

City of Chicago, Illinois Water Fund

Basic Financial Statements as of and for the
Years Ended December 31, 2011 and 2010,
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 Rahm Emanuel, 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"), an enterprise fund of the City of Chicago, Illinois (the "City") as of December 31, 2011 and 2010, 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 basic financial statements, the basic financial statements referred to above present only the Water Fund, an enterprise fund of the City, and do not purport to, and do not, present the financial position of the City as of December 31, 2011 and 2010, changes in its financial position, or where applicable, its cash flows, 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, 2011 and 2010, 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.

As discussed in Note 1 to the basic financial statements, effective January 1, 2010, the Water Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the foregoing table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally

accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Water Fund's basic financial statements. The additional supplementary information as listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Water Fund's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

June 29, 2012

CITY OF CHICAGO, ILLINOIS WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of City of Chicago, Illinois (the "City"), Water Fund's ("Water Fund") financial performance provides an introduction and overview of the Water Fund's financial activities for the years ended December 31, 2011 and 2010. 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

2011

- Operating revenues for 2011 decreased by \$4.2 million compared to 2010 operating revenues. This decrease is primarily due to a decrease in pumpage. There was no water rate increase in 2011.
- Operating expenses before depreciation and amortization for 2011 increased by \$3.1 million compared to 2010 mainly due to increase in costs of sediment disposals offset by decreases in costs of natural gas and electricity, medical premiums, and workmen's compensation costs.
- The Water Fund's total net assets at December 31, 2011, were \$1,102.2 million. This is an increase of \$42.1 million over total net assets at December 31, 2010.
- Utility plant increased in 2011 by \$152 million due to the continuing capital improvement program.

2010

- Operating revenues for 2010 increased by \$48.2 million compared to prior-year operating revenues. This increase is primarily due to the 14% increase in water rate effective January 1, 2010, offset by a decrease in pumpage.
- Operating expenses before depreciation and amortization for 2010 increased by \$5 million compared to 2009 due to increases in workmen's compensation, provision for doubtful accounts, and indirect costs offset by decreases in salaries, pension contributions, natural gas, and electric charges.
- The Water Fund's total net assets at December 31, 2010, were \$1,060.1 million. This is an increase of \$62.6 million over total net assets at December 31, 2009.
- Utility plant increased in 2010 by \$135.7 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 basic financial statements. In addition to the basic financial statements, this report also presents additional information 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 basis of accounting used by private-sector companies. The difference between assets, deferred outflows, and liabilities is reported as net assets. The increase or decrease in net assets may serve as an indicator, over time, as to 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 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 basic financial statements; accordingly, such disclosures are essential to a full understanding of the information provided in the basic financial statements.

In addition to the basic financial statements, this report includes statistical data. The statistical data section presents unaudited debt service coverage calculation and includes certain unaudited information related to the Water Fund's historical financial and nonfinancial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2011, the Water Fund's financial position continued to be strong with total assets and deferred outflows of \$3,158.1 million, total liabilities of \$2,055.8 million, and net assets of \$1,102.2 million. A comparative condensed summary of the Water Fund's net assets at December 31, 2011, 2010, and 2009, is as follows:

(In thousands)	Net Assets		
	2011	2010	2009
Current assets	\$ 196,738	\$ 177,985	\$ 152,522
Restricted and other assets	238,549	348,724	135,548
Utility plant — net	2,594,391	2,492,738	2,398,742
Deferred outflows	<u>128,386</u>	<u>77,367</u>	<u>57,882</u>
Total assets and deferred outflows	<u>\$3,158,064</u>	<u>\$3,096,814</u>	<u>\$2,744,694</u>
Current liabilities	\$ 132,903	\$ 134,538	\$ 146,555
Long-term liabilities and payable from restricted assets	<u>1,922,929</u>	<u>1,902,139</u>	<u>1,600,632</u>
Total liabilities	<u>\$2,055,832</u>	<u>\$2,036,677</u>	<u>\$1,747,187</u>
Net assets:			
Invested in capital assets — net of related debt	\$ 1,055,054	\$ 974,328	\$ 958,723
Restricted net assets — capital projects	209	447	350
Unrestricted net assets	<u>46,969</u>	<u>85,362</u>	<u>38,434</u>
Total net assets	<u>\$1,102,232</u>	<u>\$1,060,137</u>	<u>\$ 997,507</u>

2011

Current assets of \$196.7 million at December 31, 2011, increased by \$18.8 million (10.5%) over 2010 as a result of an increase in investments of \$30.2 million. Restricted and other assets decreased by \$110.2 million (31.6%) primarily due to the funding of the capital improvement program and utility plant — net increased by \$101.6 million (4.1%).

The decrease in current liabilities of \$1.6 million (0.1%) during 2011 is directly related to the timing of payments of accounts payable and increases in accounts payable offset by decreases in due to other city funds and deferred revenue. Long-term liabilities and payable from restricted assets increased by \$20.8 million (1.1%) mainly due to the Illinois Environmental Protection Agency debt issuances in 2011.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's basic financial position. At December 31, 2011, total net assets were \$1,102.2 million, an increase of \$42.1 million (4.1%) over 2010.

2010

Current assets of \$178.0 million at December 31, 2010, increased by \$25.5 million (16.7%) over 2009 as a result of increases in net receivables of \$8.3 million, cash and cash equivalents of \$12.9 million, and investments of \$2.3 million. Restricted and other assets increased by \$213.2 million (157.3%) primarily due to the funding of the capital improvement program and utility plant — net increased by \$94.0 million (3.9%).

The decrease in current unrestricted liabilities of \$12 million (8.2%) is directly related to the timing of payments of accounts payable and due to other City funds during 2010 offset by an increase in accrued liabilities. Long-term liabilities and restricted liabilities increased by \$282 million (18.3%) mainly due to debt issuances in 2010.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2010, total net assets were \$1,060.1 million, an increase of \$62.6 million (6.3%) over 2009.

The primary sources of the 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, 2011, 2010, and 2009, is as follows:

(In thousands)	Revenues, Expenses, and Changes in Net Assets		
	2011	2010	2009
Revenues:			
Operating revenues			
Water sales	\$ 441,769	\$ 445,504	\$ 396,954
Other operating revenues	<u>12,452</u>	<u>12,891</u>	<u>13,259</u>
Total operating revenues	454,221	458,395	410,213
Nonoperating revenues	<u>4,163</u>	<u>3,582</u>	<u>3,545</u>
Total revenues	<u>458,384</u>	<u>461,977</u>	<u>413,758</u>
Expenses:			
Operating expenses	282,164	279,090	274,107
Depreciation and amortization	47,603	44,519	38,748
Interest expense	<u>86,522</u>	<u>75,738</u>	<u>69,647</u>
Total expenses	<u>416,289</u>	<u>399,347</u>	<u>382,502</u>
Change in net assets	42,095	62,630	31,256
Net assets — beginning of year	<u>1,060,137</u>	<u>997,507</u>	<u>966,251</u>
Net assets — end of year	<u>\$ 1,102,232</u>	<u>\$ 1,060,137</u>	<u>\$ 997,507</u>

2011

Water sales and other operating revenues comprise the Water Fund's \$454.2 million operating revenues. Water sales and other operating revenues for 2011 were \$441.8 million and \$12.4 million, respectively. The decrease in 2011 operating revenues of \$4.2 million (0.9%) from 2010 was primarily due to a decrease in water pumpage. There was no water rate increase in 2011.

In 2011, net nonoperating revenues of \$4.2 million were comprised mainly of federal grants received for water mains replacement of \$2.6 million and net interest income of \$2.0 million. The increase in interest expense of \$10.8 million (14.2%) is primarily due to the issuance of the Series 2010 A, B, and C Second Lien Water Revenue Bonds in 2010.

2010

Water sales and other operating revenues comprise the Water Fund's \$458.4 million operating revenues. Water sales and other operating revenues for 2010 were \$445.5 million and \$12.9 million, respectively. The increase in 2010 operating revenues of \$48.2 million (11.7%) from 2009 was primarily due to a 14% increase in water rates effective January 1, 2010.

In 2010, net nonoperating revenues of \$3.6 million were comprised mainly of other revenue that relates to construction done by the Department of Water Management for other City departments and private companies amounting to \$0.6 million and a federal grant for water main replacement of \$3.4 million. The increase in interest expense of \$6.1 million (8.7%) is primarily due to the decrease in capital projects completed in 2010 resulting in a decrease in capitalized interest.

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2011, 2010, and 2009, is as follows:

(In thousands)	Operating Expenses		
	2011	2010	2009
Source of supply	\$ 185	\$ 100	\$ 127
Power and pumping	38,182	42,857	47,497
Purification	66,471	49,725	49,396
Transmission and distribution	38,985	38,671	40,872
Provision for doubtful accounts	13,947	15,862	10,396
Customer accounting and collection	10,663	10,305	11,154
Administrative and general	17,143	18,562	16,149
Central services and General Fund reimbursements	96,588	103,008	98,516
Operating expenses before depreciation and amortization	282,164	279,090	274,107
Depreciation and amortization	47,603	44,519	38,748
Total operating expenses	<u>\$329,767</u>	<u>\$323,609</u>	<u>\$312,855</u>

2011

Operating expenses before depreciation and amortization for the year ended 2011 increased by \$3.1 million (1.1%) from the year ended 2010 due to an increase in purification of \$16.7 million (33.7%) primarily due to an increase in costs of sediment disposals of about \$13.3 million, offset by a decrease in power and pumping of \$4.7 million (10.9%) resulting from a decrease in costs of natural gas and electrical charges and a decrease in central services and General Fund reimbursements of \$6.4 million (6.2%) resulting from a decrease in workmen's compensation costs.

2010

Operating expenses before depreciation and amortization for the year ended 2010 increased by \$5.0 million (1.8%) from the year ended 2009 due to an increase in central services and General Fund reimbursement of \$4.5 million (4.6%) primarily due to increases in workmen's compensation and police, fire, and indirect costs offset by a decrease in pension contribution; an increase in the provision for doubtful accounts of \$5.5 million (52.6%); a decrease in power and pumping of \$4.6 million (9.8%) resulting from decreases in natural gas and electric charges and salaries offset by an increase in overtime; and a decrease in transmission and distribution of \$2.2 million (5.4%) primarily due to decreases in overtime and repairs of equipment.

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2011, 2010, and 2009, is as follows:

(In thousands of dollars)	Cash Flows		
	2011	2010	2009
Cash from activities:			
Operating	\$ 176,651	\$ 156,098	\$ 144,835
Capital and related financing	(265,251)	70,179	(300,840)
Investing	<u>(33,168)</u>	<u>(101,076)</u>	<u>135,335</u>
Net change in cash and cash equivalents	(121,768)	125,201	(20,670)
Cash and cash equivalents:			
Beginning of year	<u>179,852</u>	<u>54,651</u>	<u>75,321</u>
End of year	<u>\$ 58,084</u>	<u>\$ 179,852</u>	<u>\$ 54,651</u>

2011

As of December 31, 2011, the Water Fund's cash and cash equivalents of \$58.1 million decreased from December 31, 2010, by \$121.8 million mainly due to the cash used in acquisition and construction of capital assets of \$139.1 and cash used for debt service of \$142.9, offset by cash provided by operating activities of \$176.7 million and cash provided by the issuance of loans of \$14.6 million. Total cash and cash equivalents at December 31, 2011, are composed of unrestricted and restricted cash and cash equivalents of \$27.8 million and \$30.3 million, respectively.

2010

As of December 31, 2010, the Water Fund's cash and cash equivalents of \$179.9 million increased by \$125.2 million mainly due to the cash provided of \$156.1 million from operating activities, cash provided by issuance of bonds, and notes of \$367.5 million, offset by cash used in acquisition and construction of capital assets of \$139.2 and net cash used in investing activities of \$101.1 million. Total cash and cash equivalents at December 31, 2010, are composed of unrestricted and restricted cash and cash equivalents of \$32.9 million and \$147 million, respectively.

UTILITY PLANT AND DEBT ADMINISTRATION

2011

At the end of 2011 and 2010, the Water Fund had \$2,594.4 million and \$2,492.7 million, respectively, invested in utility plant, net of accumulated depreciation. During 2011, the Water Fund expended \$152 million on capital activities. This included \$2.1 million for structures and improvements, \$78 million for distribution plant, \$6.9 million for equipment, and \$65 million for construction in progress.

During 2011, net completed projects totaling \$39.5 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to installation and replacements of water mains (\$29.8 million) and Thomas Jefferson pumping station's electrical and control improvements (\$4.8 million).

2010

At the end of 2010 and 2009, the Water Fund had \$2,492.7 million and \$2,398.7 million, respectively, invested in utility plant, net of accumulated depreciation. During 2010, the Water Fund expended \$139.7 million on capital activities. This included \$4.5 million for structures and improvements, \$78.1 million for distribution plant, \$10.3 million for equipment, and \$46.8 million for construction in progress.

During 2010, net completed projects totaling \$96.1 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to South Water Purification Plant chlorine improvement project (\$53.3 million), CCTV, card access, camera upgrades (\$4.2 million), 68th Street Pumping Station roof rehab (\$4.1 million), and installation and replacements of water mains (\$30.9 million).

The Water Fund's utility plant at December 31, 2011, 2010, and 2009, is summarized as follows:

(In thousands)	Net Utility Plant at Year-End		
	2011	2010	2009
Utility plant not depreciated:			
Land and land rights	\$ 5,083	\$ 5,083	\$ 5,083
Construction in progress	<u>148,871</u>	<u>123,416</u>	<u>172,718</u>
Total utility plant not depreciated	<u>153,954</u>	<u>128,499</u>	<u>177,801</u>
Utility plant being depreciated:			
Structures and improvements	534,472	532,758	523,528
Distribution plant	2,111,790	2,004,119	1,896,552
Equipment	<u>617,159</u>	<u>605,477</u>	<u>537,294</u>
Total utility plant being depreciated	<u>3,263,421</u>	<u>3,142,354</u>	<u>2,957,374</u>
Less accumulated depreciation:			
Structures and improvements	(182,537)	(175,294)	(167,450)
Distribution plant	(351,343)	(331,211)	(312,130)
Equipment	<u>(289,104)</u>	<u>(271,610)</u>	<u>(256,853)</u>
Total accumulated depreciation	<u>(822,984)</u>	<u>(778,115)</u>	<u>(736,433)</u>
Total utility plant being depreciated — net	<u>2,440,437</u>	<u>2,364,239</u>	<u>2,220,941</u>
Total utility plant — net	<u>\$2,594,391</u>	<u>\$2,492,738</u>	<u>\$2,398,742</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.

The Water Fund's long-term liabilities at December 31, 2011, 2010, and 2009, are summarized as follows:

(In thousands)	Long-Term Liabilities at Year-End		
	2011	2010	2009
Revenue bonds and notes payable	\$ 1,721,188	\$ 1,753,832	\$ 1,464,839
Add:			
Accretion of Capital Appreciation Bonds	46,946	45,900	44,481
Bond discount/premium	30,498	31,704	29,736
Less unamortized deferred loss on bond refunding	<u>(38,678)</u>	<u>(41,215)</u>	<u>(42,440)</u>
Total revenue bonds/notes payable — net	1,759,954	1,790,221	1,496,616
Less current portion of accretion	(4,493)	(4,271)	(4,034)
Less current bonds/notes payable	<u>(44,448)</u>	<u>(42,218)</u>	<u>(40,521)</u>
Total long-term revenue bonds/notes payable — net	1,711,013	1,743,732	1,452,061
Derivative instrument liability	128,386	77,367	57,882
Long-term purchase obligations	3,290	8,529	14,291
Water pipe extension certificates	<u>1,590</u>	<u>1,590</u>	<u>1,595</u>
Total long-term liabilities	<u>\$ 1,844,279</u>	<u>\$ 1,831,218</u>	<u>\$ 1,525,829</u>

Additional information on the Water Fund's long-term debt is presented in Note 4 of the notes to basic financial statements.

The Water Fund's revenue bonds at December 31, 2011, 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	Aa2	AA	AA+
Junior Lien Water Revenue Bonds	Aa3	AA-	AA

At December 31, 2011, 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 is presented in Note 4 of the notes to the basic financial statements.

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 Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)**

	2011	2010		2011	2010
ASSETS AND DEFERRED OUTFLOWS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 27,796	\$ 32,871	Accounts payable	\$ 29,139	\$ 14,583
Investments (Note 2)	34,019	3,840	Due to other City funds	18,212	24,452
Accounts receivable — net of allowance for doubtful accounts of approximately \$51,796 in 2011 and \$41,133 in 2010	100,933	107,698	Accrued liabilities	71,158	74,729
Interest receivable	138	9	Deferred revenue	<u>14,394</u>	<u>20,774</u>
Due from other City funds	17,507	19,501			
Inventories	<u>16,345</u>	<u>14,066</u>	Total current liabilities	<u>132,903</u>	<u>134,538</u>
Current unrestricted assets	<u>196,738</u>	<u>177,985</u>	Liabilities payable from restricted assets:		
Restricted assets (Notes 2 and 3):			Accounts payable	13,975	13,830
Cash and cash equivalents	30,288	146,981	Due to other City funds	1,554	2,435
Investments	193,495	186,011	Interest payable	14,180	8,167
Interest receivable	<u>209</u>	<u>447</u>	Current portion of long-term debt (Note 4)	<u>48,941</u>	<u>46,489</u>
Total restricted assets	<u>223,992</u>	<u>333,439</u>	Total liabilities payable from restricted assets	<u>78,650</u>	<u>70,921</u>
NONCURRENT ASSETS:			NONCURRENT LIABILITIES:		
Other assets	<u>14,557</u>	<u>15,285</u>	Long-term debt — net of current maturities (Note 4)	1,711,013	1,743,732
Utility plant (Note 5):			Derivative instrument liability	128,386	77,367
Land and land rights	5,083	5,083	Long-term purchase obligation (Note 4)	3,290	8,529
Structures and improvements	534,472	532,758	Water pipe extension certificates	<u>1,590</u>	<u>1,590</u>
Distribution plant	2,111,790	2,004,119	Total noncurrent liabilities	<u>1,844,279</u>	<u>1,831,218</u>
Equipment	617,159	605,477	Total liabilities	<u>2,055,832</u>	<u>2,036,677</u>
Construction in progress	<u>148,871</u>	<u>123,416</u>	NET ASSETS (Note 1):		
Total utility plant	3,417,375	3,270,853	Invested in capital assets — net of related debt	1,055,054	974,328
Less accumulated depreciation	<u>(822,984)</u>	<u>(778,115)</u>	Restricted net assets — capital projects	209	447
Utility plant — net	<u>2,594,391</u>	<u>2,492,738</u>	Unrestricted net assets	<u>46,969</u>	<u>85,362</u>
Total noncurrent assets	<u>2,608,948</u>	<u>2,508,023</u>	Total net assets	1,102,232	1,060,137
Deferred outflows	<u>128,386</u>	<u>77,367</u>			
TOTAL	<u>\$3,158,064</u>	<u>\$3,096,814</u>	TOTAL	<u>\$3,158,064</u>	<u>\$3,096,814</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, 2011 AND 2010
(In thousands)**

	2011	2010
OPERATING REVENUES:		
Water sales	\$ 441,769	\$ 445,504
Other operating revenues	<u>12,452</u>	<u>12,891</u>
Total operating revenues	<u>454,221</u>	<u>458,395</u>
OPERATING EXPENSES:		
Source of supply	185	100
Power and pumping	38,182	42,857
Purification	66,471	49,725
Transmission and distribution	38,985	38,671
Provision for doubtful accounts	13,947	15,862
Customer accounting and collection	10,663	10,305
Administrative and general	17,143	18,562
Central services and General Fund reimbursements	<u>96,588</u>	<u>103,008</u>
Total operating expenses before depreciation and amortization	<u>282,164</u>	<u>279,090</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	172,057	179,305
DEPRECIATION AND AMORTIZATION	<u>47,603</u>	<u>44,519</u>
OPERATING INCOME	<u>124,454</u>	<u>134,786</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	2,008	(362)
Interest expense	(86,522)	(75,738)
Other	<u>2,155</u>	<u>3,944</u>
Total nonoperating expenses — net	<u>(82,359)</u>	<u>(72,156)</u>
CHANGE IN NET ASSETS	42,095	62,630
TOTAL NET ASSETS — Beginning of year	<u>1,060,137</u>	<u>997,507</u>
TOTAL NET ASSETS — End of year	<u>\$ 1,102,232</u>	<u>\$ 1,060,137</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 440,408	\$ 433,161
Transactions with other City funds	(66,535)	(82,581)
Payments to vendors	(89,215)	(91,536)
Payments to employees	<u>(108,007)</u>	<u>(102,946)</u>
Net cash provided by operating activities	<u>176,651</u>	<u>156,098</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(139,057)	(139,206)
Interest paid	(86,434)	(79,763)
Proceeds from issuance of bonds and notes	14,573	367,532
Principal paid on bonds	(56,488)	(44,554)
Payments of refunded bonds		(35,580)
Payments of bonds issuance costs		(2,244)
Construction reimbursements	<u>2,155</u>	<u>3,994</u>
Net cash (used in) provided by capital and related financing activities	<u>(265,251)</u>	<u>70,179</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	(37,663)	(101,935)
Investment interest	<u>4,495</u>	<u>859</u>
Net cash used in investing activities	<u>(33,168)</u>	<u>(101,076)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(121,768)	125,201
CASH AND CASH EQUIVALENTS — Beginning of year	<u>179,852</u>	<u>54,651</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 58,084</u>	<u>\$ 179,852</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED IN THE STATEMENTS OF NET ASSETS:		
Unrestricted	\$ 27,796	\$ 32,871
Restricted	<u>30,288</u>	<u>146,981</u>
TOTAL	<u>\$ 58,084</u>	<u>\$ 179,852</u>

(Continued)

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)**

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 124,454	\$ 134,786
Adjustments to reconcile:		
Depreciation and amortization	47,603	44,519
Provision for doubtful accounts	13,947	15,862
Changes in assets and liabilities:		
Increase in accounts receivable	(7,433)	(24,839)
Increase in inventories	(2,279)	(249)
Decrease (increase) in due from other City funds	1,994	(1,959)
Increase (decrease) in unrestricted accounts payable	14,556	(5,734)
Decrease in due to other City funds	(6,240)	(19,974)
(Decrease) increase in accrued liabilities	(3,571)	14,081
Decrease in water pipe extension certificate		(5)
Decrease in deferred revenue	<u>(6,380)</u>	<u>(390)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 176,651</u>	<u>\$ 156,098</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2011 and 2010 of \$15,528 and \$16,265, respectively, have outstanding 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, 2011 AND 2010 (In thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The Water Fund (“Water Fund”) purifies and provides Lake Michigan water for the City of Chicago, Illinois (the “City”) and approximately 125 suburbs. The Water Fund is included in the City’s reporting entity as an enterprise fund.

The accompanying basic financial statements 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.

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 Governmental Accounting Standards Board (GASB). 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 basic 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 basic 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 (the “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 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 (the “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 fair value equal to the cost of the repurchase agreements, plus accrued interest.

Investments generally may not have a maturity in excess of ten years 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 thousand and an estimated useful life in excess of two years. Such assets are recorded at historical cost. 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 are composed of 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, capital projects; 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, capital projects 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.

Derivatives — The Water Fund enters into interest rate swap agreements to hedge interest rates on outstanding variable interest rate debt. For existing swaps, the net interest expenditures resulting from these arrangements are recorded as interest expense. The fair value of derivative instruments that are deemed to be effective is accounted for as deferred outflows. Derivative instruments that are deemed not effective are adjusted to fair value with the change in fair value recorded to investment earnings. 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, \$46.2 million and \$42.6 million represent revenue recognized on water sales, which had not yet been billed to customers at December 31, 2011 and 2010, 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 and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Adopted Accounting Standards — In June 2008, the GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. The Water Fund implemented GASB Statement No. 53 on January 1, 2010. This statement enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a

comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments, such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of GASB Statement No. 53 is that certain derivative instruments, with the exception of synthetic-guaranteed investment contracts that are fully benefit-responsive, are reported at fair value by governments in their basic financial statements.

GASB Statement No. 53 requires that the provisions of this statement should be applied retroactively by restating financial statements for all periods presented. The financial reporting impact resulting from the implementation of GASB Statement No. 53 is the recognition within the financial statements of a liability for hedging derivative instruments whose negative fair value at December 31, 2010, totaled \$77.4 million with a corresponding amount being reported as deferred outflows of resources in the assets section of the statement of net assets.

2. RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Equivalents and Investments —The Water Fund’s cash equivalents and investments as of December 31, 2011, is as follows (in thousands):

	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
U.S. agencies	\$ 4,001	\$ 163,406	\$ -	\$ -	\$ 167,407
Certificates of deposit and other short-term	31,385				31,385
Commercial paper	3,997				3,997
Corporate bonds	18,054				18,054
Municipal bonds		4,037			4,037
Subtotal	<u>\$ 57,437</u>	<u>\$ 167,443</u>	<u>\$ -</u>	<u>\$ -</u>	224,880
Share of City’s pooled funds					<u>43,307</u>
Total					<u>\$ 268,187</u>

Cash Equivalents and Investments —The Water Fund’s cash equivalents and investments as of December 31, 2010, is as follows (in thousands):

	Investment Maturities (in Years)				Fair Value
	Less than 1	1–5	6–10	More than 10	
U.S. agencies	\$ 25,688	\$ 143,100	\$ 19,923	\$ -	\$ 188,711
Certificates of deposit and other short-term	<u>139,695</u>	<u> </u>	<u> </u>	<u> </u>	<u>139,695</u>
Subtotal	<u>\$ 165,383</u>	<u>\$ 143,100</u>	<u>\$ 19,923</u>	<u>\$ -</u>	328,406
Share of City’s pooled funds					<u>31,002</u>
Total					<u>\$ 359,408</u>

U.S. agencies include investments in government-sponsored enterprises such as Federal National Mortgage Association, Federal Home Loan Banks, and Federal Home Loan Mortgage Corp.

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 10 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 105% 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 the State 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. A schedule summarizing the Water Fund’s exposure to credit risk as of December 31, 2011 and 2010, is as follows (in thousands):

Quality Rating	2011	2010
Aaa/AAA	\$ 20,021	\$ 328,406
Aa/AA	189,498	
P1/A1	3,997	
Not rated	<u>11,364</u>	<u> </u>
Total	<u>\$ 224,880</u>	<u>\$ 328,406</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 City Treasurer’s pooled fund is included in the City’s financial statements.

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’s deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 105% 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 Federal Deposit Insurance Corporation. The bank balance of cash and certificates of deposit with the City’s various municipal depositories was \$478.9 million. Of the bank balance, 100% was either insured or collateralized with securities held by City agents in the City’s name. Investments reported in the basic financial statements as of December 31, 2011 and 2010, are summarized as follows (in thousands):

	2011	2010
Per Note 2:		
Investments — Water Fund	\$ 224,880	\$ 328,406
Investments — City Treasurer Pooled Fund	<u>43,307</u>	<u>31,002</u>
	<u>\$ 268,187</u>	<u>\$ 359,408</u>
Per financial statements:		
Restricted investments	\$ 193,495	\$ 186,011
Unrestricted investments	34,019	3,840
Investments included as cash and cash equivalents on the statements of net assets	<u>40,673</u>	<u>169,557</u>
	<u>\$ 268,187</u>	<u>\$ 359,408</u>

3. RESTRICTED ASSETS AND ACCOUNTS

Water sales are pledged to pay outstanding Water Revenue Bonds. 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, 1995, and Refunding Bonds Series 1993 (“Senior Lien Revenue Bonds”):

Bond Principal and Interest Account — No later than 10 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, and 1993 bonds was met by the purchase of surety bonds. The required balance of the Series 2001 Second Lien Revenue Bonds is being met with a deposit of a portion of the proceeds of the Series 2001 Senior Lien Revenue Bonds.

Construction Account — Certain proceeds of the Senior Lien Revenue 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 (the “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, 2006A, 2008, 2010A, 2010B, 2010C, and Refunding Bonds, Series 2004 and 2001 (Second Lien Revenue 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 Revenue Bonds.

Second Lien Bonds Account — On the date of issuance of any series of Second Lien Revenue 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 Second Lien Revenue 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, 2011 and 2010, are as follows (in thousands):

	2011	2010
Senior lien debt service reserve	\$ 3,562	\$ 7,280
Second lien revenue bonds	28,241	27,166
Water rate stabilization	61,397	61,397
Construction	<u>130,583</u>	<u>237,149</u>
Total	<u>\$ 223,783</u>	<u>\$ 332,992</u>

At December 31, 2011 and 2010, management is not aware of any instances of noncompliance with the funding requirements and restrictions on assets as stated in the ordinances.

4. LONG-TERM DEBT

Long-term debt as of December 31, 2011 and 2010, consisted of the following (in thousands):

	2011	2010
\$49,880 Series 1993 Water Revenue Refunding Bonds, issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	\$ 25,265	\$ 29,610
\$277,911 Series 1997 Water Revenue Bonds, issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	20,976	24,790
\$100,000 Series 2000 Second Lien Water Revenue Bonds, issued December 22, 1999, due 2030, variable floating interest rate; interest at 3.8694%	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%	22,664	22,664
\$272,405 Series 2001 Senior Lien Water Revenue Bonds, issued December 13, 2001, due 2031; interest at 4.0% to 5.5%		6,390
\$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds, issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	80,990	81,035
\$2,292 Illinois Environmental Protection Agency Loan Agreement, signed June 30, 2003, due 2025; interest at 2.57%	2,273	2,446
\$3,605 Illinois Environmental Protection Agency Loan Agreement, signed October 16, 2003, due 2022; interest at 2.905%	2,049	2,169
\$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds, issued August 5, 2004, due through 2031, variable floating interest rate; interest at 3.867%	386,500	389,425
\$215,400 Series 2006A Second Lien Water Revenue Bonds, issued July 26, 2006, due through 2036; interest at 4.5% to 5.0%	197,470	201,410
\$549,915 Series 2008 Second Lien Water Revenue Bonds, issued April 2, 2008, due through 2038; interest at 4.0% to 5.25%	515,105	528,800
\$313,580 Series 2010A-C Second Lien Water Revenue Bonds, issued November 10, 2010, due through 2040; interest at 2.0% to 6.742%	306,810	313,580
\$6,000 Illinois Environmental Protection Agency Loan Agreement, signed January 21, 2011, due 2031; interest at 2.57%	6,000	
\$8,573 Illinois Environmental Protection Agency Loan Agreement, issued February 2, 2010, due 2031; noninterest bearing	8,573	
Commercial paper notes issued	<u>46,513</u>	<u>51,513</u>
	1,721,188	1,753,832
Add accretion of capital appreciation bonds	46,946	45,900
Less current portion of accretion	(4,493)	(4,271)
Less current portion of long-term debt	(44,448)	(42,218)
Add unamortized bond discount/premium — net	30,498	31,704
Less unamortized deferred loss on bond refunding	<u>(38,678)</u>	<u>(41,215)</u>
Long-term portion — net	<u>\$ 1,711,013</u>	<u>\$ 1,743,732</u>

Long-term debt changed during the years ended December 31, 2011 and 2010, as follows (in thousands):

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011	Due within One Year
Revenue bonds/notes payable	\$ 1,753,832	\$ 14,573	\$ (47,217)	\$ 1,721,188	\$ 44,448
Accretion of capital appreciation bonds	45,900	5,317	(4,271)	46,946	4,493
Unamortized bond discount/premium — net	31,704		(1,206)	30,498	
Unamortized deferred loss on bond refunding	<u>(41,215)</u>		<u>2,537</u>	<u>(38,678)</u>	
Total	<u>\$ 1,790,221</u>	<u>\$ 19,890</u>	<u>\$ (50,157)</u>	<u>\$ 1,759,954</u>	<u>\$ 48,941</u>

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due within One Year
Revenue bonds/notes payable	\$ 1,464,839	\$ 365,093	\$ (76,100)	\$ 1,753,832	\$ 42,218
Accretion of capital appreciation bonds	44,481	5,453	(4,034)	45,900	4,271
Unamortized bond discount/premium — net	29,736	2,439	(471)	31,704	
Unamortized deferred loss on bond refunding	<u>(42,440)</u>	<u>(2,009)</u>	<u>3,234</u>	<u>(41,215)</u>	
Total	<u>\$ 1,496,616</u>	<u>\$ 370,976</u>	<u>\$ (77,371)</u>	<u>\$ 1,790,221</u>	<u>\$ 46,489</u>

Long-term purchase obligation relates to the City's share of the cost for operation and maintenance of electrical generation facilities as described in Note 9, as follows:

	2011	2010
Non-interest-bearing obligation	<u>\$ 3,290</u>	<u>\$ 8,529</u>

Interest capitalized in 2011 and 2010 totaled \$14.8 million and \$4.7 million, respectively.

Interest expense includes amortization of the deferred loss on bond refunding for 2011 and 2010 of \$2.5 million and \$3.2 million, respectively; amortization of bond discount of \$1.2 million and \$0.5 million, respectively; and accretion of Series 1997 and Series 2000 capital appreciation bonds of \$4.3 million and \$4.0 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 2011 and 2010.

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, 2011, was \$15 per 1,000 cubic feet.

Issuance of Debt — On January 21, 2011, a loan agreement was signed with the Illinois Environment Protection Agency to replace water mains and install water meters. In 2011, the Water Fund drew \$6 million from this loan agreement. The loan has an interest rate of 2.57 percent with maturity dates from June 21, 2011 to December 21, 2031. On February 2, 2010, a loan agreement was signed with the

Illinois Environment Protection Agency to replace undersized, leaking, and antiquated water mains. In 2011, the Water Fund drew \$8.6 million from this loan agreement. The loan has no interest and has principal maturity dates from June 2, 2012 to December 2, 2031.

Second Lien Water Revenue Project and Refunding Bonds, Series 2010A-C (\$313.6 million) were sold at a premium in November 2010. The bonds have interest rates ranging from 2.0% to 6.742 % and maturity dates from November 1, 2011 to November 1, 2040. Series B bonds (\$250 million) are Build America Bonds and Series C bonds (\$29.7 million) are qualified Energy Conservation Bonds. Net proceeds of \$313.8 million will be used to finance certain costs of improvements and extensions to the water system (\$277.6 million), advance refund certain maturities of Water Revenue Bonds outstanding (\$36.2 million). The advance refunding of the bonds decreased the water system's total debt service payments by \$3.2 million and resulted in an economic gain (difference between the present values of the debt service on the old and new debt) of \$2.4 million.

A schedule of bond and note debt service requirements to maturity at December 31, 2011, is as follows (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2012	\$ 44,448	\$ 85,234	\$ 129,682
2013	42,219	87,915	130,134
2014	43,400	86,763	130,163
2015	44,656	85,521	130,177
2016	46,152	84,058	130,210
2017–2021	279,707	371,868	651,575
2022–2026	362,371	271,218	633,589
2027–2031	421,852	184,414	606,266
2032–2036	260,360	103,103	363,463
2037–2041	129,510	27,686	157,196
Total	<u>\$1,674,675</u>	<u>\$1,387,780</u>	<u>\$3,062,455</u>

Debt service requirements above exclude commercial paper issues, as the timing of payments is not certain. Commercial paper outstanding at December 31, 2011 of \$46.5 million will be refunded with new commercial paper notes as the existing notes mature.

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, 2011, 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, 2011, or the effective rate of a related swap agreement, if applicable. An irrevocable letter of credit provides for the timely payment of principal and interest on the Series 2000 until February 18, 2013. An irrevocable letter of credit provides for the timely payment of principal and interest on the Series 2004 bonds until July 12, 2012. At December 31, 2011, there were no outstanding letter of credit advances. In the event the bonds are put back to the bank and not successfully remarketed, or if the letter of credit expires without an extension or substitution, the bank bonds will convert to a term loan. There is no principal due on potential term loans within the next fiscal year.

Derivatives — Pay-Fixed, Receive — Variable Interest Rate Swaps

Objective of the Swaps — In order to protect against the potential of rising interest rates, the Water Fund has entered into various separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Water Fund would have paid to issue fixed-rate debt.

	Changes in Fair Value		Fair Value at December 31, 2011		Notional
	Classification	Amount	Classification	Amount	
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	<u>\$ 19,485</u>	Deferred outflow of resources	<u>\$ (128,386)</u>	<u>\$486,500</u>

Terms, Fair Values, and Credit Risk — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2010, are as follows (in thousands). 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 Securities Industry in Financial Markets Association/London InterBank Offered Rate, (SIFMA/LIBOR).

Associated Bond Issue	Notional Amounts	Effective Date	Terms	Fair Values	Maturity Date	Counter- party Credit Rating
Hedging Instruments						
Bonds (Series 2004)	\$ 191,900	8/5/2004	Pay 3.869%; receive SIFMA	\$ 43,495	1/1/2039	Aa3/A+
Bonds (Series 2004)	194,600	4/16/2008	Pay 3.867%; receive SIFMA	50,532	1/1/2039	A1/A- Aa3/A+
Bonds (Series 2000)	<u>100,000</u>	4/16/2008	Pay 3.8694%; receive SIFMA	<u>34,359</u>	1/1/2039	Aa3/A+
Total	<u>\$486,500</u>			<u>\$128,386</u>		

Fair Value — As of December 31, 2011 and 2010, the swaps had a negative fair value of \$128.4 million and \$77.4 million, respectively. 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 SIFMA/LIBOR 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. SIFMA/LIBOR ratios (or spreads) may create basis risk if SIFMA/LIBOR swaps of the Water Fund's bonds trade higher than the SIFMA/LIBOR 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 — 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):

Years Ending December 31	Principal	Interest	Swaps — Net	Total
2012	\$ 10,200	\$ 582	\$ 18,237	\$ 29,019
2013	10,150	569	17,856	28,575
2014	10,575	556	17,477	28,608
2015	11,000	542	17,081	28,623
2016	11,450	528	16,670	28,648
2017–2021	111,525	2,363	75,391	189,279
2022–2026	175,510	1,345	46,110	222,965
2027–2031	<u>46,090</u>	<u>389</u>	<u>15,675</u>	<u>62,154</u>
Total	<u>\$ 386,500</u>	<u>\$ 6,874</u>	<u>\$ 224,497</u>	<u>\$ 617,871</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, 2011, are as follows (in thousands):

	Amount Defeased	Outstanding
Water Revenue Senior Lien Bonds, Series 2001	<u>\$ 242,630</u>	<u>\$ 229,155</u>

5. UTILITY PLANT

Utility plant changed during the years ended December 31, 2011 and 2010, as follows (in thousands):

	Balance — January 1, 2011	Additions	Disposals and Transfers	Balance — December 31, 2011
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$ -	\$ -	\$ 5,083
Construction in progress	<u>123,416</u>	<u>64,957</u>	<u>(39,502)</u>	<u>148,871</u>
Total utility plant not depreciated	<u>128,499</u>	<u>64,957</u>	<u>(39,502)</u>	<u>153,954</u>
Utility plant being depreciated:				
Structures and improvements	532,758	2,103	(389)	534,472
Distribution plant	2,004,119	77,997	29,674	2,111,790
Equipment	<u>605,477</u>	<u>6,908</u>	<u>4,774</u>	<u>617,159</u>
Total utility plant being depreciated	<u>3,142,354</u>	<u>87,008</u>	<u>34,059</u>	<u>3,263,421</u>
Less accumulated depreciation:				
Structures and improvements	(175,294)	(7,243)		(182,537)
Distribution plant	(331,211)	(20,674)	542	(351,343)
Equipment	<u>(271,610)</u>	<u>(18,797)</u>	<u>1,303</u>	<u>(289,104)</u>
Total accumulated depreciation	<u>(778,115)</u>	<u>(46,714)</u>	<u>1,845</u>	<u>(822,984)</u>
Utility plant being depreciated — net	<u>2,364,239</u>	<u>40,294</u>	<u>35,904</u>	<u>2,440,437</u>
Utility plant — net	<u>\$ 2,492,738</u>	<u>\$ 105,251</u>	<u>\$ (3,598)</u>	<u>\$ 2,594,391</u>
	Balance — January 1, 2010	Additions	Disposals and Transfers	Balance — December 31, 2010
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$ -	\$ -	\$ 5,083
Construction in progress	<u>172,718</u>	<u>46,790</u>	<u>(96,092)</u>	<u>123,416</u>
Total utility plant not depreciated	<u>177,801</u>	<u>46,790</u>	<u>(96,092)</u>	<u>128,499</u>
Utility plant being depreciated:				
Structures and improvements	523,528	4,521	4,709	532,758
Distribution plant	1,896,552	78,103	29,464	2,004,119
Equipment	<u>537,294</u>	<u>10,305</u>	<u>57,878</u>	<u>605,477</u>
Total utility plant being depreciated	<u>2,957,374</u>	<u>92,929</u>	<u>92,051</u>	<u>3,142,354</u>
Less accumulated depreciation:				
Structures and improvements	(167,450)	(7,844)		(175,294)
Distribution plant	(312,130)	(19,517)	436	(331,211)
Equipment	<u>(256,853)</u>	<u>(15,791)</u>	<u>1,034</u>	<u>(271,610)</u>
Total accumulated depreciation	<u>(736,433)</u>	<u>(43,152)</u>	<u>1,470</u>	<u>(778,115)</u>
Utility plant being depreciated — net	<u>2,220,941</u>	<u>49,777</u>	<u>93,521</u>	<u>2,364,239</u>
Utility plant — net	<u>\$ 2,398,742</u>	<u>\$ 96,567</u>	<u>\$ (2,571)</u>	<u>\$ 2,492,738</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 \$11.5 million in 2011 and \$9.8 million in 2010. 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 to the year for which the applicable tax is levied, multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ended December 31, 2011 and 2010, 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, 2011, assists users in assessing each pension 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 (dollars in thousands):

	Annual Pension Cost	Percent of Annual Pension Cost Contributed	Required Contribution	Percent of Required Contributions Contributed	Net Pension Obligation (Asset)
Municipal employees:					
2009	\$ 412,575	35.9 %	\$ 413,509	35.8 %	\$ 679,736
2010	482,421	32.1	483,948	32.0	1,007,404
2011	609,491	24.1	611,756	24.0	1,469,886
Laborers:					
2009	\$ 34,025	43.0 %	\$ 33,517	43.6 %	\$ (206,361)
2010	47,129	32.6	46,665	32.9	(174,584)
2011	57,651	22.2	57,259	22.3	(129,712)

The pension benefits information pertaining expressly to Water Fund employees is not available as the obligation is the responsibility of the general government. Accordingly, no amounts have been recorded in the accompanying basic financial statements for the net pension asset or obligation of these plans. Amounts for the City are recorded within the City's government-wide financial statements.

7. OTHER POSTEMPLOYMENT BENEFITS — CITY OBLIGATION

In addition to providing pension benefits, under State law, the City 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 are funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 24,000 annuitants and their dependents was approximately \$99.1 million and \$107.4 million in 2011 and 2010, 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%, and 0% 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. During 2011 and 2010, the pension funds contributed \$65 for each Medicare-eligible annuitant and \$95 for each Non-Medicare-eligible annuitant to their gross cost, respectively. The annuitants contributed a total of \$68.3 million and \$64.1 million in 2011 and 2010, respectively, to the gross cost of their retiree health care pursuant to premium amounts set forth in the above-referenced settlement agreement.

The City's net expense and the annuitants' contribution indicated above are preliminary and subject to the reconciliation per the court-approved settlement agreement.

Plan Description Summary — The City is party to a written legal settlement agreement outlining the provisions of the retiree health program, the Settlement Health Care Plans (the "Plans"), through June 30, 2013. The agreement does not require or extend continuation of the Plans after June 30, 2013. Pursuant to the Plans, the City administers a single-employer defined benefit health care plan (the "Health Plan"), for which the City pays a portion of the costs on a pay-as-you-go method. Under the Plans' agreement, the City sponsors health benefit plans for employees, former employees, and retired former employees. The provisions of the program provide, in general, that the City pay a percentage of the cost (based upon an employee's service) for hospital and medical coverage to eligible retired employees and their dependents for a specified period, until June 30, 2013.

In addition, Compiled Statutes authorize the four respective Pension Funds (Police, Fire, Municipal, and Laborers) to provide a fixed monthly dollar subsidy to each annuitant who has elected coverage under the Health Plan through June 30, 2013. After that date, no supplements are authorized.

The liabilities for the monthly dollar supplements paid to annuitants enrolled in the retiree medical plan by their respective pension funds are included in the liabilities and reports of the respective four pension funds.

Funding Policy — The City's retiree Health Plan is a single-employer plan, which operates on a pay-as-you-go funding basis. No assets are accumulated or dedicated to funding the retiree Health Plan benefits.

Annual OPEB Cost and Net OPEB Obligation — The City’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period of two years (the remaining years of coverage under the Settlement agreement).

The following table shows the components of the City’s annual OPEB costs for the year for the Plans, the amount actually contributed to the Plans and changes in the City’s net OPEB obligation to the retiree Health Plan. The net OPEB obligation is the amount entered upon the City’s statement of net assets as of year-end as the net liability for the other postemployment benefits — the retiree Health Plan. The amount of the annual cost for the retiree Health Plan, which is to be recorded in the statement of changes in net assets for 2011 is the annual OPEB cost (expense).

Annual OPEB Cost and Contributions Made (in thousands)	Health Plan	
	2011	2010
Contribution rates:		
City	Pay As You Go	Pay As You Go
Plan members	N/A	N/A
Annual required contribution	\$ 200,062	\$ 189,328
Interest on net OPEB obligation	4,567	9,871
Adjustment to annual required contribution	<u>(155,675)</u>	<u>(116,325)</u>
Annual OPEB cost	48,954	82,874
Contributions made	<u>99,092</u>	<u>107,431</u>
Decrease in net OPEB obligation	(50,138)	(24,557)
Net OPEB obligation — beginning of year	<u>304,483</u>	<u>329,040</u>
Net OPEB obligation — end of year	<u>\$ 254,345</u>	<u>\$ 304,483</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plans, and the net OPEB obligation for 2011, is as follows (dollars in thousands):

Schedule of Contributions, OPEB Costs, and Net Obligations			
Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 48,954	202.4 %	\$ 254,345
December 31, 2010	82,874	129.6	304,483
December 31, 2009	157,809	62.1	329,040

Funded Status and Funding Progress — As of January 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$390.6 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plans) was approximately \$2,475.1 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.8%.

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 health care cost trend. Amounts determined regarding the funded status of the Plans and the annual required contributions of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future.

(Dollars in thousands)					
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2010	<u>\$ -</u>	<u>\$ 390,611</u>	<u>\$ 390,611</u>	<u>- %</u>	<u>\$ 2,475,080</u>

Actuarial Method and Assumptions — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included 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 method and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AALs and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the Plans' benefits (not provided by the pension funds) in the actuarial valuation for the year ended December 31, 2011, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual health care cost trend rate of 11.5% initially, reduced by decrements to an ultimate rate of 10.5%. Both rates included a 3% inflation assumption. The Plans have not accumulated assets and does not hold assets in a segregated trust. However, the funds expected to be used to pay benefits are assumed to be invested for durations, which will yield an annual return rate of 1.5%. The UAAL is being amortized as a level-dollar amount over two years.

Summary of Assumptions and Methods		
Item	Health Plan	
	2011	2010
Actuarial valuation date	December 31, 2010	December 31, 2009
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level dollar	Level dollar
Remaining amortization period	2 years	3 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	1.5%	3.0%
Projected salary increases	2.5%	2.5%
Healthcare inflation rate	11.5% initial to 10.5% ultimate	12% initial to 10.5% ultimate

The OPEB benefit information pertaining expressly to the Water Fund employees is not available as the obligation is the responsibility of the general government. Accordingly, no obligation has been recorded in the accompanying financial statements. Amounts for the City are recorded within the City's government-wide financial statements.

8. 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 \$62.3 million and \$60.6 million in 2011 and 2010, respectively.

9. 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 basic 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, 2011 and 2010, are as follows (in thousands):

	2011	2010
Balance — January 1	\$ 35,550	\$ 30,616
Claims incurred on current and prior-year events	30,375	37,001
Claims paid on current and prior-year events	<u>(32,753)</u>	<u>(32,067)</u>
Balance — December 31	<u>\$ 33,172</u>	<u>\$ 35,550</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.

The City, who has a 40-year agreement with the DuPage Water Commission (DWC) to provide water service to the DWC and its 24 suburbs commencing on May 1, 1992, has signed an agreement with the DWC to share equally in the aggregate costs in the construction, operation, and maintenance of electrical generation facilities and other capital improvements at the Lexington Pumping station, of which neither party's share will exceed \$15 million without an amendment to the agreement approved by both parties. Payments for the City's share will be in the form of credits against the charges for water supplied to the facility. Total cumulative credits as of December 31, 2011, amounted to \$12.3 million.

At December 31, 2011 and 2010, the Water Fund entered into contracts with outstanding commitments of approximately \$291.9 million and \$220 million, respectively, for construction projects.

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**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)**

	Assets				Balance — December 31, 2011	Accumulated Depreciation			Balance — December 31, 2011	Net Balance — December 31, 2011
	Balance — January 1, 2011	Additions	Adjustments/ Disposals	Transfers		Balance — January 1, 2011	Provision	Adjustments/ Disposals		
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	17,337				17,337	4,695	166		4,861	12,476
Lake and land tunnels	118,152				118,152	35,249	1,181		36,430	81,722
Intake structures	9,531				9,531	4,280	95		4,375	5,156
Power and pumping structures	127,111	77			127,188	29,370	1,578		30,948	96,240
Purification buildings	203,991	446		483	204,920	91,644	3,182		94,826	110,094
Distribution reservoirs	16,979				16,979	4,778	226		5,004	11,975
Offices, maintenance, and general	38,683	604		102	39,389	5,278	815		6,093	33,296
Contract retainage	974	976	(974)		976				-	976
Total structures and improvements	532,758	2,103	(974)	585	534,472	175,294	7,243	-	182,537	351,935
DISTRIBUTION PLANT:										
Mains and accessories	1,937,538	75,856	(553)	29,789	2,042,630	291,082	19,375	(542)	309,915	1,732,715
Meters and installations	47,578			1,994	49,572	30,017	1,035		31,052	18,520
Hydrants and valves	17,447				17,447	10,112	264		10,376	7,071
Contract retainage	1,556	2,141	(1,556)		2,141				-	2,141
Total distribution plant	2,004,119	77,997	(2,109)	31,783	2,111,790	331,211	20,674	(542)	351,343	1,760,447
EQUIPMENT:										
Power production	59,899	1,027			60,926	41,851	1,322		43,173	17,753
Pumping	190,404	1,597		5,610	197,611	73,645	6,102		79,747	117,864
Purification	309,417	1,332		559	311,308	124,746	9,008		133,754	177,554
Heavy machinery	20,351	2,261	(804)	127	21,935	12,463	1,583	(723)	13,323	8,612
Transportation	8,275	316	(668)	71	7,994	6,509	263	(580)	6,192	1,802
Miscellaneous	17,010				17,010	12,396	519		12,915	4,095
Contract retainage	121	375	(121)		375				-	375
Total equipment	605,477	6,908	(1,593)	6,367	617,159	271,610	18,797	(1,303)	289,104	328,055
Total structures and improvements, distribution plant, and equipment	3,142,354	87,008	(4,676)	38,735	3,263,421	778,115	46,714	(1,845)	822,984	2,440,437
CONSTRUCTION IN PROGRESS:										
Filtration plants	9,529	2,442		(1,489)	10,482				-	10,482
Pumping stations	26,808	2,173		(5,250)	23,731				-	23,731
Water mains	86,312	60,342		(31,996)	114,658				-	114,658
Contract retainage	767		(767)		-				-	-
Total construction in progress	123,416	64,957	(767)	(38,735)	148,871	-	-	-	-	148,871
TOTAL UTILITY PLANT	\$3,270,853	\$151,965	\$(5,443)	\$ -	\$3,417,375	\$778,115	\$46,714	\$(1,845)	\$822,984	\$2,594,391

STATISTICAL DATA

The statistical data section includes selected financial and operating information, generally presented on a multiyear basis. Statistical section information is presented in five categories — financial trends, revenue capacity, debt capacity, operating, and demographic and economic information. Schedules in the statistical section are the following:

Financial Trends Information

These schedules contain trend information to help the reader understand how the Water Fund's basic financial performance and well-being have changed over time.

Revenue Capacity Information

These schedules contain information to help the reader assess the Water Fund's most significant local revenue source and water sales charge.

Debt Capacity Information

These schedules present information to help the reader assess the affordability of the Water Fund's current levels of outstanding debt and the Water Fund's ability to issue additional debt in the future.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the Water Fund's financial report relates to the services the Department of Water Management and the Water Fund and how it provides the activities it performs.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand where the environment within which the City's financial activities take place.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
CHANGES IN NET ASSETS
THREE YEARS ENDED DECEMBER 31, 2009—2011
(In millions) (Unaudited)**

	2009	2010	2011
OPERATING REVENUES:			
Water sales	\$ 396.9	\$ 445.5	\$ 441.8
Other operating revenues	<u>13.3</u>	<u>12.9</u>	<u>12.4</u>
Total operating revenues	<u>410.2</u>	<u>458.4</u>	<u>454.2</u>
OPERATING EXPENSES:			
Source of supply	0.1	0.1	0.2
Power and pumping	47.5	42.9	38.2
Purification	49.4	49.7	66.5
Transmission and distribution	40.9	38.7	39.0
Provision for doubtful accounts	10.4	15.9	14.0
Customer accounting and collection	11.2	10.3	10.6
Administrative and general	16.1	18.5	17.1
Central services and General Fund reimbursements	<u>98.5</u>	<u>103.0</u>	<u>96.6</u>
Total operating expenses before depreciation and amortization	<u>274.1</u>	<u>279.1</u>	<u>282.2</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	136.1	179.3	172.0
DEPRECIATION AND AMORTIZATION	<u>38.7</u>	<u>44.5</u>	<u>47.6</u>
OPERATING INCOME	<u>97.4</u>	<u>134.8</u>	<u>124.4</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	0.9	(0.3)	2.0
Interest expenses	(69.7)	(75.8)	(86.5)
Other operating revenues	<u>2.6</u>	<u>3.9</u>	<u>2.2</u>
Total nonoperating expenses — net	<u>(66.2)</u>	<u>(72.2)</u>	<u>(82.3)</u>
CHANGE IN NET ASSETS	31.2	62.6	42.1
TOTAL NET ASSETS — Beginning of year	<u>966.3</u>	<u>997.5</u>	<u>1,060.1</u>
TOTAL NET ASSETS — End of year	<u>\$ 997.5</u>	<u>\$ 1,060.1</u>	<u>\$ 1,102.2</u>

Water Fund intends to provide ten-year information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
NET ASSETS BY COMPONENTS
THREE YEARS ENDED DECEMBER 31, 2009—2011
(In millions) (Unaudited)**

	2009	2010	2011
NET ASSETS:			
Invested in capital assets — net of related debt	\$ 958.7	\$ 974.3	\$ 1,055.0
Restricted net assets — capital projects	0.4	0.4	0.2
Unrestricted net assets	<u>38.4</u>	<u>85.4</u>	<u>47.0</u>
TOTAL NET ASSETS	<u>\$ 997.5</u>	<u>\$ 1,060.1</u>	<u>\$ 1,102.2</u>

Water Fund intends to provide ten year information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS
TEN YEARS ENDED DECEMBER 31, 2002–2011
(In millions) (Unaudited)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
OPERATING REVENUES:										
Water sales ⁽¹⁾	\$ 296.5	\$ 296.9	\$ 307.6	\$ 333.7	\$ 317.2	\$ 323.6	\$ 358.0	\$ 396.9	\$ 445.5	\$ 441.8
Other operating revenues	<u>8.7</u>	<u>10.2</u>	<u>13.0</u>	<u>10.6</u>	<u>13.2</u>	<u>10.8</u>	<u>12.2</u>	<u>13.3</u>	<u>12.9</u>	<u>12.4</u>
Total operating revenues	<u>305.2</u>	<u>307.1</u>	<u>320.6</u>	<u>344.3</u>	<u>330.4</u>	<u>334.4</u>	<u>370.2</u>	<u>410.2</u>	<u>458.4</u>	<u>454.2</u>
OPERATING EXPENSES:										
Source of supply	0.5	0.3	0.4	0.2	0.2	0.3	0.2	0.1	0.1	0.2
Power and pumping	43.7	43.8	42.1	50.6	49.8	52.2	54.7	47.5	42.9	38.2
Purification	40.3	44.2	40.6	43.3	41.9	44.2	48.4	49.4	49.7	66.5
Transmission and distribution	52.9	53.0	39.1	39.4	41.6	47.0	47.1	40.9	38.7	39.0
Provision for doubtful accounts	3.0	3.9	3.7	2.7	3.6	3.7	8.3	10.4	15.9	14.0
Customer accounting and collection	15.5	16.3	14.9	16.3	16.9	14.8	12.8	11.2	10.3	10.6
Administrative and general	12.5	13.8	11.5	13.2	15.1	14.9	18.1	16.1	18.5	17.1
Central services and General Fund reimbursements	<u>70.1</u>	<u>72.6</u>	<u>72.3</u>	<u>80.2</u>	<u>74.0</u>	<u>83.7</u>	<u>87.2</u>	<u>98.5</u>	<u>103.0</u>	<u>96.6</u>
Total operating expenses	<u>238.5</u>	<u>247.9</u>	<u>224.6</u>	<u>245.9</u>	<u>243.1</u>	<u>260.8</u>	<u>276.8</u>	<u>274.1</u>	<u>279.1</u>	<u>282.2</u>
INTEREST INCOME (Other than from constructional account)	<u>1.0</u>	<u>1.8</u>	<u>1.0</u>	<u>2.6</u>	<u>3.8</u>	<u>4.9</u>	<u>3.7</u>	<u>1.0</u>	<u>(0.3)</u>	<u>2.0</u>
NET REVENUES — As defined (Note 4)	<u>\$ 67.7</u>	<u>\$ 61.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 91.1</u>	<u>\$ 78.5</u>	<u>\$ 97.1</u>	<u>\$ 137.1</u>	<u>\$ 179.0</u>	<u>\$ 174.0</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
WATER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2002–2011
(Unaudited)**

Years Ended December 31	Nonmetered	Metered	Total
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
2007	320,579	175,256	495,835
2008	319,205	178,457	497,662
2009	318,088	179,649	497,737
2010	314,002	183,618	497,620
2011	304,519	192,304	496,823

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
TEN LARGEST SUBURBAN CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands) (Unaudited)**

Customer	Amount of Sales
Dupage Water Commission	\$ 56,545
Oak Lawn, Illinois	22,826
Northwest Suburban Municipal Joint Action Water Agency	16,729
Bedford Park, Illinois	16,688
Harvey, Illinois	6,504
Melrose Park, Illinois	6,165
Cicero, Illinois	5,098
Alsip, Illinois	4,629
Niles, Illinois	4,151
McCook, Illinois	<u>3,929</u>
Total	<u>\$ 143,264</u>

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA REVENUE BOND COVERAGE TEN YEARS ENDED DECEMBER 31, 2002–2011 (In millions) (Unaudited)

PRIOR BONDS COVERAGE CALCULATION

COMBINED PRIOR BONDS, SENIOR LIEN, AND SECOND LIEN DEBT SERVICE CALCULATION

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined (Note 4)	\$ 67.7	\$ 61.0	\$ 97.0	\$ 101.0	\$ 91.1	\$ 78.5	\$ 97.1	\$ 137.1	\$ 179.0	\$ 174.0
Transfer from (to) Water Rate Stabilization Account	<u>12.6</u>	<u>10.0</u>	<u>—</u>	<u>—</u>	<u>(7.0)</u>	<u>7.9</u>	<u>—</u>	<u>—</u>	<u>(10.0)</u>	<u>—</u>
NET REVENUES AVAILABLE FOR BONDS	<u>\$ 80.3</u>	<u>\$ 71.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 84.1</u>	<u>\$ 86.4</u>	<u>\$ 97.1</u>	<u>\$ 137.1</u>	<u>\$ 169.0</u>	<u>\$ 174.0</u>
DEBT SERVICE REQUIREMENTS:										
Senior debt service requirements	<u>\$ 52.7</u>	<u>\$ 56.9</u>	<u>\$ 45.8</u>	<u>\$ 30.1</u>	<u>\$ 29.7</u>	<u>\$ 38.0</u>	<u>\$ 27.5</u>	<u>\$ 33.8</u>	<u>\$ 29.1</u>	<u>\$ 14.1</u>
Senior debt service coverage ratio	<u>1.5</u>	<u>1.2</u>	<u>2.1</u>	<u>3.4</u>	<u>2.8</u>	<u>2.3</u>	<u>3.5</u>	<u>4.1</u>	<u>5.8</u>	<u>12.3</u>
Second lien debt service requirements	\$ 5.9	\$ 5.7	\$ 10.3	\$ 27.3	\$ 30.5	\$ 43.2	\$ 62.5	\$ 75.7	\$ 82.1	\$ 106.6
Subordinate lien debt service requirements	<u>—</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
TOTAL SECOND AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	<u>\$ 5.9</u>	<u>\$ 5.8</u>	<u>\$ 10.5</u>	<u>\$ 27.5</u>	<u>\$ 30.8</u>	<u>\$ 43.6</u>	<u>\$ 62.9</u>	<u>\$ 76.1</u>	<u>\$ 82.5</u>	<u>\$ 107.0</u>
TOTAL COMBINED SENIOR, SECOND, AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	<u>\$ 58.6</u>	<u>\$ 62.7</u>	<u>\$ 56.3</u>	<u>\$ 57.6</u>	<u>\$ 60.5</u>	<u>\$ 81.6</u>	<u>\$ 90.4</u>	<u>\$ 109.9</u>	<u>\$ 111.6</u>	<u>\$ 121.1</u>
TOTAL COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE RATIO	<u>1.4</u>	<u>1.1</u>	<u>1.7</u>	<u>1.8</u>	<u>1.4</u>	<u>1.1</u>	<u>1.1</u>	<u>1.2</u>	<u>1.5</u>	<u>1.4</u>
WATER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	<u>\$ 62.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 59.3</u>	<u>\$ 51.4</u>	<u>\$ 51.4</u>	<u>\$ 51.4</u>	<u>\$ 61.4</u>	<u>\$ 61.4</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**

**STATISTICAL DATA
LONG-TERM DEBT
THREE YEARS ENDED DECEMBER 31, 2009—2011
(In millions) (Unaudited)**

	2009	2010	2011
Senior lien bonds	\$ 139.6	\$ 83.4	\$ 68.9
Second lien bonds	1,320.3	1,614.3	1,586.9
Commercial paper		51.5	46.5
Subordinate lien — IEPA loan	<u>4.9</u>	<u>4.6</u>	<u>18.9</u>
Total long-term debt	<u>\$ 1,464.8</u>	<u>\$ 1,753.8</u>	<u>\$ 1,721.2</u>

Water Fund intends to provide ten-year information as it becomes available.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM
2012–2016
(In thousands) (Unaudited)**

Years	Amount
2012	\$ 233,603
2013	276,177
2014	353,383
2015	415,562
2016	<u>397,002</u>
Total	<u>\$1,675,727</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
WATER SYSTEM PUMPAGE AND CAPACITY
TEN YEARS ENDED DECEMBER 31, 2002–2011
(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
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
2007	315,916	866	1,200	2,160	56
2008	301,912	827	1,136	2,160	53
2009	295,121	809	1,112	2,160	51
2010	282,368	773	1,012	2,160	47
2011	281,506	771	1,317	2,160	61

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**MISCELLANEOUS STATISTICAL DATA
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Unaudited)**

	2011	2010
AREA SERVED (IN SQUARE MILES):		
Chicago	228	228
125 suburbs	<u>578</u>	<u>578</u>
Total area served	<u><u>806</u></u>	<u><u>806</u></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)	4,369	4,369
Fire hydrants	48,125	48,125
Valves	47,296	47,296

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
OPERATING INFORMATION BY FUNCTION
THREE YEARS ENDED DECEMBER 31, 2009–2011
(Number of employees) (Unaudited)**

Function	2009	2010	2011
Administration	67	65	63
Agency management	43	37	39
Safety and security	20	19	17
Capital design and construction services	11	10	10
Engineering services	4	4	4
Inspection services	31	32	32
Water quality	50	48	48
Water pumping	235	233	231
Water treatment	327	324	326
Systems installation	39	39	39
Systems maintenance	585	582	581
Billings and customer service	115	65	66
Water meter install and repair	<u>75</u>	<u>76</u>	<u>78</u>
Total	<u>1,602</u>	<u>1,534</u>	<u>1,534</u>

Water Fund intends to provide ten year information as it becomes available.

**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
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
2010	2,695,598	(1)	2,600,496		5,296,094	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
PRINCIPAL EMPLOYERS (NON-GOVERNMENT)
FOR THE YEAR ENDED DECEMBER 31, 2011, AND NINE YEARS AGO
(Unaudited)**

Employer	2011 (1)			2002 (1)		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
J.P. Morgan Chase (2)	7,993	1	0.77 %	6,320	4	0.57 %
United Airlines	6,366	2	0.62	8,656	2	0.79
Northern Trust	5,485	3	0.53	5,312	5	0.48
Accenture LLP	5,014	4	0.48	4,399	10	0.40
Jewel Food Stores, Inc.	4,799	5	0.46	5,249	7	0.48
Bank of America	4,557	6	0.44			
Walgreen's Co.	4,429	7	0.43			
CVS Corporation	4,159	8	0.40			
ABM Janitorial Midwest, Inc.	3,629	9	0.35			
Ford Motor Company	3,410	10	0.33	5,269	6	0.48
American Airlines				4,666	8	0.42
Arthur Andersen, LLP				4,570	9	0.41
SBC Ameritech (3)				17,165	1	1.56
Exelon Corporation				7,538	3	0.68

(1) Source: City of Chicago, Department of Revenue, Employer's Expenses Tax Returns.

(2) J.P. Morgan Chase, formerly known as Banc One

(3) Ameritech currently known as SBC/AT&T

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
POPULATION AND INCOME STATISTICS
TEN YEARS ENDED DECEMBER 31, 2002–2011
(Unaudited)**

Year	Population(1)	Median Age (2)	Number of Households (2)	Unemployment Rate (3)	Per Capita Income (4)	Total Income (6)
2002	2,896,016	31.9	1,059,960	8.5%	\$35,085	\$101,606,721,360
2003	2,896,016	32.6	1,067,823	8.2	35,464	102,704,311,424
2004	2,896,016	32.6	1,051,018	7.2	37,169	107,642,018,704
2005	2,896,016	33.0	1,045,282	7.0	38,439	111,319,959,024
2006	2,896,016	33.5	1,040,000	5.2	41,887	121,305,422,192
2007	2,896,016	33.7	1,033,328	5.7	43,714	126,596,443,424
2008	2,896,016	34.1	1,032,746	6.4	45,328	131,270,613,248
2009	2,896,016	34.5	1,037,069	10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	10.1	45,957	123,881,597,286
2011	2,695,598	33.2	1,048,222	9.3	N/A (5)	N/A (5)

Notes:

- (1) Source: U.S. Department of Commerce — Census Bureau.
- (2) Source: World Business Chicago Website, Claritas data estimates; Cook County’s website.
- (3) Source: Bureau of Labor Statistics 2008, Unemployment rate for Chicago-Naperville-Illinois Metropolitan Area.
- (4) Source: U.S. Department of Commerce, Bureau of Economic Analysis, Per Capita Personal Income for Chicago-Naperville-Illinois Metropolitan Area (in 2008 dollars).
- (5) N/A means not available at time of publication
- (6) Population multiplied by the Per Capita Income.