3,185</u>
Total nonoperating expenses	<u>(35,297)</u>	<u>(37,354)</u>
CHANGE IN NET ASSETS	18,208	23,567
TOTAL NET ASSETS — Beginning of year	<u>942,658</u>	<u>919,091</u>
TOTAL NET ASSETS — End of year	<u>\$ 960,866</u>	<u>\$ 942,658</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of dollars)**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 332,975	\$ 341,711
Transactions with other City funds — net	(60,426)	(43,586)
Payments to vendors	(101,166)	(45,279)
Payments to employees	<u>(122,631)</u>	<u>(123,677)</u>
 Cash flows from operating activities	 <u>48,752</u>	 <u>129,169</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(113,096)	(111,718)
Interest paid	(48,754)	(41,254)
Proceeds from issuance of bonds and notes	271,883	23,312
Principal paid on bonds	(115,681)	(19,026)
Construction reimbursements	<u>8,010</u>	<u>3,185</u>
 Cash flows from (used in) capital and related financing activities	 <u>2,362</u>	 <u>(145,501)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	(74,048)	(195)
Investment interest	<u>9,330</u>	<u>5,757</u>
 Cash flows (used in) from investing activities	 <u>(64,718)</u>	 <u>5,562</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (13,604)	 (10,770)
 CASH AND CASH EQUIVALENTS — Beginning of year	 <u>100,608</u>	 <u>111,378</u>
 CASH AND CASH EQUIVALENTS — End of year	 <u>\$ 87,004</u>	 <u>\$ 100,608</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:		
Unrestricted	\$ 17,964	\$ 52,866
Restricted	<u>69,040</u>	<u>47,742</u>
 TOTAL	 <u>\$ 87,004</u>	 <u>\$ 100,608</u>

(Continued)

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of dollars)**

	2006	2005
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 53,505	\$ 60,921
Adjustments to reconcile:		
Depreciation and amortization	33,749	37,466
Provision for doubtful accounts	3,563	2,736
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	2,102	(2,979)
(Increase) in inventories	(3,799)	(1,525)
Increase in due from other City funds	(2,444)	(2,214)
(Decrease) increase in unrestricted accounts payable	(22,803)	21,924
(Decrease) increase in due to other City funds	(5,965)	10,623
(Decrease) increase in accrued liabilities	(9,589)	1,794
Increase in deferred revenue	433	483
Decrease in water pipe extension certificates	_____	(60)
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 48,752</u>	<u>\$ 129,169</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2006 and 2005 of \$22,164 and \$12,007, respectively, are included in accounts payable.

See notes to basic financial statements.

(Concluded)

CITY OF CHICAGO, ILLINOIS

WATER FUND

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (In thousands of dollars)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Water Fund purifies and provides Lake Michigan water for the City of Chicago, Illinois (City) and 125 suburbs. The Water Fund is included in the City's reporting entity as an Enterprise Fund.

Basis of Accounting — The accounting policies of the Water Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB). For the year ended December 31, 2006, the Water Fund adopted GASB Statement No. 44, *Economic Condition Reporting; The Statistical Section* and GASB Statement No. 47, *Accounting for Termination Benefits*. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Water Fund are reported using the flow of economic resources measurement focus.

The Water Fund uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when the liability is incurred. Enterprise funds may elect to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such standards are not in conflict with standards issued by the GASB. The Water Fund has elected not to apply FASB pronouncements issued after November 30, 1989.

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

Annual Appropriated Budget — The Water Fund has a legally adopted annual budget which is not required to be reported.

Management's Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents and Investments — Cash, cash equivalents and investments generally are held with the City Treasurer as required by the Municipal Code of Chicago (Code). Interest earned on pooled investments is allocated to participating funds based upon their average combined cash and investment balances. Due to contractual agreements or legal restrictions, the cash and investments of certain funds are segregated, and earn and receive interest directly.

The Code permits deposits only to City Council-approved depositories which must be regularly organized state or national banks and federal and state savings and loan associations, located within the City, whose deposits are federally insured.

Investments authorized by the Code include interest-bearing general obligations of the City, State of Illinois (State), and the U.S. Government; U.S. Treasury bills and other non-interest-bearing general obligations of the U.S. Government purchased in the open market below face value; domestic money market funds regulated by and in good standing with the Securities and Exchange Commission; and tax anticipation warrants issued by the City. The City is prohibited by ordinance from investing in derivatives, as defined, without City Council approval.

The Water Fund values its investments at fair value or amortized cost as applicable. U.S. Government securities purchased at a price other than par with a maturity of less than one year are reported at amortized cost.

Repurchase agreements can be purchased only from banks and certain other institutions authorized to do business in the State. The City Treasurer requires that securities pledged to secure these agreements have a market value equal to the cost of the repurchase agreements plus accrued interest.

Investments generally may not have a maturity in excess of one year from the date of purchase. Certain other investment balances are held in accordance with the specific provisions of applicable bond ordinances.

Cash equivalents include certificates of deposit and other investments with maturities of three months or less when purchased.

Accounts Receivable Allowance — Management has provided an allowance for amounts recorded at year-end which may be uncollectible.

Transactions With the City — The City’s General Fund provides services to all other funds. The amounts allocated to other funds for these services are treated as operating expenses by the Water Fund and consist mainly of employee benefits, self-insured risks and administrative expenses.

Inventories — Inventories, comprised mainly of materials and supplies, are stated at cost, determined principally on the average cost method.

Utility Plant — Utility plant is recorded at cost or, for donated assets, at fair value at the date of acquisition. Utility plant is defined by the Water Fund as assets with an initial cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or estimated historical cost if constructed. Depreciation is provided using the straight-line method and begins in the year following the year of acquisition or completion. Estimated useful lives are as follows:

Structures and improvements	50–100 years
Distribution plant	25–100 years
Equipment	6–33 years

Costs of repairs and maintenance that do not significantly extend the useful life of assets are charged to operations.

Net Assets — Net assets comprised the net earnings from operating and nonoperating revenues, expenses and capital grants. Net assets are displayed in three components — invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt net of debt service reserve and unspent bond proceeds. Restricted net assets consist of net assets for which constraints are placed thereon by external parties (such as lenders and grantors) and laws, regulations and enabling legislation. Unrestricted net assets consist of all other net assets not categorized as either of the above.

Employee Benefits — Employee benefits are granted for vacation and sick leave, workers' compensation and health care. Unused vacation leave is accrued and may be carried over for one year. Sick leave is accumulated at the rate of one day for each month worked, up to a maximum of 200 days. Severance of employment terminates all rights to receive compensation for any unused sick leave. Sick leave pay is not accrued. Employee benefit claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities.

Employees are eligible to defer a portion of their salaries until future years under the City's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by third-party administrators, who maintain the investment portfolio. The plan's assets have been placed in trust accounts with the plan administrators for the exclusive benefit of participants and their beneficiaries, and are not considered assets of the City.

The City is subject to the State Unemployment Compensation Act and has elected the reimbursing employer option for providing unemployment insurance benefits for eligible former employees. Under this option, the City reimburses the State for claims paid by the State.

Bond Issuance Costs, Bond Discounts and Refunding Transactions — Bond issuance costs and bond discounts are deferred and amortized over the term of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

Swaps — The Water Fund enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these arrangements, no amounts are recorded in the financial statements. All interest rate swaps are approved by City Council.

Capitalized Interest — Interest expense, net of interest income, on construction bond proceeds are capitalized during construction of those capital projects paid for from the bond proceeds and are being amortized over the depreciable life of the related assets on a straight-line basis.

Revenue Recognition — Revenue from water sales is recognized when the water is consumed by customers. Of the accounts receivable balances, \$33.8 million and \$36.8 million represent revenue recognized on water sales which had not yet been billed to customers at December 31, 2006 and 2005, respectively. Deferred revenue represents amounts billed to nonmetered customers prior to usage.

Revenues and Expenses — The Water Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Fund's principal ongoing operations. The principal operating revenues of the Water Fund are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on

capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments — As of December 31, 2006, the Water Fund had the following investments (dollars in thousands):

Investment Type	Investment Maturities (in Years)				Fair Value
	Less Than 1	1-5	6-10	More Than 10	
Water Funds					
U.S. Agencies	\$ 156,806	\$ 18,357	\$	\$	\$ 175,163
Commercial Paper	7,097				7,097
Certificates of Deposit and Other Short-term	<u>76,897</u>	<u> </u>	<u> </u>	<u> </u>	<u>76,897</u>
Subtotal	<u>\$ 240,800</u>	<u>\$ 18,357</u>	<u>\$</u>	<u>\$</u>	259,157
Share of City's pooled funds					<u>10,748</u>
Total					<u>\$ 269,905</u>

Investments — As of December 31, 2005, the Water Fund had the following investments (dollars in thousands):

Investment Type	Investment Maturities (in Years)				Fair Value
	Less Than 1	1-5	6-10	More Than 10	
Water Funds					
U.S. Agencies	\$ 156,806	\$ 18,357	\$	\$	\$ 175,163
Commercial Paper	7,097				7,097
Certificates of Deposit and Other Short-term	<u>76,897</u>	<u> </u>	<u> </u>	<u> </u>	<u>76,897</u>
Subtotal	<u>\$ 240,800</u>	<u>\$ 18,357</u>	<u>\$</u>	<u>\$</u>	259,157
Share of City's pooled funds					<u>10,748</u>
Total					<u>\$ 269,905</u>

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires that investments generally may not have a maturity date in excess of two years from the date of purchase. Certain other investments are held in accordance with the specific provisions of applicable ordinances.

Credit Risk — The Code limits investments in commercial paper to banks whose senior obligations are rated in the top two rating categories by at least two national rating agencies and who are required to maintain such rating during the term of such investment. The Code also limits investments to domestic money market mutual funds regulated by, and in good standing with, the Securities and Exchange Commission. Certificates of Deposit are also limited by the Code to national banks which provide collateral of at least 110% by marketable U.S. government securities marked to market at least monthly;

or secured by a corporate surety bond issued by an insurance company licensed to do business in Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. The following schedule summarizes the Water Fund's exposure to credit risk (dollars in thousands):

Quality Rating	2006	2005
Aaa/AAA	\$ 241,458	\$ 132,734
Aa/AA		
A/A	7,097	7,097
Baa/BBB		
Not Rated	10,602	12,998
Not applicable		<u>7,734</u>
Total	<u>\$ 259,157</u>	<u>\$ 160,563</u>

The Water Fund participates in the City's pooled cash and investments account, which includes amounts from other City funds and is maintained by the City Treasurer. Individual cash or investments are not specifically identifiable to any participant in the pool. The Treasurer's pooled fund is included in the City's Comprehensive Annual Financial Report.

Custodial Credit Risk — Cash and Certificates of Deposit — This is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's Investment Policy states that in order to protect the City public fund deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 110% of marketable U.S. Government, or approved securities, or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the FDIC. Cash and certificates of deposit with the City's various municipal depositories were \$214.9 million and \$255.5 million at December 31, 2006 and 2005, respectively, and the related bank balance (including certificates of deposit) was \$248.4 million and \$169.6 million at December 31, 2006 and 2005, respectively. Of the bank balance, \$247.6 million and \$168.4 million or 99.7% and 99.3% at December 31, 2006 and 2005, respectively, were either insured or collateralized with securities held by City agents in the City's name. The remainder was uninsured and uncollateralized.

The following schedule summarizes the investments reported in the basic financial statements (dollars in thousands):

	2006	2005
Per Note 2:		
Investments — Water Fund	\$ 259,157	\$ 160,563
Investments — City Treasurer Pooled Fund	<u>10,748</u>	<u>26,569</u>
	<u>\$ 269,905</u>	<u>\$ 187,132</u>
Per Financial Statements:		
Restricted investments	\$ 185,346	\$ 103,466
Unrestricted investments	1,578	9,410
Investments included as cash and cash equivalents on the Statements of Net Assets	<u>82,981</u>	<u>74,256</u>
	<u>\$ 269,905</u>	<u>\$ 187,132</u>

3. RESTRICTED ASSETS AND ACCOUNTS

The ordinances authorizing the issuance of outstanding Water Revenue Bonds provide for the creation of separate accounts into which net revenues, as defined, or proceeds are to be credited, are as follows:

Water Revenue Bonds, Series 2001, 2000, 1997 and 1995 and Refunding Bonds Series 1993 and 1992 (Senior Lien Bonds)

Bond Principal and Interest Account — No later than ten days prior to each principal or interest payment date, an amount sufficient to pay principal, redemption premium, if any, and interest becoming due, whether upon maturity, redemption or otherwise.

Bond Debt Service Reserve Account — For each series, an amount equal to the least of (i) the maximum annual debt service requirement; (ii) 10% of the original principal amount less original issue discount; or (iii) 125% of the average annual debt service requirement. The required balance of the Series 2000, 1997, 1995, 1993 and 1992 Bonds was met by the purchase of surety bonds. The required balance of the Series 2001 Second Lien Bonds is being met with a deposit of a portion of the proceeds of the Series 2001 Senior Lien Bonds.

Construction Account — Certain proceeds of the Series 2001, 2000, 1997 and 1995 Bonds were deposited in this account for the purpose of paying construction costs of projects as defined in the ordinance.

Rebate Account — Under the Tax Reform Act of 1986 (Act), the City has entered into an arbitrage agreement under which the City will comply with certain requirements of the Act to maintain the tax-exempt status of the bonds. The Rebate account has been established to account for any liability resulting from the Act.

Water Revenue Bonds, Series 2000 and Series 2006A, and Refunding Bonds, Series 2004 and 2001 (Second Lien Bonds)

Principal and Interest Account — Deposits are required to be transferred no later than the business day preceding each May 1 and November 1, in an amount sufficient to pay principal and interest as due on outstanding Second Lien Bonds.

Second Lien Bonds Account — On the date of issuance of any Series of Second Lien Bonds that bear interest at a variable rate paying interest more than semiannually, an amount equal to the interest payable during a six-month period will be transferred to a restricted account. The amount transferred will be calculated based on the maximum rate payable on such bonds.

Rebate Account — Amounts required to make rebate payments, to the United States of America in connection with interest or other related investment earnings, if any, related to the Second Lien Bonds.

Construction Account — Certain proceeds of the Series 2000 Bonds and 2006A Bonds were deposited in this account for the purpose of paying construction costs of projects as defined in the ordinance.

Water Rate Stabilization Account

Any net revenues remaining after providing sufficient funds for all required deposits in the Water Revenue Bonds accounts may be transferred to the Water Rate Stabilization Account upon the direction of the City to be used for any lawful purpose of the Water Fund.

For accounts established by ordinances with balances, the amounts at December 31, 2006 and 2005 are as follows (in thousands of dollars):

	2006	2005
Senior Lien Debt Service Reserve	\$ 7,098	\$ 7,098
Second Lien Bonds	27,882	26,287
Water rate stabilization	59,298	52,298
Construction	<u>160,108</u>	<u>65,525</u>
 Total	 <u>\$ 254,386</u>	 <u>\$ 151,208</u>

At December 31, 2006 and 2005, the Water Fund was in compliance with the funding requirements and restrictions on assets as stated in the ordinances.

4. LONG-TERM DEBT

At December 31, 2006 and 2005, long-term debt consisted of the following:

(In thousands of dollars)	2006	2005
\$49,880 Series 1993 Water Revenue Bonds Refunding issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	\$ 44,640	\$ 45,165
\$157,805 Series 1995 Water Revenue Bonds issued December 1, 1995, due through 2022; interest at 3.6% to 5.75%	101,805	105,635
\$277,911 Series 1997 Water Revenue Bonds issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	61,263	69,769
\$82,950 Series 1998 Equipment Notes issued February 11, 1998, due through 2008; interest at 5.0%	1,715	3,225
\$100,000 Series 2000 Second Lien Water Revenue Bonds issued December 22, 1999, due 2030, variable floating interest rate (3.55% at December 31, 2005)	100,000	100,000
\$156,819 Series 2000 Senior Lien Water Revenue Bonds issued May 2, 2000, due 2030; interest at 4.375% to 5.875%	52,959	53,059
\$272,405 Series 2001 Senior Lien Water Revenue Bonds issued December 13, 2001, due 2031; interest at 4.0% to 5.5%	35,680	35,680
\$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	81,190	81,225
\$3,605 Illinois Environmental Protection Agency Loan Agreement signed October 16, 2003, due 2022; interest at 2.905%	3,090	3,239
\$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds issued August 5, 2004, due through 2031; interest at 3.867%	500,000	500,000
\$48,747 Series 2004A Commercial Paper Notes Outstanding at December 31, 2005, due through 2007; interest at 3.22%		48,747
\$215,400 Series 2006A Second Lien Water Revenue Bonds issued July 26, 2006, due thru 2036; interest at 4.5% to 5%	215,400	
\$2,292 Illinois Environmental Protection Agency Loan Agreement signed June 30, 2003, due 2025; interest at 2.57%	<u>2,246</u>	
	1,199,988	1,045,744
Add accretion of Capital Appreciation Bonds	37,960	36,732
Less current portion of accretion	(3,198)	(4,292)
Less current portion of long-term debt	(30,764)	(14,656)
Add unamortized bond discount/premium	8,605	1,988
Less unamortized deferred loss on bond refunding	<u>(43,394)</u>	<u>(45,362)</u>
Long-term portion — net	<u>\$ 1,169,197</u>	<u>\$ 1,020,154</u>

During the years ended December 31, 2006 and 2005, long-term debt changed as follows (in thousands of dollars):

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
Revenue bonds/notes payable	\$ 1,045,744	\$265,096	\$(110,852)	\$ 1,199,988	\$ 30,764
Accretion of Capital Appreciation Bonds	36,732	6,057	(4,829)	37,960	3,198
Unamortized bond discount/premium	1,988	6,786	(169)	8,605	
Unamortized deferred loss on bond refunding	<u>(45,362)</u>		<u>1,968</u>	<u>(43,394)</u>	
Total	<u>\$ 1,039,102</u>	<u>\$277,939</u>	<u>\$(113,882)</u>	<u>\$ 1,203,159</u>	<u>\$ 33,962</u>
	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Revenue bonds/notes payable	\$ 1,037,099	\$ 23,312	\$ (14,667)	\$ 1,045,744	\$ 14,656
Accretion of Capital Appreciation Bonds	34,816	6,275	(4,359)	36,732	4,292
Unamortized bond discount/premium	2,060		(72)	1,988	
Unamortized deferred loss on bond refunding	<u>(47,330)</u>		<u>1,968</u>	<u>(45,362)</u>	
Total	<u>\$ 1,026,645</u>	<u>\$ 29,587</u>	<u>\$ (17,130)</u>	<u>\$ 1,039,102</u>	<u>\$ 18,948</u>

Interest expense capitalized in 2006 and 2005 totaled \$8.3 million and \$4.8 million, respectively. Interest income capitalized in 2006 and 2005 totaled \$6.8 million and \$3.3 million, respectively.

Interest expense includes amortization of the deferred loss on bond refunding for 2006 and 2005 of \$2.0 million and \$2.0 million; amortization of bond discount of \$169 thousand and \$72 thousand; and accretion of Series 1997 and Series 2000 capital appreciation bonds of \$6.1 million and \$6.2 million, respectively.

As defined in the bond ordinances, net revenues are pledged for the payment of principal and interest on the bonds. Ordinances include covenants which require that net revenues available for bonds, as adjusted, at least equal the greater of (i) 120% of the aggregate current annual debt service on the Senior Lien Revenue Bonds or (ii) the sum of the aggregate current annual debt service of the Senior Lien Revenue Bonds plus 110% of the aggregate current annual Second Lien Revenue Bonds debt service, and that City management maintain all covenant reserve account balances at specified amounts. The above requirements were met in 2006 and 2005.

Rate Increase — Water rates are set by ordinance and established in an amount designed to pay the costs of Water Fund operations and capital improvements, including any related debt service. The water rate effective January 1, 2005 was \$9.95 per 1,000 cubic feet. There was no rate increase in 2006.

Issuance of Debt — The Department of Water Management entered into a loan agreement with the Illinois Environmental Protection Agency in June 2006. The loan is for \$2.3 million with an interest rate of 2.57 percent and payments of principal and interest are to be made semi-annually through November 1, 2025. Loan proceeds were used for improvements to the control room at the South Water Purification Plant.

Second Lien Water Revenue Bonds, Series 2006A (\$215.4 million) were sold at a premium in July 2006. The bonds have interest rates ranging from 4.5 percent to 5.0 percent and maturity dates from November 1, 2007 to November 1, 2026. Net proceeds of \$122.9 million will be used to finance certain

capital improvements to and extensions of the Water system and net proceeds of \$96.2 million were used to retire 2004 Commercial Paper notes outstanding.

Following is a schedule of bond and note debt service requirements to maturity at December 31, 2006 (in thousands of dollars):

Years Ending December 31	Principal	Interest	Total Debt Service
2007	\$ 30,764	\$ 53,875	\$ 84,639
2008	30,001	53,202	83,203
2009	31,004	52,196	83,200
2010	32,154	51,042	83,196
2011	33,435	49,777	83,212
2012–2016	167,361	248,995	416,356
2017–2021	212,968	204,216	417,184
2022–2026	297,740	120,358	418,098
2027–2031	303,895	51,449	355,344
2032–2036	<u>60,666</u>	<u>9,394</u>	<u>70,060</u>
Total	<u>\$1,199,988</u>	<u>\$894,504</u>	<u>\$2,094,492</u>

Debt service requirements above exclude commercial paper issues as the timing of payments is not certain. The Water Fund’s variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2006, the variable rate bonds were in the weekly rate interest mode. For the requirements calculated above, interest on variable rate debt was calculated at the rate in effect at December 31, 2006, or the effective rate of a related swap agreement, if applicable.

Pay-Fixed, Receive-Variable Interest Rate Swaps — In order to protect against the potential of rising interest rates, the Water Fund entered into two separate pay-fixed, receive-variable interest rate swaps.

Terms, Fair Values and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2006 are as follows (in thousands of dollars). The notional amounts of the swaps match the principal amounts of the associated debt. The Water Fund’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category. Under the swap, the Water Fund pays the counterparty a fixed payment and receives a variable payment computed according to the London Interbank Offered Rate (LIBOR) and/or The Bond Market Association Municipal Swap Index (BMA).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termi- nation Date	Counter- party Credit Rating
Water Variable Rate Revenue Refunding Bonds (Series 2004)	\$ 300,000	8/5/04	3.8669 %	BMA	\$(11,449)	11/1/31	Aa2/AA+
	<u>200,000</u>	8/5/04	3.8669 %	BMA	<u>(7,321)</u>	11/1/31	Aa2/AA-
	<u>\$ 500,000</u>				<u>\$(18,770)</u>		

Fair Value — As of December 31, 2006, the swaps had a negative fair value of \$18.8 million. As per industry convention, the fair values of the Water Fund's outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Water Fund's swaps had negative values.

Credit Risk — The Water Fund is exposed to credit risk (counterparty risk) through the counterparties with which it enters into agreements. If minimum credit rating requirements are not maintained, the counterparty is required to post collateral to a third party. This protects the Water Fund by mitigating the credit risk, and therefore the ability to pay a termination payment, inherent in a swap. Collateral on all swaps is to be in the form of cash or Eligible Collateral held by a third-party custodian. Upon credit events, the swaps also allow transfers, credit support and termination if the counterparty is unable to meet the said credit requirements.

Basis Risk — Basis risk refers to the mismatch between the variable rate payments received on a swap contract and the interest payment actually owed on the bonds. The two significant components driving this risk are credit and BMA ratios. Credit may create basis risk because the Water Fund's bonds may trade differently from the swap index as a result of a credit change in the Water Fund. BMA ratios (or spreads) may create basis risk if BMA swaps of the Water Fund's bonds trade higher than the BMA received on the swap. This can occur due to many factors including, without limitation, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The Water Fund is exposed to basis risk on the swaps if the rate paid on the bonds is higher than the rate received. The Water Fund is liable for the difference. The difference would need to be available on the debt service payment date and would add additional underlying cost to the transaction.

Tax Risk — The swap exposes the Water Fund to tax risk or a permanent mismatch (shortfall) between the floating rate received on the swap and the variable rate paid on the underlying variable-rate bonds due to tax law changes such that the Federal or State tax exception of municipal debt is eliminated or its value reduced. There have been no tax law changes since the execution of this swap agreement.

Termination Risk — The swap has the risk that it could be terminated as a result of certain events including a ratings downgrade for the issuer or swap counterparty, covenant violation, bankruptcy, payment default, or other defined events of default. Termination of a swap may result in a payment made by the issuer or to the issuer depending upon the market at the time of termination.

Swap Payments and Associated Debt — As of December 31, 2006, debt service requirements for the Water Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands of dollars):

Years Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps—Net	
2007	\$ 2,475	\$ 19,550	\$ (215)	\$ 21,810
2008	2,600	19,453	(214)	21,839
2009	2,700	19,352	(213)	21,839
2010	2,800	19,246	(212)	21,834
2011	2,925	19,137	(211)	21,851
2012–2016	53,375	91,068	(1,004)	143,439
2017–2021	111,525	78,590	(866)	189,249
2022–2026	206,375	47,849	(527)	253,697
2027–2031	<u>115,225</u>	<u>11,167</u>	<u>(123)</u>	<u>126,269</u>
Total	<u>\$ 500,000</u>	<u>\$ 325,412</u>	<u>\$ (3,585)</u>	<u>\$ 821,827</u>

Defeased Bonds — Defeased bonds have been removed from the Statements of Net Assets because related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at December 31, 2006, not including principal payments due May 1, 2007, are as follows (in thousands of dollars):

	Amount Defeased	Outstanding
Water Revenue Bonds, Series 1997	\$ 181,965	\$ 178,076
Water Revenue Senior Lien Bonds, Series 2000	100,445	100,445
Water Revenue Senior Lien Bonds, Series 2001	235,905	222,430

5. UTILITY PLANT

During the years ended December 31, 2006 and 2005, utility plant changed as follows:

(In thousands of dollars)	Balance January 1, 2006	Additions	Disposals and Transfers	Balance December 31, 2006
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$	\$	\$ 5,083
Construction in progress	<u>98,049</u>	<u>59,233</u>	<u>(49,518)</u>	<u>107,764</u>
Total utility plant not depreciated	<u>103,132</u>	<u>59,233</u>	<u>(49,518)</u>	<u>112,847</u>
Utility plant being depreciated:				
Structures and improvements	452,673	4,668	5,212	462,553
Distribution plant	1,435,884	53,295	33,048	1,522,227
Equipment	<u>438,327</u>	<u>10,293</u>	<u>8,065</u>	<u>456,685</u>
Total utility plant being depreciated	<u>2,326,884</u>	<u>68,256</u>	<u>46,325</u>	<u>2,441,465</u>
Less accumulated depreciation:				
Structures and improvements	(142,214)	(6,134)		(148,348)
Distribution plant	(249,310)	(14,659)	607	(263,362)
Equipment	<u>(204,947)</u>	<u>(12,432)</u>		<u>(217,379)</u>
Total accumulated depreciation	<u>(596,471)</u>	<u>(33,225)</u>	<u>607</u>	<u>(629,089)</u>
Total utility plant being depreciated — net	<u>1,730,413</u>	<u>35,031</u>	<u>46,932</u>	<u>1,812,376</u>
Total utility plant — net	<u>\$ 1,833,545</u>	<u>\$ 94,264</u>	<u>\$ (2,586)</u>	<u>\$ 1,925,223</u>
(In thousands of dollars)	Balance January 1, 2005	Additions	Disposals and Transfers	Balance December 31, 2005
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$	\$	\$ 5,083
Construction in progress	<u>72,336</u>	<u>63,456</u>	<u>(37,743)</u>	<u>98,049</u>
Total utility plant not depreciated	<u>77,419</u>	<u>63,456</u>	<u>(37,743)</u>	<u>103,132</u>
Utility plant being depreciated:				
Structures and improvements	448,682	2,408	1,583	452,673
Distribution plant	1,367,554	35,524	32,806	1,435,884
Equipment	<u>434,343</u>	<u>5,633</u>	<u>(1,649)</u>	<u>438,327</u>
Total utility plant being depreciated	<u>2,250,579</u>	<u>43,565</u>	<u>32,740</u>	<u>2,326,884</u>
Less accumulated depreciation:				
Structures and improvements	(136,180)	(6,034)		(142,214)
Distribution plant	(235,625)	(13,950)	265	(249,310)
Equipment	<u>(191,819)</u>	<u>(13,897)</u>	<u>769</u>	<u>(204,947)</u>
Total accumulated depreciation	<u>(563,624)</u>	<u>(33,881)</u>	<u>1,034</u>	<u>(596,471)</u>
Total utility plant being depreciated—net	<u>1,686,955</u>	<u>9,684</u>	<u>33,774</u>	<u>1,730,413</u>
Total utility plant — net	<u>\$ 1,764,374</u>	<u>\$ 73,140</u>	<u>\$ (3,969)</u>	<u>\$ 1,833,545</u>

6. PENSION PLANS

Eligible Water Fund employees participate in one of two of the City's single-employer defined benefit pension plans. These plans are the Municipal Employees' and the Laborers' and Retirement Board Employees' Annuity and Benefit Funds. These plans are administered by individual retirement boards represented by elected and appointed officials. Each plan issues publicly available financial statements for each of the pension plans, which may be obtained at the respective fund's office.

The funds provide retirement, death, and disability benefits as established by State law. Benefits generally vest after 20 years of credited service. Employees who retire at or after age 55 with at least 10 years of credited service qualify to receive a money purchase annuity and those with more than 20 years of credited service qualify to receive a minimum formula annuity. The annuity is computed by multiplying the final average salary by a minimum of 2.4% per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

Participating employees contribute 8.5% of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Water Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of Water Fund employees. These reimbursements, recorded as expenses of the Water Fund, were \$11.8 million in 2006, 2005 and 2004. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

The funding policy mandated by State law requires City contributions at statutorily, not actuarially, determined rates. The rates are expressed as multiples of employee contributions. These contributions equal employee contributions made in the calendar year two years prior multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ending December 31, 2006, 2005 and 2004 were 1.25 for the Municipal Employees' and 1.00 for the Laborers' and Retirement Board Employees' Annuity and Benefit Funds, respectively. The City has made the required contributions under State law.

The following table as of December 31, 2006 assists users in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund is as follows:

(In thousands of dollars)	Annual Pension Cost	Percent of Annual Pension Cost Contributed	Required Contribution	Percent of Required Contributions Made	Net Pension Assets
Municipal Employees':					
2004	\$197,393	78.0 %	\$198,199	77.7 %	\$299,415
2005	284,587	54.4	285,291	54.5	169,895
2006	325,514	48.3	325,914	48.3	1,442
Laborers':					
2004	7,860	2.6	8,513	2.4	270,223
2005	12,139	0.3	12,774	0.3	258,125
2006	20,536	0.5	21,142	0.6	237,696

The pension benefits information pertaining expressly to Water Fund employees is not available. Accordingly, no amounts have been recorded in the accompanying financial statements for the net pension assets of these plans.

In addition to providing pension benefits, the City, under State law, provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal Employees' or Laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for postemployment benefits if they eventually become annuitants. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare-eligible annuitants. Currently, the City does not segregate benefit payments to annuitants by fund. The cost of health benefits is recognized as claims are reported and funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 24,374 and 24,507 annuitants and their dependents was approximately \$79.3 million and \$78.3 million in 2006 and 2005, respectively.

The annuitants who retired prior to July 1, 2005 received a 55% subsidy from the City and the annuitants who retired on or after July 1, 2005 received a 50, 45, 40 or zero % subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court approved settlement agreement. The pension funds contributed \$55 for each Medicare-eligible annuitant and \$85 for each non-Medicare-eligible annuitant to their gross cost. The annuitants contributed a total of approximately \$51.1 million in 2006 to the gross cost of their retiree health care pursuant to premium amounts set forth in the above-referenced settlement agreement.

7. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Water Fund. Such reimbursements amounted to \$52.0 million and \$52.0 million in 2006 and 2005, respectively.

8. COMMITMENTS AND CONTINGENCIES

The Water Fund has certain contingent liabilities resulting from litigation, claims, or commitments incident to the ordinary course of business. Management expects that final resolution of these contingencies will not have a material adverse effect on the financial position or results of operations of the Water Fund.

The Water Fund provides workers' compensation benefits and employee health benefits under self-insurance programs administered by the City. Such claims outstanding, including claims incurred but not reported, are estimated and recorded as liabilities in the financial statements.

Uninsured claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the claims liability amounts for the years ended December 31, 2006 and 2005 are as follows:

(In thousands of dollars)	2006	2005
Balance — January 1	\$ 25,342	\$ 22,266
Claims incurred on current and prior year events	21,774	27,504
Claims paid on current and prior year events	<u>(26,397)</u>	<u>(24,428)</u>
Balance — December 31	<u>\$ 20,719</u>	<u>\$ 25,342</u>

The City purchases annuity contracts from commercial insurers to satisfy certain liabilities; accordingly, no liability is reported for those claims. Property and casualty risks for the Water Fund are transferred to commercial insurers. Claims have not exceeded the purchased insurance coverage in the past three years.

At December 31, 2006 and 2005, the Water Fund entered into contracts for approximately \$167.1 million and \$70.0 million, respectively, for construction projects.

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**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**ADDITIONAL INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2006
(In thousands of dollars)**

	Assets				Accumulated Depreciation				Net Balance December 31, 2006	
	Balance January 1, 2006	Additions	Disposals	Transfers	Balance December 31, 2006	Balance January 1, 2006	Provision	Disposals		Balance December 31, 2006
LAND AND LAND RIGHTS:										
Power and pumping	\$ 2,367	\$	\$	\$	\$ 2,367	\$	\$	\$	\$	\$ 2,367
Distribution reservoir	300				300					300
Purification	1,739				1,739					1,739
General and maintenance	677				677					677
Total land and land rights	5,083				5,083					5,083
STRUCTURES AND IMPROVEMENTS:										
Cribs	17,069	47		219	17,335	3,859	172		4,031	13,304
Lake and land tunnels	118,151				118,151	29,340	1,181		30,521	87,630
Intake structures	9,531				9,531	3,805	95		3,900	5,631
Power and pumping structures	103,888	1,375		4,931	110,194	22,302	1,285		23,587	86,607
Purification buildings	161,989	513		273	162,775	77,040	2,694		79,734	83,041
Distribution reservoirs	16,979				16,979	3,648	226		3,874	13,105
Offices, maintenance, and general	24,855	2,733			27,588	2,220	481		2,701	24,887
Contract retainage	211		(211)							
Total structures and improvements	452,673	4,668	(211)	5,423	462,553	142,214	6,134		148,348	314,205
DISTRIBUTION PLANT:										
Mains and accessories	1,381,253	53,140	(536)	33,244	1,467,101	214,095	13,813	(515)	227,393	1,239,708
Meters and installations	36,170			1,033	37,203	26,024	578		26,602	10,601
Hydrants and valves	17,860		(92)		17,768	9,191	268	(92)	9,367	8,401
Contract retainage	601	155	(601)		155					155
Total distribution plant	1,435,884	53,295	(1,229)	34,277	1,522,227	249,310	14,659	(607)	263,362	1,258,865
EQUIPMENT:										
Power production	56,901				56,901	35,359	1,350		36,709	20,192
Pumping	140,587	5,025		40	145,652	51,143	3,773		54,916	90,736
Purification	206,013	3,870		8,570	218,453	90,032	6,354		96,386	122,067
Heavy machinery	13,074	648			13,722	9,705	583		10,288	3,434
Transportation	8,652	674			9,326	7,174	255		7,429	1,897
Miscellaneous	12,555				12,555	11,534	117		11,651	904
Contract retainage	545	76	(545)		76					76
Total equipment	438,327	10,293	(545)	8,610	456,685	204,947	12,432		217,379	239,306
Total structures, plant and equipment	2,326,884	68,256	(1,985)	48,310	2,441,465	596,471	33,225	(607)	629,089	1,812,376
CONSTRUCTION IN PROGRESS:										
Filtration plants	29,747	12,018		(8,843)	32,922					32,922
Pumping stations	21,945	5,502		(5,190)	22,257					22,257
Water mains	45,149	41,275		(34,277)	52,147					52,147
Contract retainage	1,208	438	(1,208)		438					438
Total construction in progress	98,049	59,233	(1,208)	(48,310)	107,764					107,764
TOTAL UTILITY PLANT	\$2,430,016	\$127,489	\$(3,193)	\$	\$2,554,312	\$596,471	\$33,225	\$(607)	\$629,089	\$1,925,223

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2006
(In millions of dollars) (Unaudited)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
OPERATING REVENUES ⁽¹⁾	<u>\$ 271.8</u>	<u>\$ 281.8</u>	<u>\$ 286.5</u>	<u>\$ 297.1</u>	<u>\$ 297.8</u>	<u>\$ 305.2</u>	<u>\$ 307.1</u>	<u>\$ 320.6</u>	<u>\$ 344.3</u>	<u>\$ 330.4</u>
OPERATING EXPENSES:										
Source of supply	0.2	1.2	1.6	1.0	1.3	0.5	0.3	0.4	0.2	0.2
Power and pumping	36.5	32.9	38.1	41.9	50.9	43.7	43.8	42.1	50.6	49.8
Purification	48.1	51.6	47.0	47.2	49.5	40.3	44.2	40.6	43.3	41.9
Transmission and distribution	56.1	42.3	45.6	46.8	46.8	52.9	53.0	39.1	39.4	41.6
Provision for doubtful accounts	2.3	2.1	3.0	3.0	2.0	3.0	3.9	3.7	2.7	3.6
Customer accounting and collection	10.5	12.8	17.1	16.2	17.9	15.5	16.3	14.9	16.3	16.9
Administrative and general	11.3	11.1	11.6	12.5	10.6	12.5	13.8	11.5	13.2	15.1
Central services and General Fund reimbursements	<u>56.8</u>	<u>62.5</u>	<u>62.2</u>	<u>63.3</u>	<u>64.6</u>	<u>70.1</u>	<u>72.6</u>	<u>72.3</u>	<u>80.2</u>	<u>74.0</u>
Total operating expenses	<u>221.8</u>	<u>216.5</u>	<u>226.2</u>	<u>231.9</u>	<u>243.6</u>	<u>238.5</u>	<u>247.9</u>	<u>224.6</u>	<u>245.9</u>	<u>243.1</u>
INTEREST INCOME (Other than from Constructional Account)	<u>5.6</u>	<u>5.9</u>	<u>5.0</u>	<u>4.2</u>	<u>4.1</u>	<u>1.0</u>	<u>1.8</u>	<u>1.0</u>	<u>2.6</u>	<u>3.8</u>
NET REVENUES — As defined (Note 4)	<u>\$ 55.6</u>	<u>\$ 71.2</u>	<u>\$ 65.3</u>	<u>\$ 69.4</u>	<u>\$ 58.3</u>	<u>\$ 67.7</u>	<u>\$ 61.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 91.1</u>

⁽¹⁾ Operating revenues are net of credits to JAWA and DWC during years 1996 through 2004.

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
REVENUE BOND COVERAGE
TEN YEARS ENDED DECEMBER 31, 2006
(In millions of dollars) (Unaudited)**

PRIOR BONDS COVERAGE CALCULATION	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net revenues — as defined (Note 4)	\$55.6	\$71.2	\$65.3	\$69.4	\$58.3	\$67.7	\$61.0	\$97.0	\$101.0	\$91.1
Prior bonds debt service requirement	<u>0.8</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Prior bonds debt service coverage (1)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
COMBINED PRIOR BONDS, SENIOR LIEN AND SECOND LIEN DEBT SERVICE CALCULATION										
Net revenues—as defined (Note 4)	\$55.6	\$71.2	\$65.3	\$69.4	\$58.3	\$67.7	\$61.0	\$97.0	\$101.0	\$91.1
Deposits to prior lien accounts	0.8									
Transfer from/(to) Water Rate Stabilization Account			5.1	8.1		12.6	10.0			(7.0)
Net revenues available for bonds	54.8	71.2	70.4	77.5	58.3	80.3	71.0	97.0	101.0	84.1
Prior lien debt service requirement	<u>0.8</u>									
Adjusted net revenues available for bonds	<u>\$55.6</u>	<u>\$71.2</u>	<u>\$70.4</u>	<u>\$77.5</u>	<u>\$58.3</u>	<u>\$80.3</u>	<u>\$71.0</u>	<u>\$97.0</u>	<u>\$101.0</u>	<u>\$84.1</u>
Debt service requirement:										
Prior bonds (1)	\$ 0.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Senior lien bonds	<u>30.1</u>	<u>38.7</u>	<u>38.7</u>	<u>42.9</u>	<u>47.7</u>	<u>52.7</u>	<u>56.9</u>	<u>45.8</u>	<u>30.1</u>	<u>29.7</u>
Combined debt service requirement	<u>\$30.9</u>	<u>\$38.7</u>	<u>\$38.7</u>	<u>\$42.9</u>	<u>\$47.7</u>	<u>\$52.7</u>	<u>\$56.9</u>	<u>\$45.8</u>	<u>\$ 30.1</u>	<u>\$29.7</u>
Combined prior and senior debt service coverage ratio	<u>1.8</u>	<u>1.8</u>	<u>1.8</u>	<u>1.8</u>	<u>1.2</u>	<u>1.5</u>	<u>1.2</u>	<u>2.1</u>	<u>3.4</u>	<u>2.8</u>
Second lien debt service requirements				<u>3.3</u>	<u>2.9</u>	<u>5.9</u>	<u>5.8</u>	<u>10.5</u>	<u>27.5</u>	<u>30.8</u>
Total combined senior lien and second lien debt service requirement				<u>\$46.2</u>	<u>\$50.6</u>	<u>\$58.6</u>	<u>\$62.7</u>	<u>\$56.3</u>	<u>\$ 57.6</u>	<u>\$60.5</u>
Total combined senior and second lien debt service coverage ratio				<u>1.6</u>	<u>1.2</u>	<u>1.4</u>	<u>1.1</u>	<u>1.7</u>	<u>1.8</u>	<u>1.4</u>
Water Rate Stabilization Account year-end balance	<u>\$88.1</u>	<u>\$88.1</u>	<u>\$83.0</u>	<u>\$74.9</u>	<u>\$74.9</u>	<u>\$62.3</u>	<u>\$52.3</u>	<u>\$52.3</u>	<u>\$ 52.3</u>	<u>\$59.3</u>

(1) In 1997, the City refunded the 1989 Senior Lien Bonds. Although the midyear debt service requirement is reflected above, the coverage calculation is not applicable at year-end.

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**MISCELLANEOUS STATISTICAL DATA
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)**

Area Served	2006	2005
Area served (in square miles):		
Chicago	228	228
125 suburbs	<u>578</u>	<u>578</u>
Total area served	<u>806</u>	<u>806</u>
Water Works Facilities		
Filtration plants	2	2
Continuous service capacity:		
South Water Filtration Plant (MGD)	720	720
Jardine Water Purification Plant (MGD)	1,440	1,440
Pumping stations — steam	4	4
Pumping stations — electric	8	8
Installed pumping capacity (MGD)	3,661	3,661
Crib intakes in service	2	2
Shore intakes (filtration plants)	2	2
Water supply tunnels (6 to 20 feet in diameter) — miles	64	64
Distribution System		
Water mains (miles)	4,235	4,230
Fire hydrants	47,706	47,641
Valves	47,719	47,040

Source: City of Chicago Department of Water Management.
Note: Million Gallons Daily (MGD)

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA TEN LARGEST SUBURBAN CUSTOMERS FOR THE YEAR ENDED DECEMBER 31, 2006 (In thousands of dollars) (Unaudited)

Customer	Amount of Sales
Du Page Water Commission	\$ 37,039
Oak Lawn, Illinois	16,168
Northwest Suburban Municipal Joint Action Water Agency	12,908
Bedford Park, Illinois	12,397
Harvey, Illinois	4,696
Melrose Park, Illinois	4,140
Cicero, Illinois	3,445
Alsip, Illinois	3,367
McCook, Illinois	3,037
Berwyn, Illinois	<u>3,005</u>
Total	<u>\$ 100,202</u>

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM
2007–2011
(In thousands of dollars) (Unaudited)**

Years	Amount
2007	\$ 127,771
2008	127,849
2009	128,075
2010	128,468
2011	<u>128,837</u>
Total	<u>\$ 641,000</u>

Note: The information presented in the table above reflects the Water Fund's expected allocation of resources to various projects, but does not necessarily represent an expectation of actual cash expenditures for these projects.

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
POPULATION OF SERVICE AREA
LAST FIVE CENSUS PERIODS
(Unaudited)**

Years	Chicago		Suburban Customers		Total	Number of Suburbs Served
1960	3,550,404	(1)	833,424	(1)	4,383,828	58
1970	3,369,357	(1)	1,127,446	(1)	4,496,803	72
1980	3,005,072	(1)	1,152,614	(1)	4,157,686	75
1990	2,783,726	(1)	1,589,557	(2)	4,373,283	95
2000	2,896,016	(1)	2,410,021		5,306,037	125

(1) U.S. Department of Commerce — Census Bureau

(2) 23 suburban customers not included (under the DWC contract; fully served May 1, 1992) with a population of 610,478, which increases total population to 4,983,761.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
WATER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2006
(Unaudited)**

Years Ended December 31	Nonmetered	Metered	Total
1997	332,279	159,309	491,588
1998	331,554	160,520	492,074
1999	329,756	159,353	489,109
2000	328,327	160,895	489,222
2001	327,276	163,051	490,327
2002	326,778	164,067	490,845
2003	325,789	165,440	491,229
2004	324,689	167,545	492,234
2005	323,740	169,664	493,404
2006	322,193	171,861	494,054

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
WATER SYSTEM PUMPAGE AND CAPACITY
TEN YEARS ENDED DECEMBER 31, 2006
(Unaudited)**

Years	Total Pumpage (MGD)	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)	System's Rated Pumpage Capacity (MGD)	Maximum Daily Pumpage as % of Capacity
1997	371,334	1,017	1,602	2,160	74
1998	370,475	1,015	1,583	2,160	73
1999	367,583	1,007	1,760	2,160	81
2000	353,767	969	1,768	2,160	82
2001	351,719	964	1,368	2,160	63
2002	342,974	940	1,346	2,160	62
2003	326,743	895	1,234	2,160	57
2004	320,069	875	1,134	2,160	53
2005	337,682	925	1,377	2,160	64
2006	310,527	851	1,373	2,160	64

Note: Million Gallons Daily (MGD)

Source: City of Chicago Department of Water Management.