City of Chicago
Department of Water Management
Water Fund

Comprehensive Annual Financial Report
For the Years Ended December 31, 2014 and 2013

Rahm Emanuel, Mayor
Carole Brown, Chief Financial Officer
Daniel Widawsky, City Comptroller
Thomas Powers, Commissioner

Water Fund

An Enterprise Fund of
The City of Chicago

Comprehensive Annual Financial Report
For the Years Ended December 31, 2014 and 2013

Prepared By:
The Department of Water Management
Bureau of Administrative Support

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INTRODUCTORY SECTION

DEPARTMENT OF WATER MANAGEMENT

CITY OF CHICAGO

June 30, 2015

To the Honorable Mayor Rahm Emanuel,
Members of the City Council and Citizens of the City of Chicago:

I am pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the City of Chicago Department of Water Management, Water Fund, for the year ended December 31, 2014. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with management. The purpose of the CAFR is to provide complete and accurate information, which complies with the requirements of the Municipal Code of the City of Chicago.

The CAFR is presented in three sections: introductory, financial and statistical. The financial section includes management's discussion and analysis (MD & A). This letter of transmittal is designed to complement the MD & A and should be read in conjunction with it.

REPORTING ENTITY

The Department of Water has been accounted for as a separate enterprise fund of the City of Chicago (City) which operates and maintains the City's Water system. Effective January 1, 2003, Water Department merged with the Sewer Department to form the Department of Water Management. The Water system treats and distributes water to the City's residential and commercial businesses, and suburban customers. The water system provides water intake, filtration and treatment. Water is then distributed through over 4,368 miles of mains which covers a service area of roughly 806 square miles and is inhabited by approximately 5.3 million people or 44% of the State of Illinois.

ECONOMIC CONDITION AND OUTLOOK

Department of Water Management's primary source of revenue is a water service charge which is set by City ordinance. The water service charge covers the costs of operations, maintenance and debt service.

As of January 1, 2015, the metered water rate is set at $28.52 per 1,000 cubic feet or $3.81 per 1,000 gallons. The metered rate is also applicable to the system's suburban customers. It is not expected that there will be a significant change in the population, either industrial or suburban that would lead to a significant change in revenues.

1000 EAST OHIO STREET, CHICAGO, ILLINOIS 60611

MAJOR INITIATIVE

The Department of Water Management's Five-Year Capital Improvement Program (CIP) 2015 – 2019 is forecasted to be approximately $2.1 billion. The CIP addresses the renewal and replacement of the Water System's infrastructure, and continues to focus on three major areas: purification plants, pumping stations and water distribution system.

The primary capital expenditures are for the annual water main replacement program. The department is planning to replace 90 miles in 2015 with proposed increases annually bringing the 5 year total to over 450 miles of water mains to be replaced in this period. Automatic meter reading devices will continue to be installed to customers who have meters and the Meter Save Program will target installation of meters to non-metered customers on a volunteer basis.

The CIP includes work for the rehabilitation and upgrade of the two purification plants – the world's two largest purification facilities. The work will include replacement/upgrading of the chemical storage and handling system, instrumentation and processing equipment; full replacement of filter backwash controls, and roof replacement at the South Water Purification Plant. At the Jardine Water Purification Plant, the medium voltage electrical switchgear will be upgraded and the laboratory will be modernized.

The 5 year CIP also includes design and construction work on three of the departments' four steam powered pumping station to convert them to electric power. During this period construction will be completed on one of these stations, the second one will be partially constructed and the third one will be partially designed. Additionally, the 5 year CIP includes work for upgrades of pumps and motors at various existing electric powered stations; structural and façade restoration at the two active water intake cribs and the development of work plans for the demolition of the two inactive water intake cribs.

The Department of Water Management may revise the list of specific improvements and revise cost allocations among improvements, as well as make substitutions to meet current needs and to provide for the most efficient operation of the Water System. In all, the 5-year CIP Program is annually updated to ensure continued economic and reliable delivery of water to all customers.

PROPRIETARY OPERATIONS

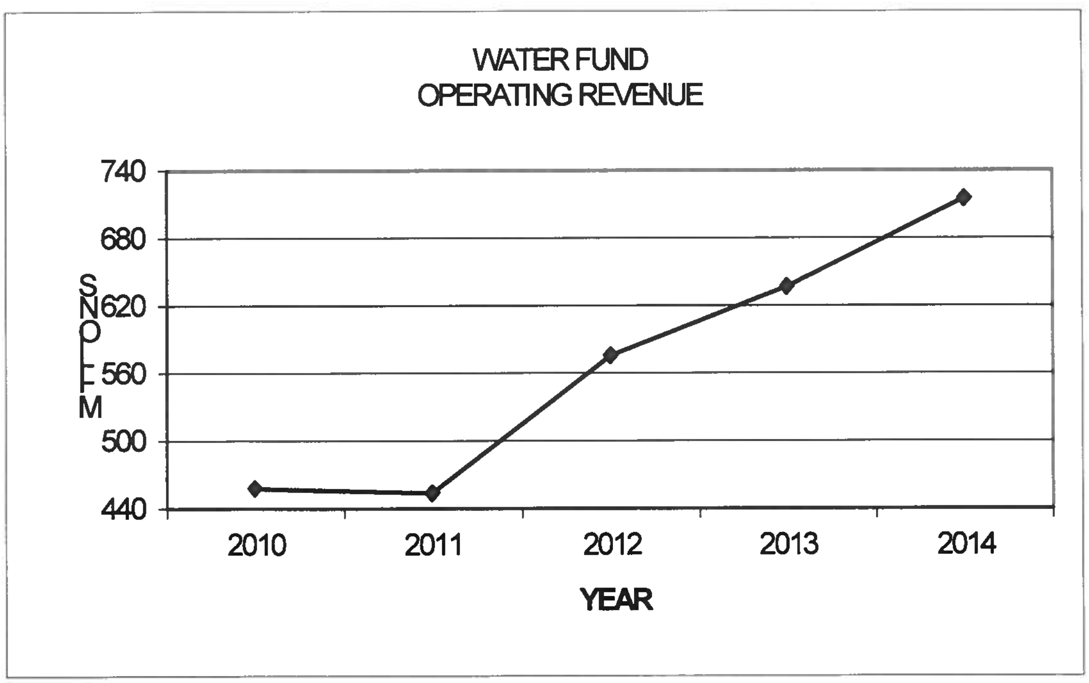
The Department of Water Management, Water Fund, is responsible for implementing and maintaining an internal control structure to ensure the integrity of the Water Fund's operations and to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance that the assets, resources and operations of the Department of Water Management, Water Fund, are handled in a manner that protects against waste, theft or neglect that may hinder or impair the financial operations of the Fund. This objective is being met by adequate supervision of employees, segregation of duties and multiple approval and budgetary controls over all expenditures.

The Water Fund's budget is developed and implemented along with the City's annual budget based upon an analysis of its historical operations and maintenance costs. The Commissioner of the Department of Water Management recommends the final proposed budget to the Budget Director. After approval by the Budget Director, the proposed budget is recommended to the Mayor for submission to the City Council for its approval following public hearings.

The budget process is designed to ensure that Department of Water Management, Water Fund, will have adequate funding to meet its operational objectives. The Department of Water Management, Water Fund, cannot by law, exceed the level of funding as established by the City Council-approved budget. The Budget Director uses an allotment system to manage each department's expenditures against its respective annual appropriation. The Budget Director, through the allotment system, has the authority to institute economic measures for Department of Water Management, Water Fund, to insure that its expenditures do not exceed its revenues collections. The Water Fund uses encumbrances to control expenditures by preventing appropriated dollars from being used for any purpose other than that which they have been legally appropriated.

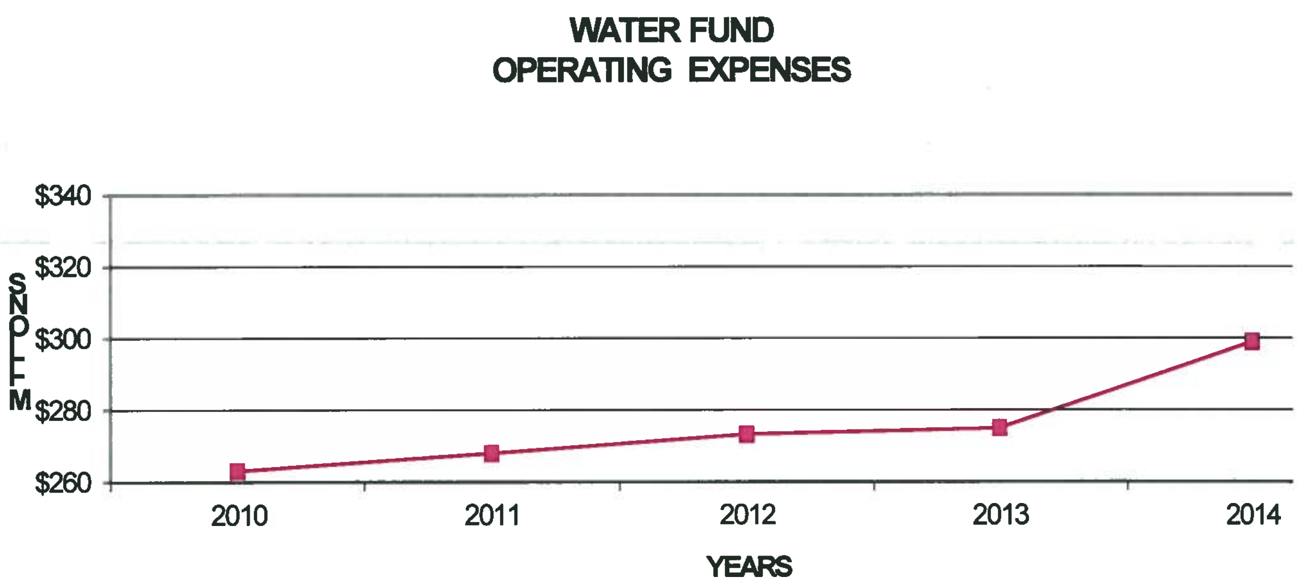
OPERATING REVENUES

Gross operating revenue for 2014 reflect an increase of 12.3% over 2013 resulting from a water rate increase of 15% offset by the conversion of 20,256 non-metered accounts to metered. For the years 2014 and 2013 the rate increases were 15% for each year. For the year 2012 the rate increase was 25%. There was no rate increase during the year 2011. For the year 2010 the rate increase was 14%. Below is a graph representing gross operating revenues for the years 2010 through 2014.



OPERATING EXPENSES

Operating expenses for the year ended December 31, 2014 increased by 8.6% compared to the year ended December 31, 2013. This increase is primarily due to increases in overtime pay due to inclement weather resulting to an increase in broken mains and in Department of Water Management's share of Citywide's central services costs; offset by the decrease in costs of chemicals used in water purification.



DEBT ADMINISTRATION

The Department of Water Management, Water Fund, issues bonds to finance its capital improvements program. The City has covenanted to establish, maintain and collect at all times the fees, charges and rates sufficient to produce net revenues available for bonds, as adjusted, at least equal the greater of (A) 120 percent of the aggregate current annual debt service on the senior lien revenue bonds, or (B) the sum of the aggregate current annual debt service on the senior lien revenue bonds plus 110 percent of the aggregate current annual second lien revenue bonds debt service, and that the City management maintain all covenant reserve account balances at specified amounts. The City conducts an annual review of the water service charge to ensure revenue is being generated to comply with the covenant. The ordinances authorizing the issuances of revenue bonds provide for the creation of separate accounts into which net revenues, as defined, or bond proceeds are to be credited, as appropriate. Any net revenues remaining after providing sufficient funds for all required deposits into bond accounts may be transferred to the Water Rate Stabilization Fund to be used for any lawful purpose of the Water Fund. The Department of Water Management, Water Fund, has provided certain annual financial information disclosure for its revenue bonds in the Statistical Section of this report.

LONG TERM FINANCIAL PLANNING

The Department of Water Management, Water Fund's capital activities are funded through Water Fund revenue bonds and Water fund revenue. The Department of Water Management, Water Fund has realized savings through advance refunding as interest rates have changed.

INDEPENDENT AUDIT

City ordinances require the Department of Water Management's, Water Fund, financial statements to be audited by independent certified accountants. The audit was conducted by Deloitte & Touche, LLP and a consortium of Chicago-based minority and women-owned certified public accounting firms. An unmodified audit opinion, rendered by Deloitte & Touche, LLP, is included in the financial section of this report.

AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Water Fund, an Enterprise Fund of the City of Chicago, for its CAFR for the fiscal year ended December 31, 2013. This was the fifteenth year that the government unit has achieved this prestigious award, which is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

This report could not have been prepared without the dedication and effective assistance of the entire staff of Department of Water Management and Department of Finance. I wish to express my appreciation to them, and particularly those who contributed directly to the preparation of the report.

Respectfully submitted,

THOMAS H. POWERS, P.E.
Commissioner

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Water Fund, an Enterprise Fund

of the City of Chicago, Illinois

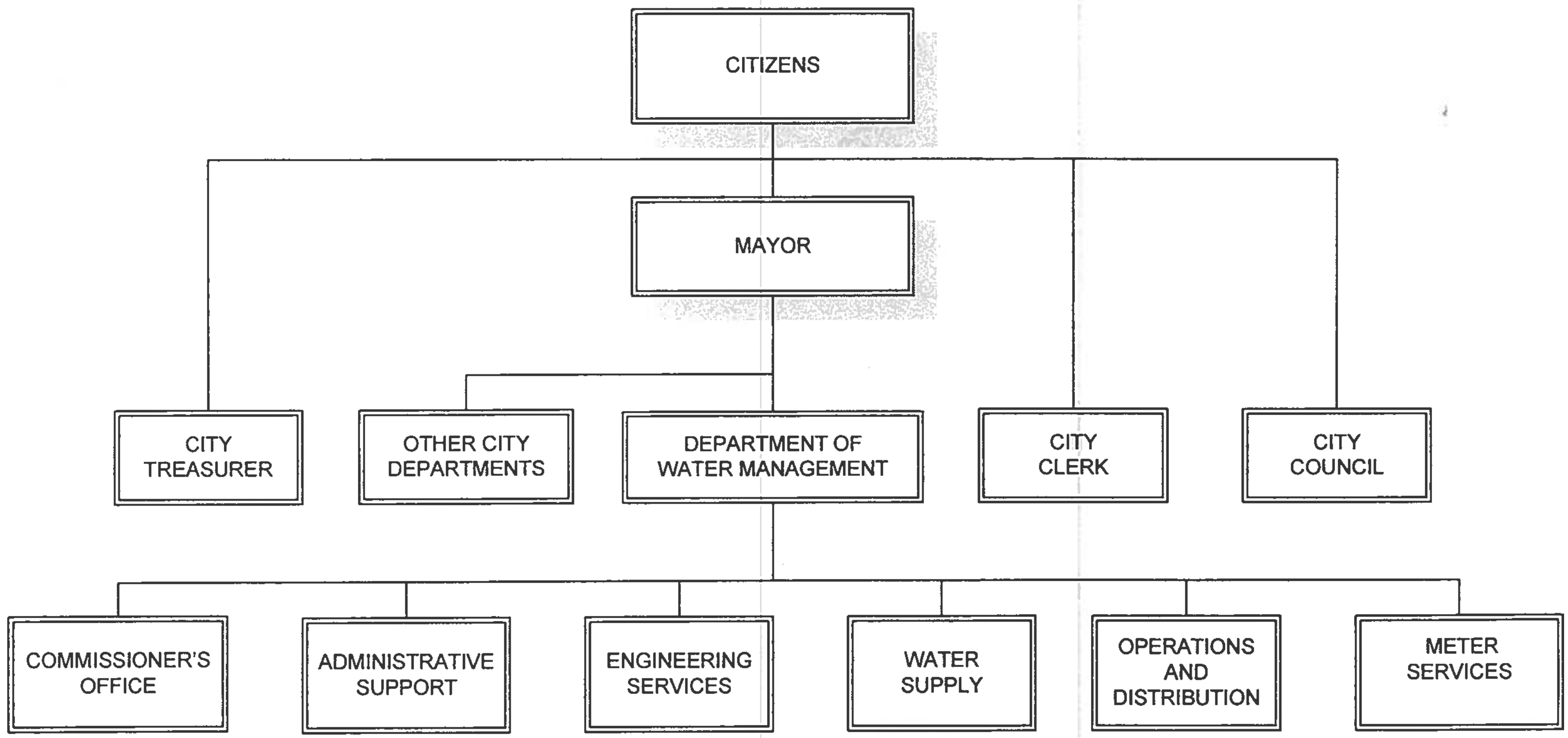
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Jeffrey R. Emer

Executive Director/CEO

CITY OF CHICAGO
DEPARTMENT OF WATER MANAGEMENT
As of 12/31/14



List of Principal Officials

Rahm Emanuel	Mayor
Thomas H. Powers, P.E.	Commissioner

FINANCIAL SECTION

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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 and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Water Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

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, 2014 and 2013, changes in its financial position, or where applicable, its cash flows, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 Governmental Accounting Standards Board 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 audit 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Water Fund's basic financial statements. The additional information, introductory section, and statistical section, as listed in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Deloitte & Touche LLP

June 30, 2015

The following discussion and analysis of the 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, 2014 and 2013. 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

2014

- Operating gross revenues for 2014 increased by $78.1 million compared to 2013 operating revenues. This increase is primarily due to a water rate increase of 15% offset by a decrease in consumption and the conversion in 2014 of approximately 20,000 accounts from non-metered to metered. Decrease in provision for doubtful accounts of about $2.9 million was a result of an increase in collected amount for over 365 days' receivables.

- Operating expenses before depreciation and amortization for 2014 increased by $23.5 million compared to 2013 mainly due to increases in overtime pay due to inclement weather resulting in increases in broken mains; Department of Water Management's share of Citywide's central services costs and in tort/non-tort judgment settlement offset by the decrease in costs of chemicals used for water purification.

- The Water Fund's net position at December 31, 2014, was $1,683.2 million. This is an increase of $236.2 million over net position at December 31, 2013.

- Utility plant additions in 2014 were $364.8 million due to the continuing capital improvement program.

2013

- Operating gross revenues for 2013 increased by $60.8 million compared to 2012 operating revenues. This increase is primarily due to a water rate increase of 15% offset by a decrease in consumption and the conversion in 2013 of approximately 17,000 accounts from non-metered to metered. Increase in provision for doubtful accounts of about $9.7 million was a result of a decrease in collected amount for over 365 days' receivables.

- Operating expenses before depreciation and amortization for 2013 increased by $1.4 million compared to 2012 mainly due to increases in provision for doubtful accounts resulting from an increase in accounts receivable; overtime and natural gas and electric charges resulting from an extremely cold winter; offset by an increase in capitalized in-house construction costs and a decrease in fuel consumption.

- The Water Fund's net position at December 31, 2013, was $1,447 million. This is an increase of $195.6 million over net position at December 31, 2012.

- Utility plant additions in 2013 were $377.4 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 position present all of the Water Fund's assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting. The difference between assets, deferred outflows, liabilities, and deferred inflows is reported as net position. The increase or decrease in net position 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 position present all current-year revenues and expenses, regardless of when cash is received or paid, and the ensuing change in net position.

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 for 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, 2014, the Water Fund's financial position continued to be strong with total assets and deferred outflows of $4,545.2 million, total liabilities of $2,862.0 million, and net position of $1,683.2 million. A comparative condensed summary of the Water Fund's net position at December 31, 2014, 2013, and 2012, is as follows:

	Net Position		
(In thousands)	**2014**	**2013**	**2012**
Current assets	$ 542,748	$ 423,372	$ 294,077
Restricted and other assets	390,988	110,593	441,220
Utility plant—net	3,482,199	3,181,856	2,861,340
Deferred outflows	129,229	111,907	162,570
Total assets and deferred outflows	$ 4,545,164	$ 3,827,728	$ 3,759,207
Current liabilities	$ 305,342	$ 246,266	$ 280,964
Long-term liabilities	2,556,616	2,134,485	2,226,869
Total liabilities	$ 2,861,958	$ 2,380,751	$ 2,507,833
Net position:			
Net investment in capital assets	$ 1,393,968	$ 1,233,185	$ 1,062,234
Restricted for capital projects	599	719	1,308
Unrestricted	288,639	213,073	187,832
Total net position	$ 1,683,206	$ 1,446,977	$ 1,251,374

2014

Current assets of $542.7 million at December 31, 2014, increased by $119.4 million (28.2%) over 2013 as a result of increases in investments of $25.4 million, accounts receivable of $23.2 million resulting from an increase in water rate and in due from other City funds of $71.8 million. Restricted and other assets increased by $280.4 million (253.5%) primarily due to the funding of the capital improvement program through the issuance of long-term debt in 2014 and the increase of utility plant—net by $300.3 million (9.4%). The increase in deferred outflows of $17.3 million (15.5%) during 2014 is mainly due to a change in the fair value of interest rate swaps.

The increase in current liabilities of $59.1 million (24.0%) during 2014 is directly related to the timing of payments of accounts payable and an increase in current portion of long-term debt. Long-term liabilities increased by $422.1 million (19.8 %) mainly due to debt issuances in 2014.

Net position may serve as a useful indicator, over a period of time, of the Water Fund's basic financial position. At December 31, 2014, net position was $1,683.2 million, an increase of $236.2 million (20.8%) over 2013.

2013

Current assets of $423.4 million at December 31, 2013, increased by $129.3 million (44.0%) over 2012 as a result of increases in investments of $85.3 million and accounts receivable of $9.0 million resulting from an increase in water rate. Restricted and other assets decreased by $330.6 million (74.9%) primarily due to the funding of the capital improvement program. The decrease in deferred outflows of $50.7 million (31.2%) during 2013 is mainly due to a change in the fair value of interest rate swaps.

The decrease in current liabilities of $34.7 million (12.3%) during 2013 is directly related to the timing of payments of accounts payable and a decrease in unearned revenue offset by an increase in due to other City funds. Long-term liabilities decreased by $92.4 million (4.1%) mainly due to principal payments in 2012.

Net position may serve as a useful indicator, over a period of time, of the Water Fund's basic financial position. At December 31, 2013, net position was $1,447.0 million, an increase of $195.6 million (15.6%) over 2012.

The primary sources of the Water Fund's operating revenues are water usage fees. These revenues fund all Water Fund operating expenses, fund deposits, capital construction, and debt service requirements. A comparative condensed summary of the Water Fund's revenues, expenses, and changes in net position for the years ended December 31, 2014, 2013, and 2012, is as follows:

	Revenues, Expenses, and Changes in Net Position		
(In thousands)	**2014**	**2013**	**2012**
Revenues:			
Operating revenues:			
Water sales—net	$ 670,559	$ 595,098	$ 546,858
Other operating revenues	22,075	16,616	13,715
Total operating revenues	692,634	611,714	560,573
Nonoperating revenues	(972)	963	1,429
Total revenues	691,662	612,677	562,002
Expenses:			
Operating expenses	298,722	275,192	273,751
Depreciation and amortization	57,949	49,630	48,408
Interest expense	98,762	92,252	81,751
Total expenses	455,433	417,074	403,910
Change in net position	236,229	195,603	158,092
Net position—beginning of year	1,446,977	1,251,374	1,093,282
Net position—end of year	$ 1,683,206	$ 1,446,977	$ 1,251,374

2014

Water sales and other operating revenues comprise the Water Fund's $692.6 million operating revenues. The increase in 2014 operating revenues of $80.9 million (13.2%) from 2013 was primarily due to a 15% water rate increase offset by the conversion of 20,256 non-metered accounts to metered.

In 2014, net nonoperating revenue of ($1.0 million) were composed of net interest income, grants and net revenue that relates to construction done by Department of Water Management for other City departments and private companies totaling $0.5 million.

2013

Water sales and other operating revenues comprise the Water Fund's $611.7 million operating revenues. The increase in 2013 operating revenues of $51.1 million (9.1%) from 2012 was primarily due to a 15% water rate increase offset by the conversion of approximately 17,000 non-metered accounts to metered and a decrease in consumption resulting from a cooler summer in 2013.

In 2013, net nonoperating revenue of $1.0 million was composed of net interest income, grants and net forced account totaling $0.5 million.

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2014, 2013, and 2012, is as follows:

	Operating Expenses		
(In thousands)	**2014**	**2013**	**2012**
Source of supply	$ 283	$ 99	$ 168
Power and pumping	43,087	43,230	41,728
Purification	58,504	60,836	56,136
Transmission and distribution	43,681	29,496	36,494
Customer accounting and collection	11,888	11,615	10,004
Administrative and general	22,045	21,188	21,861
Central services and General Fund reimbursements	119,234	108,728	107,360
Operating expenses before depreciation and amortization	298,722	275,192	273,751
Depreciation and amortization	57,949	49,630	48,408
Total operating expenses	$ 356,671	$ 324,822	$ 322,159

2014

Operating expenses before depreciation and amortization for the year ended 2014 increased by $23.5 million (8.6%) from the year ended 2013 due to increases in transmission and distribution of about $14.2 million (48.1%) and central services of about $10.5 million (9.7%). This was offset by a decrease in purification of about $2.3 million resulting from a decrease in chemical costs.

2013

Operating expenses before depreciation and amortization for the year ended 2013 increased by $1.4 million (0.5%) from the year ended 2012 due to increases in purification of about $4.7 million (8.4%) due to increases in salaries and overtime. This was offset by a decrease in transmission and distribution of about $7.0 million (19.2%) resulting from a decrease in fuel consumption costs and an increase in capitalized in-house construction costs.

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2014, 2013, and 2012, is as follows:

(In thousands of dollars)	Cash Flows 2014	2013	2012
Cash from activities:			
Operating	$ 325,346	$ 310,205	$ 270,821
Capital and related financing	(27,902)	(520,166)	4,282
Investing	(297,828)	122,961	(209,656)
Net change in cash and cash equivalents	(384)	(87,000)	65,447
Cash and cash equivalents:			
Beginning of year	36,531	123,531	58,084
End of year	$ 36,147	$ 36,531	$ 123,531

2014

As of December 31, 2014, the Water Fund's cash and cash equivalents of $36.1 million decreased from December 31, 2013, by $0.4 million mainly due to the cash provided of $325.3 million from operating activities, cash provided by issuance of bonds and notes of $462.5 million offset by cash used in acquisition and construction of capital assets of $333.7 million, and net cash used in investing activities of $297.8 million. Total cash and cash equivalents at December 31, 2014, are composed of unrestricted and restricted cash and cash equivalents of $23.6 million and $12.6 million, respectively.

2013

As of December 31, 2013, the Water Fund's cash and cash equivalents of $36.5 million decreased from December 31, 2012, by $87.0 million mainly due to the cash provided of $310.2 million from operating activities, cash outflow of $520.2 million, and cash inflow of $123.0 million. Total cash and cash equivalents at December 31, 2013, are composed of unrestricted and restricted cash and cash equivalents of $3.6 million and $32.9 million, respectively.

UTILITY PLANT AND DEBT ADMINISTRATION

2014

At the end of 2014 and 2013, the Water Fund had $3,482.2 million and $3,181.9 million, respectively, invested in utility plant, net of accumulated depreciation. During 2014, the Water Fund expended $364.8 million on capital activities. This included $16.4 million for structures and improvements, $62.0 million for distribution plant, $4.0 million for equipment, and $282.4 million for construction in progress.

During 2014, net completed projects totaling $137.6 million were transferred from construction in progress to applicable capital accounts. The major completed projects relate to installation and replacements of water mains ($109.4 million), and Jardine Water Purification plant's east building filter roof replacement and structural repair ($26.3 million).

2013

At the end of 2013 and 2012, the Water Fund had $3,181.9 million and $2,861.3 million, respectively, invested in utility plant, net of accumulated depreciation. During 2013, the Water Fund expended $377.4 million on capital activities. This included $0.4 million for structures and improvements, $156.5 million for distribution plant, $7.3 million for equipment, and $213.1 million for construction in progress.

During 2013, net completed projects totaling $158.3 million were transferred from construction in progress to applicable capital accounts. The major completed projects relate to installation and replacements of water mains ($92.0 million), auto meter reading installation project ($39.6 million), and Lexington pumping station electrical generation and capital improvements ($14.1 million).

The Water Fund's utility plant at December 31, 2014, 2013, and 2012, is summarized as follows:

	Net Utility Plant at Year-End		
(In thousands)	**2014**	**2013**	**2012**
Utility plant not depreciated:			
Land and land rights	$ 5,083	$ 5,083	$ 5,083
Construction in progress	457,645	317,086	262,280
Total utility plant not depreciated	462,728	322,169	267,363
Utility plant being depreciated:			
Structures and improvements	579,534	535,802	535,710
Distribution plant	2,755,650	2,590,751	2,305,803
Equipment	651,121	647,530	620,775
Total utility plant being depreciated	3,986,305	3,774,083	3,462,288
Less accumulated depreciation:			
Structures and improvements	(205,279)	(197,555)	(190,278)
Distribution plant	(420,433)	(394,281)	(372,090)
Equipment	(341,122)	(322,560)	(305,943)
Total accumulated depreciation	(966,834)	(914,396)	(868,311)
Total utility plant being depreciated—net	3,019,471	2,859,687	2,593,977
Total utility plant—net	$3,482,199	$3,181,856	$2,861,340

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, 2014, 2013, and 2012, are summarized as follows:

(In thousands)	Long-Term Liabilities at Year-End 2014	2013	2012
Revenue bonds and notes payable	$ 2,381,771	$ 1,996,858	$ 2,030,177
Add:			
Accretion of capital appreciation bonds	39,093	43,885	47,658
Bond discount/premium	97,175	66,934	71,041
Total revenue bonds/notes payable—net	2,518,039	2,107,677	2,148,876
Less current portion of accretion	(9,571)	(9,169)	(8,749)
Less current bonds/notes payable	(51,535)	(43,846)	(42,232)
Total long-term revenue bonds/notes payable—net	2,456,933	2,054,662	2,097,895
Derivative instrument liability	98,106	78,246	126,371
Long-term purchase obligations			1,027
Water pipe extension certificates	1,577	1,577	1,576
Total long-term liabilities	$ 2,556,616	$ 2,134,485	$ 2,226,869

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, 2014, have underlying credit ratings with each of the three major rating agencies as follows:

	Investor Services	Standard & Poor's	Fitch Ratings
Senior Lien Water Revenue Bonds	A2	AA	AA+
Second Lien Water Revenue Bonds	A3	AA-	AA

In March 2014, Moody's Investors Service ("Moody's") downgraded the ratings of the Water Fund senior lien revenue bonds from A1 to A2, and the Water Fund second lien revenue bonds from A2 to A3, each with a negative outlook.

In May 2015, Moody's downgraded the ratings of the Water Fund senior lien revenue bonds from A2 to Baa1 and the Water Fund second lien revenue bonds from A3 to Baa2, each with a negative outlook. Also in May 2015, Standards & Poor's Financial Services downgraded the ratings of the Water Fund senior lien revenue bonds from AA to A and the Water Fund second lien revenue bonds from AA- to A-.

At December 31, 2014, 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 of Chicago Department of Finance.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

ASSETS AND DEFERRED OUTFLOWS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	$ 23,551	$ 3,616
Investments (Note 2)	101,359	129,496
Accounts receivable—net of allowance for doubtful accounts of approximately $107,201 in 2014 and $85,277 in 2013	159,613	136,367
Interest receivable	163	77
Due from other City funds	91,224	19,435
Inventories	21,192	21,839
Cash and cash equivalents—restricted	12,596	32,915
Investments—restricted	132,451	78,908
Interest receivable—restricted	599	719
Total current assets	542,748	423,372
NONCURRENT ASSETS:		
Investments—restricted assets	386,090	105,459
Other assets	4,898	5,134
Utility plant (Note 5):		
Land and land rights	5,083	5,083
Structures and improvements	579,534	535,802
Distribution plant	2,755,650	2,590,751
Equipment	651,121	647,530
Construction in progress	457,645	317,086
Total utility plant	4,449,033	4,096,252
Less accumulated depreciation	(966,834)	(914,396)
Utility plant—net	3,482,199	3,181,856
Total noncurrent assets	3,873,187	3,292,449
DEFERRED OUTFLOWS	129,229	111,907
TOTAL ASSETS AND DEFERRED OUTFLOWS	$4,545,164	$3,827,728

LIABILITIES	2014	2013
CURRENT LIABILITIES:		
Accounts payable	$ 26,168	$ 20,650
Due to other City funds	20,130	14,147
Accrued liabilities	92,312	79,466
Unearned revenue	22,411	21,250
Liabilities payable from restricted assets:		
Accounts payable	63,827	41,764
Interest payable	19,388	15,974
Current portion of long-term debt (Note 4)	61,106	53,015
Total current liabilities	305,342	246,266
NONCURRENT LIABILITIES:		
Long-term debt—net of current maturities (Note 4)	2,456,933	2,054,662
Derivative instrument liability	98,106	78,246
Water pipe extension certificates	1,577	1,577
Total noncurrent liabilities	2,556,616	2,134,485
Total liabilities	2,861,958	2,380,751
NET POSITION (Note 1):		
Net investment in capital assets	1,393,968	1,233,185
Restricted for capital projects	599	719
Unrestricted	288,639	213,073
Total net position	1,683,206	1,446,977
TOTAL	$4,545,164	$3,827,728

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
OPERATING REVENUES:		
Water sales:		
Water sales	$ 693,096	$ 620,498
Less: provision for doubtful accounts	(22,537)	(25,400)
Water sales—net	670,559	595,098
Other operating revenues	22,075	16,616
Total operating revenues	692,634	611,714
OPERATING EXPENSES:		
Source of supply	283	99
Power and pumping	43,087	43,230
Purification	58,504	60,836
Transmission and distribution	43,681	29,496
Customer accounting and collection	11,888	11,615
Administrative and general	22,045	21,188
Central services and General Fund reimbursements	119,234	108,728
Total operating expenses before depreciation and amortization	298,722	275,192
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	393,912	336,522
DEPRECIATION AND AMORTIZATION	57,949	49,630
OPERATING INCOME	335,963	286,892
NONOPERATING REVENUES (EXPENSES):		
Interest income	(515)	420
Interest expense	(98,762)	(92,252)
Other	(457)	543
Total nonoperating expenses—net	(99,734)	(91,289)
CHANGE IN NET POSITION	236,229	195,603
TOTAL NET POSITION—Beginning of year, as restated	1,446,977	1,251,374
TOTAL NET POSITION—End of year	$ 1,683,206	$ 1,446,977

See notes to basic financial statements.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	$ 670,519	$ 596,613
Transactions with other City funds	(143,903)	(61,653)
Payments to vendors	(80,663)	(113,227)
Payments to employees	(120,607)	(111,528)
Net cash provided by operating activities	325,346	310,205
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(333,734)	(370,228)
Interest paid	(109,432)	(107,900)
Proceeds from issuance of bonds and IEPA loans	462,500	276
Principal paid on bonds	(43,633)	(42,439)
Payments of bonds issuance costs	(3,146)	(418)
Construction reimbursements	(457)	543
Net cash used in capital and related financing activities	(27,902)	(520,166)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments—net	(306,037)	125,764
Investment interest	8,209	(2,803)
Net cash (used in) provided by investing activities	(297,828)	122,961
NET CHANGE IN CASH AND CASH EQUIVALENTS	(384)	(87,000)
CASH AND CASH EQUIVALENTS—Beginning of year	36,531	123,531
CASH AND CASH EQUIVALENTS—End of year	$ 36,147	$ 36,531
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED IN THE STATEMENTS OF NET POSITION:		
Unrestricted	$ 23,551	$ 3,616
Restricted	12,596	32,915
TOTAL	$ 36,147	$ 36,531

(Continued)

CITY OF CHICAGO, ILLINOIS WATER FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 335,963	$ 286,892
Adjustments to reconcile:		
Depreciation and amortization	57,949	49,630
Provision for doubtful accounts	22,537	25,400
Changes in assets and liabilities:		
Increase in accounts receivable	(45,813)	(35,005)
Decrease (increase) in inventories	647	(4,483)
(Increase) decrease in due from other City funds	(71,789)	1,172
Increase (decrease) in unrestricted accounts payable	5,518	(9,649)
Increase in due to other City funds	5,257	5,644
Increase (decrease) in accrued liabilities	13,916	(3,900)
Increase (decrease) in unearned revenue	1,161	(5,496)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 325,346	$ 310,205

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS—Property additions in 2014 and 2013 of $64,553 and $42,834, respectively, have outstanding accounts payable.

See notes to basic financial statements. (Concluded)

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.

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. The fair value of U.S. agency securities, corporate bonds, and municipal bonds are estimated using recently executed transactions, market price quotations (where observable), or bond spreads.

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 10 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, composed 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 $5 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.

Deferred Outflows—Deferred outflows represent the fair value of derivative instruments that are deemed to be effective hedges of $98.1 million and $78.2 million and unamortized loss on bond refundings of $31.1 million and $33.7 million as of December 31, 2014 and 2013, respectively.

Net Position—Net position is composed of net earnings from operating and nonoperating revenues, expenses, and capital grants. Net position is displayed in three components—net investment in capital assets, restricted for capital projects, and unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt, net of debt service reserve, and unspent bond proceeds. Restricted for capital projects consist of assets for which constraints are placed thereon by external parties (such as lenders and grantors) and laws, regulations, and enabling legislation reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted consists of the net amount of all other assets, deferred outflows, liabilities, and deferred inflows 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 Premiums, Discounts, and Refunding Transactions—Bond issuance costs related to bond insurance, bond premiums, 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 and cash flows 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, 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. Interest capitalized in 2014 and 2013 totaled $0.6 million and $17.0 million, respectively.

Revenue Recognition—Revenue from water sales is recognized when the water is consumed by customers. Of the accounts receivable balances, $73.4 million and $63.6 million represent revenue recognized on water sales, which had not yet been billed to customers at December 31, 2014 and 2013, respectively. Unearned revenue represents amounts billed to non-metered 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—GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"), establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 became effective for the Water Fund beginning with its year ended December 31, 2014. GASB 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact to the Water Fund's financial statements as a result of the implementation of GASB 69.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"), establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 became effective for the Water Fund beginning with its year ended December 31, 2014. GASB 70 requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement also requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. There was no impact to the Water Fund's financial statements as a result of the implementation of GASB 70.

Upcoming Accounting Standards—Other accounting standards that the Water Fund is currently reviewing for applicability and potential impact on the financial statements include:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), establishes new financial reporting requirements for most governments that provide their employees with pension benefits through these types of plans. GASB 68 will be effective for the City beginning with its year ending December 31, 2015. GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB Statement No. 50, *Pension Disclosures,* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their net liability for pension benefits, measured as the difference between total pension assets and total pension liability, as a liability in the financial statements that follow accrual basis of accounting for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). As of December 31, 2014, the City reported a net pension obligation of $8.6 billion on the statement of net position and disclosed a combined unfunded actuarial accrued liability for all four of the pension plans of $19.7 billion in accordance with GASB Statement No. 27. During 2014, the pension plans implemented GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25,* and disclosed a combined net pension liability of $20.1 billion as of December 31, 2014. The City has not yet determined the impact, if any, GASB 68 will have on the standalone Water Fund's financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* ("GASB 71"), relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB 71 will be effective for the Water Fund beginning with its year ending December 31, 2015. This statement amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and requires that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"), requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). GASB 72 will be effective for the Water Fund beginning with its year ending December 31, 2015.

Presentation Changes—The December 31, 2013, statement of net position has been changed to present the restricted assets and liabilities within their respective current and noncurrent classification categories. The restricted assets and liabilities were presented in a separate section in the prior year's basic financial statements. The December 31, 2013 Statement of Revenues, Expenses and Changes in Net Position has been changed to present the provision for doubtful accounts as a contra revenue account. Provision for doubtful accounts were presented as a component of operating expense in the prior year's basic financial statements. The December 31, 2013, statement of cash flows has been changed to present the transactions with other City funds on a gross basis. The transactions with other City funds were presented on a net basis in the prior year's basic financial statements.

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, 2014, are as follows (in thousands):

	Investment Maturities (in Years)				
	Less than 1	1–5	6–10	More than 10	Fair Value
U.S. agencies	$ 29,909	$ 356,444	$ 14,659	$ -	$ 401,012
Certificates of deposit and other short-term	16,185				16,185
Commercial paper	78,964				78,964
Corporate bonds	5,809	8,977			14,786
Municipal bonds	6,669	16,184			22,853
Subtotal	$ 137,536	$ 381,605	$ 14,659	$ -	533,800
Share in City's pooled funds					116,710
Total					$ 650,510

Cash Equivalents and Investments—The Water Fund's cash equivalents and investments as of December 31, 2013, are as follows (in thousands):

	Investment Maturities (in Years)				
	Less than 1	1–5	6–10	More than 10	Fair Value
U.S. agencies	$ 11,525	$ 101,600	$ 118,854	$ -	$ 231,979
Certificates of deposit and other short-term	17,701				17,701
Corporate bonds	8,001	4,379			12,380
Municipal bonds		11,496			11,496
Subtotal	$ 37,227	$ 117,475	$ 118,854	$ -	273,556
Share in City's pooled funds					75,466
Total					$ 349,022

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, 2014 and 2013, is as follows (in thousands):

Quality Rating	2014	2013
Aaa/AAA	$ 23,540	$ -
Aa/AA	400,950	246,556
A/A	4,300	4,378
P1/A1	82,364	
Not rated	22,646	22,622
Total	$ 533,800	$ 273,556

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 102% 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 $318.2 million. Of the bank balance, 98% was either insured or collateralized with securities held by City agents in the City's name. An amount of $7.4 million was uncollateralized at December 31, 2014, and thus was subject to custodial credit risk.

Investments reported in the basic financial statements as of December 31, 2014 and 2013, are summarized as follows (in thousands):

	2014	2013
Per Note 2:		
Investments—Water Fund	$ 533,800	$ 273,556
Investments—City Treasurer Pooled Fund	116,710	75,466
	$ 650,510	$ 349,022
Per financial statements:		
Restricted investments—current	$ 132,451	$ 78,908
Restricted investments—noncurrent	386,090	105,459
Unrestricted investments	101,359	129,496
Investments included as cash and cash equivalents on the statements of net position	30,610	35,159
	$ 650,510	$ 349,022

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, 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.

Water Revenue Bonds, Series 2000, 2006A, 2008, 2010A, 2010B, 2010C, 2012, 2014, 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.

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, 2014 and 2013, are as follows (in thousands):

	2014	**2013**
Second Lien Revenue Bonds	$ 14,810	$ 17,276
Water rate stabilization	88,397	88,397
Construction	427,930	111,609
Total	$ 531,137	$ 217,282

At December 31, 2014 and 2013, 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, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
$49,880 Series 1993 Water Revenue Refunding Bonds, issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	$ 10,790	$ 15,810
$277,911 Series 1997 Water Revenue Bonds, issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	10,849	14,019
$100,000 Series 2000 Second Lien Water Revenue Bonds, issued December 22, 1999, due 2030, variable floating interest rate; interest at .05% as of December 31, 2014	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%	15,857	19,153
$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds, issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	80,850	80,900
$2,292 Illinois Environmental Protection Agency Loan Agreement, signed June 30, 2003, due 2025; interest at 2.57%	1,669	1,799
$3,605 Illinois Environmental Protection Agency Loan Agreement, signed October 16, 2003, due 2022; interest at 2.905%	1,723	1,912
$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds, issued August 5, 2004, due through 2031, variable floating interest rate; interest at .0399995% as of December 31, 2014	355,575	366,150
$215,400 Series 2006A Second Lien Water Revenue Bonds, issued July 26, 2006, due through 2036; interest at 4.5% to 5.0%	184,425	188,985
$549,915 Series 2008 Second Lien Water Revenue Bonds, issued April 2, 2008, due through 2038; interest at 4.0% to 5.25%	470,035	485,745
$313,580 Series 2010A-C Second Lien Water Revenue Bonds, issued November 10, 2010, due through 2040; interest at 2.0% to 6.742%	300,355	300,355
$6,000 Illinois Environmental Protection Agency Loan Agreement, signed January 21, 2011, due 2031; interest at 2.57%	5,192	5,465
$9,077 Illinois Environmental Protection Agency Loan Agreement, issued February 2, 2010, due 2031; noninterest bearing	7,750	8,206
$399,445 Series 2012 Second Lien Water Revenue Bonds, issued May 17, 2012, due through 2042; interest at 4.0% to 5.0%	399,445	399,445
$1,527 Illinois Environmental Protection Agency Loan Agreement, issued July 8, 2010, due 2032; interest at 1.25%	1,423	1,493
$1,502 Illinois Environmental Protection Agency Loan Agreement, issued September 15, 2013, due 2032; interest at 1.25%	1,399	1,468
$6,092 Illinois Environmental Protection Agency Loan Agreement, issued October 25, 2013, due 2032; interest at 1.25%	5,674	5,953
$6,542 Illinois Environmental Protection Agency Loan Agreement, signed May 27, 2014, due 2034; interest at 2.2950%	6,413	
$39,421 Illinois Environmental Protection Agency Loan Agreement, signed August 5, 2013, due 2034; interest at 1.93%	39,422	
$15,000 Illinois Environmental Protection Agency Loan Agreement, signed September 19, 2013, due 2034; interest at 1.93%	15,000	
$367,925 Series 2014 Second Lien Water Revenue Bonds, issued September 17, 2014, due 2044; interest at 3.0% to 5.0%	367,925	
Total	2,381,771	1,996,858
Add accretion of capital appreciation bonds	39,093	43,885
Less current portion of accretion	(9,571)	(9,169)
Less current portion of long-term debt	(51,535)	(43,846)
Add unamortized bond discount/premium—net	97,175	66,934
Long term portion—net	$2,456,933	$2,054,662

Long-term debt changed during the years ended December 31, 2014 and 2013, is as follows (in thousands):

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due within One Year
Revenue bonds/notes payable	$ 1,996,858	$428,889	$ (43,976)	$ 2,381,771	$ 51,535
Accretion of capital appreciation bonds	43,885	4,377	(9,169)	39,093	9,571
Unamortized bond discount/premium—net	66,934	34,836	(4,595)	97,175	
Total	$ 2,107,677	$468,102	$ (57,740)	$ 2,518,039	$ 61,106

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due within One Year
Revenue bonds/notes payable	$ 2,030,177	$ 9,121	$ (42,440)	$ 1,996,858	$ 43,846
Accretion of capital appreciation bonds	47,658	4,976	(8,749)	43,885	9,169
Unamortized bond discount/premium—net	71,041		(4,107)	66,934	
Total	$ 2,148,876	$ 14,097	$ (55,296)	$ 2,107,677	$ 53,015

Interest expense includes amortization of the deferred loss on bond refunding for 2014 and 2013 of $2.5 million; net of amortization of bond premium of $4.6 million and $4.1 million, respectively; and accretion of Series 1997 and Series 2000 capital appreciation bonds of $9.6 million and $9.2 million, respectively.

As defined in the bond ordinances, net revenues are pledged for the payment of principal and interest on the bonds. Ordinances include covenants, which require that net revenues available for bonds, as adjusted, at least equal the greater of (i) 120% of the aggregate current annual debt service on the Senior Lien Revenue Bonds or (ii) the sum of the aggregate current annual debt service of the Senior Lien Revenue Bonds, plus 110% of the aggregate current annual Second Lien Revenue Bonds debt service, and that City management maintain all covenant reserve account balances at specified amounts. The above requirements were met in 2014 and 2013.

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, 2014, was $24.80 per 1,000 cubic feet.

Issuance of Debt—Second Lien Water Revenue Bonds, Series 2014 ($367.9 million) were sold at a premium in September 2014. The bonds have interest rates ranging from 3% to 5% and maturity dates from November 1, 2015, to November 1, 2044. Net proceeds of $400.0 million will be used to finance certain costs of improvements and extensions to the water system.

On May 27, 2014, a loan agreement was signed with the Illinois Environmental Protection Agency to install water meters at residences throughout the City that are currently non-metered. In 2014, the Water Fund drew $6.5 million from this loan agreement. The loan has an interest rate of 2.295% with maturity dates from September 21, 2014, to March 21, 2034.

On August 5, 2013, a loan agreement was signed with the Illinois Environmental Protection Agency to replace approximately 10 miles of damaged, undersized, and leaking water mains located throughout the City with new 8-inch diameter water mains. In 2014, the Water Fund drew $39.4 million from this loan agreement. The loan has an interest rate of 1.93% with maturity dates from January 16, 2015, to July 16, 2034.

On September 19, 2013, a loan agreement was signed with the Illinois Environmental Protection Agency to install water meters at residents throughout the City that are currently non-metered. Installations will be performed by a private contractor. Meters will be equipped with an AMR (Automatic Meter Reading) capabilities. In 2014, the Water Fund drew $15.0 million from this loan agreement. The loan has an interest rate of 1.93% with maturity dates from April 16, 2015, to October 16, 2034.

A schedule of bond and note debt service requirements to maturity at December 31, 2014, is as follows (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2015	$ 51,535	$ 125,420	$ 176,955
2016	63,168	121,521	184,689
2017	65,344	119,364	184,708
2018	67,686	117,073	184,759
2019	75,687	109,101	184,788
2020–2024	451,708	472,764	924,472
2025–2029	511,006	360,831	871,837
2030–2034	450,632	240,391	691,023
2035–2039	430,475	127,936	558,411
2040–2044	214,530	25,935	240,465
Total	$2,381,771	$1,820,336	$4,202,107

Debt service requirements above exclude commercial paper issues, as the timing of payments is not certain. There was no commercial paper outstanding at December 31, 2014.

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, 2014, 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, 2014, 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 October 30, 2017. An irrevocable letter of credit provides for the timely payment of principal and interest on the Series 2004 bonds until November 5, 2018. At December 31, 2014, 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 (see Note 10 for subsequent events related to the effect of the ratings downgrade on the swap and liquidity agreements). 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 changes in cash flows, which includes 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		December 31, 2014		
	Classification	Amount	Classification	Amount	Notional
Cash flow hedges—pay-fixed interest rate swaps	Deferred outflow of resources	$ 19,860	Deferred outflow of resources	$ 98,106	$455,575

Terms, Fair Values, and Credit Risk—The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2014, 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 London InterBank Offered Rate (LIBOR).

Associated Bond Issue	Notional Amounts	Effective Date	Terms	Fair Values	Maturity Date [Note 10]	Counterparty Credit Rating
Hedging instruments:						
Bonds (Series 2004)	$173,345	August 5, 2004	Pay 3.8694%; receive 67% of 1-month LIBOR	$(30,996)	November 1, 2025	A2/A
Bonds (Series 2004)	182,230	August 5, 2004	Pay 3.8669%; receive 67% of 1-month LIBOR	(37,650)	November 1, 2031	Aa3/AA-
Bonds (Series 2000)	100,000	April 16, 2008	Pay 3.8694%; receive 67% of 1-month LIBOR	(29,460)	November 1, 2030	A2/A
Total	$455,575			$(98,106)		

Fair Value—As of December 31, 2014 and 2013, the swaps had a negative fair value of $98.1 million and $78.2 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 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. LIBOR ratios (or spreads) may create basis risk if LIBOR swaps of the Water Fund's bonds trade higher than the 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.

Rollover Risk—The City may be exposed to rollover risk if the swap terminates early or if the term of the swap is shorter than that of the bonds.

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 (December 31, 2014) remain the same for their term, are as follows (in thousands):

Years Ending December 31	Principal	Interest	Swaps—Net	Total
2015	$ 11,000	$ 160	$ 17,463	$ 28,623
2016	11,450	188	17,010	28,648
2017	11,925	183	16,572	28,680
2018	12,425	178	16,115	28,718
2019	20,975	174	15,640	36,789
2020–2024	181,425	691	61,301	243,417
2025–2029	158,475	339	27,952	186,766
2030–2034	47,900	25	2,101	50,026
Total	$ 455,575	$ 1,938	$ 174,154	$ 631,667

Defeased Bonds—Defeased bonds are removed from the statements of net position when related assets have been placed in irrevocable trusts that, together with interest earned thereon, provide amounts sufficient for payment of all principal and interest. There were no defeased bonds outstanding at December 31, 2014.

5. UTILITY PLANT

Utility plant changed during the years ended December 31, 2014 and 2013, as follows (in thousands):

	Balance— January 1, 2014	Additions	Disposals and Transfers	Balance— December 31, 2014
Utility plant not depreciated:				
Land and land rights	$ 5,083	$ -	$ -	$ 5,083
Construction in progress	317,086	282,375	(141,816)	457,645
Total utility plant not depreciated	322,169	282,375	(141,816)	462,728
Utility plant being depreciated:				
Structures and improvements	535,802	16,447	27,285	579,534
Distribution plant	2,590,751	62,000	102,899	2,755,650
Equipment	647,530	4,002	(411)	651,121
Total utility plant being depreciated	3,774,083	82,449	129,773	3,986,305
Less accumulated depreciation:				
Structures and improvements	(197,555)	(7,724)		(205,279)
Distribution plant	(394,281)	(27,757)	1,605	(420,433)
Equipment	(322,560)	(19,321)	759	(341,122)
Total accumulated depreciation	(914,396)	(54,802)	2,364	(966,834)
Utility plant being depreciated—net	2,859,687	27,647	132,137	3,019,471
Utility plant—net	$ 3,181,856	$310,022	$ (9,679)	$ 3,482,199

	Balance— January 1, 2013	Additions	Disposals and Transfers	Balance— December 31, 2013
Utility plant not depreciated:				
Land and land rights	$ 5,083	$ -	$ -	$ 5,083
Construction in progress	262,280	213,134	(158,328)	317,086
Total utility plant not depreciated	267,363	213,134	(158,328)	322,169
Utility plant being depreciated:				
Structures and improvements	535,710	427	(335)	535,802
Distribution plant	2,305,803	156,514	128,434	2,590,751
Equipment	620,775	7,290	19,465	647,530
Total utility plant being depreciated	3,462,288	164,231	147,564	3,774,083
Less accumulated depreciation:				
Structures and improvements	(190,278)	(7,277)		(197,555)
Distribution plant	(372,090)	(23,750)	1,559	(394,281)
Equipment	(305,943)	(18,185)	1,568	(322,560)
Total accumulated depreciation	(868,311)	(49,212)	3,127	(914,396)
Utility plant being depreciated—net	2,593,977	115,019	150,691	2,859,687
Utility plant—net	$ 2,861,340	$328,153	$ (7,637)	$ 3,181,856

6. PENSION PLANS

Eligible Water Fund employees participate in one of two of the City's single-employer defined benefit pension plans, which are separate units of government established under State law. These plans are the Municipal Employees' and the Laborers' and Retirement Board Employees' Annuity and Benefit Funds ("Plans"). Individual retirement boards represented by elected and appointed officials administer these Plans. Each plan issues publicly available financial statements for each of the pension plans, which may be obtained at the respective fund's office.

The Plans 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 20 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 percentage ranging from 2.0 percent to 2.5 percent 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. However, the State passed legislation in 2010 providing less generous benefits for employees who join one of the Plans after January 1, 2011.

Participating employees contribute 8.5% of their salary to the Plans 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 $13.6 million in 2014 and $13.0 million in 2013. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

Historically, State law required 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, 2014 and 2013, were 1% for the Laborers' and Retirement Board Employees' Annuity and Benefit Fund and 1.25% for the Municipal Employees', respectively.

The City has made the required contributions under State law. In recent years, those contributions have been lower than the actuarially required amounts for the Plans, which has served to increase the Plans' unfunded actuarial liabilities. Recurring cash inflows from all sources to the Plans (including City contributions, employee contributions, and investment earnings) have been lower than the cash outlays of the Plans in some recent years. As a result, the Plans have liquidated investments and used assets of the Plans to satisfy their respective current payment obligations in those years. The use of assets by the Plans for these purposes reduces the amount of assets on hand to pay benefits or earn investment returns in the future.

Under the enacted State legislation for the Municipal Employees' and Laborers' Plans known as Public Act 98-641 ("P.A. 98-641"), the City is required to significantly increase contributions to those two Plans beginning in 2016. During the period 2016 through 2020, the City's contributions to the Municipal Employees' and Laborers' Plans increase by statutorily determined amounts which are not based on actuarial calculations. Beginning in 2021, P.A. 98-641 requires the City to contribute in each year to the Municipal Employees' and Laborers' Plans the amount needed for each Plan to achieve a 90% Funded Ratio by the end of 2055. P.A. 98-641 also makes certain modifications to the automatic annual adjustment of benefits for approximately 78,000 members of those Plans (including current retirees and all employees) and requires substantial increases in employee contributions toward the cost of their retirement benefits.

The following table as of December 31, 2014, 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, which includes all City employees within each respective annuity and benefit fund, is as follows (dollars in thousands):

	Annual Pension Cost	Annual Pension Cost Contributed	Annual Required Contribution	Required Contributions Contributed	Net Pension Obligation (Asset)
Municipal employees:					
2012	$ 687,519	21.65 %	$ 690,823	21.50 %	$ 2,008,546
2013	812,463	18.24	820,023	18.10	2,672,812
2014	828,978	18.06	839,038	17.80	3,352,043
Laborers:					
2012	$ 77,858	15.22 %	$ 77,566	15.30 %	$ (63,707)
2013	106,439	10.88	106,199	10.90	31,148
2014	105,901	11.48	106,018	11.50	124,889

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 basic 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 24,381 annuitants and their dependents was approximately $79.3 million in 2014 and 2013.

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, known as the "Settlement Plan." The pension funds contributed $65 per month for each Medicare-eligible annuitant and $95 per month for each non-Medicare-eligible annuitant to their gross cost. The annuitants contributed a total of $84.8 million and $66.6 million in 2014 and 2013, respectively, to the gross cost of their retiree health care pursuant to premium amounts set forth in the below-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 described below.

Plan Description Summary—The City of Chicago was 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. Although the agreement did not extend continuation of the Plans after June 30, 2013, a phase out of three years to end the program was announced in 2013, with annual subsidy modifications and a final sunset of subsidies at December 31, 2016, for all but the Korshak class of members. As a result of the extension, the post Settlement Plan-subsidized retiree medical benefits will cease for members as of December 31, 2016, except for the Korshak class who shall have lifetime benefits. Duty-disabled retirees who have statutory pre-63/65 coverage will continue to have fully subsidized coverage under the active health plan.

The City administers a single employer, self-funded 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. The City sponsors health benefit plans for employees, former employees, and retired former employees. The provisions of the post settlement benefit 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, recently revised to end December 31, 2016. The percentage subsidies were revised to reduce by approximately 25% in 2014 and 50% of 2013 subsidy levels in 2015. Additional step-downs in subsidy levels for 2016 have not yet been decided.

In addition, State law authorizes 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 December 31, 2016. 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 actuarial valuation 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 one year (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 position 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 position for 2014 in the City CAFR, is the annual OPEB cost (expense).

	Annual OPEB Cost and Contributions Made (In thousands)	
	2014 Health Plan	**2013 Health Plan**
Contribution rates:		
City	Pay as you go	Pay as you go
Plan members	N/A	N/A
Annual required contribution	$ 128,625	$ 134,083
Interest on net OPEB obligation	5,795	8,614
Adjustment to annual required contribution	(21,988)	(25,531)
Annual OPEB cost	112,432	117,166
Contributions made	128,061	139,336
Decrease in net OPEB obligation	(15,629)	(22,170)
Net OPEB obligation—beginning of year	193,191	215,361
Net OPEB obligation—end of year	$ 177,562	$ 193,191

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plans, and the net OPEB obligation for fiscal years 2014, 2013, and 2012, are as follows (in thousands):

	Schedule of Contributions, OPEB Costs, and Net Obligations		
Fiscal Years Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
December 31, 2014	$ 112,432	113.9 %	$ 177,562
December 31, 2013	117,166	118.9	193,191
December 31, 2012	76,977	150.6	215,361

Funded Status and Funding Progress—As of December 31, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $964.6 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plans) was approximately $2,425.0 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.8%.

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.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2013	$ -	$ 964,626	$ 964,626	- %	$ 2,425,000
December 31, 2012		997,281	997,281		2,385,198

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 Settlement Plan benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal year ended December 31, 2014, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual health care cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% in 2026. The range of rates included a 2.5% inflation assumption. The plan has 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 3%. The UAAL is amortized as a level dollar amount over 10 years. The benefits include an extension of the Settlement Plan sunset so as to completely phase out in December 2016. The Korshak category is entitled to lifetime benefits.

Summary of Assumptions and Methods

	Health Plan	
Item	**2014**	**2013**
Actuarial valuation date	December 31, 2013	December 31, 2012
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level dollar, open	Level dollar, open
Remaining amortization period	10 years	10 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	3.00%	3.00%
Projected salary increases	2.50%	3.00%
Healthcare inflation rate	8% initial to 5.0% in 2026	9.5% initial to 5.0% 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 basic financial statements. Amounts for the City are recorded within the City's government-wide basic 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 $77.4 million and $68.5 million in 2014 and 2013, 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, 2014 and 2013, are as follows (in thousands):

	2014	2013
Balance—January 1	$ 35,093	$ 33,211
Claims incurred on current and prior-year events	36,156	33,572
Claims paid on current and prior-year events	(34,542)	(31,690)
Balance—December 31	$ 36,707	$ 35,093

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

At December 31, 2014 and 2013, the Water Fund entered into contracts with outstanding commitments of approximately $137.6 million and $831.7 million, respectively, for construction projects.

10. SUBSEQUENT EVENTS

Ratings

In May 2015, Moody's Investors Service downgraded the ratings of the Water Fund senior lien revenue bonds from A2 to Baa1, and the Water Fund second lien revenue bonds from A3 to Baa2, each with a negative outlook. The downgrades triggered (with respect to the City's Water second lien revenue bonds) defaults under certain letters of credit and lines of credit and termination events under interest rate swap agreements to which the City is a party. In response to the triggering of these defaults, the City amended and/or transferred the interest rate swap agreements for its Water second lien revenue bonds to remove such termination event from the swap agreements prior to any demand being made for a termination payment by the counterparties and obtained a waiver of the event of default from the provider of a liquidity agreement relating to its Water second lien revenue bonds.

In May 2015, subsequent to the Moody's downgrade, Standard and Poor's (S&P) downgraded the Water senior lien revenue bonds from AA to A, and the Water second lien revenue bonds from AA- to A-, each with a negative watch.

Swaps

In May and June 2015, the City transferred and modified certain thresholds with respect to additional termination events (ATE) for its Water swaps. The City transferred the swaps with UBS related to its Water Second Lien Revenue Bonds, Series 2000 ($100 million notional amount), and Series 2004 ($173.3 million notional amount) to Barclays. At the same time, the ATE rating threshold was reduced from below Baa1 by Moody's or BBB+ by S&P to below Baa3 or BBB- by Moody's and S&P, respectively. In addition, the swap with Royal Bank of Canada relating to the City's Water Second Lien Revenue Bonds, Series 2004 ($182.2 million notional amount) was modified to reduce the ATE rating threshold from below Baa1 by Moody's or BBB+ by S&P to below BBB+ by S&P or Fitch.

* * * * * *

ADDITIONAL INFORMATION

CITY OF CHICAGO, ILLINOIS WATER FUND

ADDITIONAL SUPPLEMENTARY INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

	Assets					Accumulated Depreciation				
	Balance— January 1, 2014	Additions	Adjustments/ Disposals	Transfers	Balance— December 31, 2014	Balance— January 1, 2014	Provision	Adjustments/ Disposals	Balance— December 31, 2014	Net Balance— December 31, 2014
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	5,195	164		5,359	11,978
Lake and land tunnels	118,377				118,377	38,796	1,174		39,970	78,407
Intake structures	9,531				9,531	4,565	95		4,660	4,871
Power and pumping structures	127,959	4,154		1,086	133,199	34,160	1,605		35,765	97,434
Purification buildings	206,073	11,877		26,328	244,278	101,632	3,696		105,328	138,950
Distribution reservoirs	16,979				16,979	5,456	226		5,682	11,297
Offices, maintenance, and general	39,417				39,417	7,751	764		8,515	30,902
Contract retainage	129	416	(129)		416					416
Total structures and improvements	535,802	16,447	(129)	27,414	579,534	197,555	7,724	-	205,279	374,255
DISTRIBUTION PLANT:										
Mains and accessories	2,479,696	54,652	(1,378)	109,355	2,642,325	350,541	24,797	(1,363)	373,975	2,268,350
Meters and installations	89,215				89,215	33,280	2,700		35,980	53,235
Hydrants and valves	17,004		(242)		16,762	10,460	260	(242)	10,478	6,284
Contract retainage	4,836	7,348	(4,836)		7,348					7,348
Total distribution plant	2,590,751	62,000	(6,456)	109,355	2,755,650	394,281	27,757	(1,605)	420,433	2,335,217
EQUIPMENT:										
Power production	61,671	396			62,067	45,770	1,235		47,005	15,062
Pumping	219,409	781			220,190	91,835	6,781		98,616	121,574
Purification	315,560	2,015		835	318,410	151,281	8,498		159,779	158,631
Heavy machinery	25,445	80	(517)		25,008	14,550	1,766	(465)	15,851	9,157
Transportation	8,032	552	(326)		8,258	5,179	534	(294)	5,419	2,839
Miscellaneous	17,010				17,010	13,945	507		14,452	2,558
Contract retainage	403	178	(403)		178					178
Total equipment	647,530	4,002	(1,246)	835	651,121	322,560	19,321	(759)	341,122	309,999
Total structures and improvements, distribution plant, and equipment	3,774,083	82,449	(7,831)	137,604	3,986,305	914,396	54,802	(2,364)	966,834	3,019,471
CONSTRUCTION IN PROGRESS:										
Filtration plants	40,667	7,395		(27,163)	20,899					20,899
Pumping stations	58,544	9,131		(1,086)	66,589					66,589
Water mains	213,663	256,386		(109,355)	360,694					360,694
Contract retainage	4,212	9,463	(4,212)		9,463					9,463
Total construction in progress	317,086	282,375	(4,212)	(137,604)	457,645	-	-	-	-	457,645
TOTAL UTILITY PLANT	$4,096,252	$364,824	$(12,043)	$ -	$4,449,033	$914,396	$54,802	$(2,364)	$966,834	$3,482,199

STATISTICAL DATA SECTION
(UNAUDITED)

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 POSITION (UNAUDITED)
THREE YEARS ENDED DECEMBER 31, 2012–2014
(In millions)

	2012 (As Restated)	2013	2014
OPERATING REVENUES:			
Water sales	$ 562.6	$ 620.5	$ 693.1
Provision for doubtful accounts	(16)	(25)	(23)
Other operating revenues	13.7	16.6	22.1
Total operating revenues	560.6	611.7	692.7
OPERATING EXPENSES:			
Source of supply	0.2	0.1	0.3
Power and pumping	41.7	43.2	43.1
Purification	56.1	60.9	58.5
Transmission and distribution	36.5	29.5	43.7
Customer accounting and collection	10.0	11.6	11.9
Administrative and general	21.9	21.2	22.0
Central services and General Fund reimbursements	107.4	108.7	119.2
Total operating expenses	273.8	275.2	298.7
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	286.8	336.5	394.0
DEPRECIATION AND AMORTIZATION	48.4	49.6	58.0
OPERATING INCOME	238.4	286.9	336.0
NONOPERATING REVENUES (EXPENSES):			
Interest income	0.3	0.4	(0.5)
Interest expenses	(81.7)	(92.2)	(98.8)
Other operating revenues	1.1	0.5	(0.5)
Total nonoperating expenses—net	(80.3)	(91.3)	(99.8)
CHANGE IN NET POSITION	158.1	195.6	236.2
TOTAL NET POSITION—Beginning of year, as restated	1,093.3	1,251.4	1,447.0
TOTAL NET POSITION—End of year	$ 1,251.4	$ 1,447.0	$ 1,683.2

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
NET POSITION BY COMPONENTS (UNAUDITED)
FIVE YEARS ENDED DECEMBER 31, 2010–2014
(In millions)

	2010 (As Restated)	2011 (As Restated)	2012 (As Restated)	2013	2014
NET POSITION:					
Net investment in capital assets	$ 964.9	$ 1,046.1	$ 1,062.3	$ 1,233.2	$ 1,394.0
Restricted net assets for capital projects	0.4	0.2	1.3	0.7	0.6
Unrestricted net assets	85.4	47.0	187.8	213.1	288.6
TOTAL NET POSITION	$ 1,050.7	$ 1,093.3	$ 1,251.4	$ 1,447.0	$ 1,683.2

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
HISTORICAL FINANCIAL OPERATIONS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2005–2014
(In millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
OPERATING REVENUES:										
Water sales	$ 333.7	$ 317.2	$ 323.6	$ 358.0	$ 396.9	$ 445.5	$ 441.8	$ 562.6	$ 620.5	$ 693.1
Other operating revenues	10.6	13.2	10.8	12.2	13.3	12.9	12.4	13.7	16.6	22.1
Total operating revenues	344.3	330.4	334.4	370.2	410.2	458.4	454.2	576.3	637.1	715.2
OPERATING EXPENSES:										
Source of supply	0.2	0.2	0.3	0.2	0.1	0.1	0.2	0.2	0.1	0.3
Power and pumping	50.6	49.8	52.2	54.7	47.5	42.9	38.2	41.7	43.2	43.1
Purification	43.3	41.9	44.2	48.4	49.4	49.7	66.5	56.1	60.9	58.5
Transmission and distribution	39.4	41.6	47.0	47.1	40.9	38.7	39.0	36.5	29.5	43.7
Provision for doubtful accounts	2.7	3.6	3.7	8.3	10.4	15.9	14.0	15.7	25.4	22.5
Customer accounting and collection	16.3	16.9	14.8	12.8	11.2	10.3	10.6	10.0	11.6	11.9
Administrative and general	13.2	15.1	14.9	18.1	16.1	18.5	17.1	21.9	21.2	22.0
Central services and General Fund reimbursements	80.2	74.0	83.7	87.2	98.5	103.0	96.6	107.4	108.7	119.3
Total operating expenses	245.9	243.1	260.8	276.8	274.1	279.1	282.2	289.5	300.6	321.3
INTEREST INCOME (OTHER THAN FROM CONSTRUCTIONAL ACCOUNT)	2.6	3.8	4.9	3.7	1.0	(0.3)	2.0	0.3	0.4	(0.5)
NET REVENUES—As defined (Note 4)	$ 101.0	$ 91.1	$ 78.5	$ 97.1	$ 137.1	$ 179.0	$ 174.0	$ 287.1	$ 336.9	$ 393.4

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
WATER SYSTEM ACCOUNTS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2005–2014

Years Ended December 31	Nonmetered	Metered	Total
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
2012	290,863	205,097	495,960
2013	273,426	220,759	494,185
2014	250,304	241,304	491,608

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
TEN LARGEST SUBURBAN CUSTOMERS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2014
(In thousands)

Customer	Amount of Sales
Dupage Water Commission	$ 90,238
Oak Lawn, Illinois	35,011
Northwest Suburban Municipal Joint Action Water Agency	34,920
Bedford Park, Illinois	25,692
Harvey, Illinois	11,603
Melrose Park, Illinois	10,001
Cicero, Illinois	8,483
City of Des Plaines	8,453
Alsip, Illinois	6,505
McCook, Illinois	6,335
Total	$ 237,241

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
REVENUE BOND COVERAGE (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2005–2014
(In millions)

PRIOR BONDS COVERAGE CALCULATION

COMBINED PRIOR BONDS, SENIOR LIEN, AND SECOND LIEN DEBT SERVICE CALCULATION	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES AVAILABLE FOR BONDS:										
Net revenues—as defined (Note 4)	$ 101.0	$ 91.1	$ 78.5	$ 97.1	$ 137.1	$ 179.0	$ 174.0	$ 287.1	$ 336.9	$ 393.5
Transfer from (to) Water Rate Stabilization account & PAYGO Fund		(7.0)	7.9			(10.0)		(13.5)	(13.5)	
NET REVENUES AVAILABLE FOR BONDS	$ 101.0	$ 84.1	$ 86.4	$ 97.1	$ 137.1	$ 169.0	$ 174.0	$ 273.6	$ 323.4	$ 393.5
DEBT SERVICE REQUIREMENTS:										
Senior debt service requirements	$ 30.1	$ 29.7	$ 38.0	$ 27.5	$ 33.8	$ 29.1	$ 14.1	$ 13.9	$ 21.5	$ 21.5
Senior debt service coverage ratio	3.4	2.8	2.3	3.5	4.1	5.8	12.3	19.7	15.0	18.3
Second lien debt service requirements	$ 27.3	$ 30.5	$ 43.2	$ 62.5	$ 75.7	$ 82.1	$ 106.6	$ 116.5	$ 125.6	$ 126.0
Subordinate lien debt service requirements	0.2	0.3	0.4	0.4	0.4	0.4	0.4	1.2	1.3	1.9
Total second and subordinate lien debt service requirements	$ 27.5	$ 30.8	$ 43.6	$ 62.9	$ 76.1	$ 82.5	$ 107.0	$ 117.7	$ 126.9	$ 127.9
TOTAL COMBINED SENIOR, SECOND, AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS	$ 57.6	$ 60.5	$ 81.6	$ 90.4	$ 109.9	$ 111.6	$ 121.1	$ 131.6	$ 148.4	$ 149.4
TOTAL COMBINED SENIOR AND SECOND LIEN DEBT SERVICE COVERAGE RATIO	1.8	1.4	1.1	1.1	1.2	1.5	1.4	2.1	2.2	2.6
WATER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	$ 52.3	$ 59.3	$ 51.4	$ 51.4	$ 51.4	$ 61.4	$ 61.4	$ 74.9	$ 88.4	$ 88.4

Source: City of Chicago Comptroller's Office.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
LONG-TERM DEBT (UNAUDITED)
FIVE YEARS ENDED DECEMBER 31, 2010–2014
(In millions)

	2010	2011	2012	2013	2014
Senior lien bonds	$ 83.4	$ 68.9	$ 60.7	$ 49.0	$ 37.5
Second lien bonds	1,614.3	1,586.9	1,951.1	1,921.6	2,258.6
Commercial paper	51.5	46.5			
Subordinate lien—IEPA loan	4.6	18.9	18.4	26.3	85.7
Total long-term debt	$ 1,753.8	$ 1,721.2	$ 2,030.2	$ 1,996.9	$ 2,381.8

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

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
CAPITAL IMPROVEMENT PROGRAM (UNAUDITED)
2015–2019
(In thousands)

Years	**Amount**
2015	$ 358,347
2016	373,648
2017	451,122
2018	435,394
2019	450,479
Total	$ 2,068,990

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 (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2005–2014

Years	Total Pumpage (MGD)	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)	System's Rated Pumpage Capacity (MGD)	Maximum Daily Pumpage as % of Capacity
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
2012	289,545	793	1,248	2,160	58
2013	276,039	756	1,095	2,160	51
2014	274,552	752	1,023	2,160	47

Note: Million Gallons Daily (MGD).

Source: City of Chicago Department of Water Management.

CITY OF CHICAGO, ILLINOIS WATER FUND

MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
AREA SERVED (IN SQUARE MILES):		
Chicago	228	228
125 suburbs	578	578
TOTAL AREA SERVED	806	806
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)	4,322	4,321
Fire hydrants	48,593	48,614
Valves	49,175	49,447

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 (UNAUDITED)
FIVE YEARS ENDED DECEMBER 31, 2010–2014
(Number of employees)

Function	**2010**	**2011**	**2012**	**2013**	**2014**
Administration	65	63	62	61	62
Agency management	37	39	37	37	34
Safety and security	19	17	16	16	26
Capital design and construction services	10	10	8	8	9
Engineering services	4	4	4	4	4
Inspection services	32	32	30	29	29
Water quality	48	48	48	47	47
Water pumping	233	231	234	222	220
Water treatment	324	326	323	336	334
Systems installation	39	39	34	75	76
Systems maintenance	582	581	583	542	527
Billings and customer service	65	66	50	50	48
Water meter installation and repair	76	78	82	84	88
Total	1,534	1,534	1,511	1,511	1,504

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

CITY OF CHICAGO, ILLINOIS WATER FUND

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

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 (NONGOVERNMENT) (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2014, AND NINE YEARS AGO

	2014 (1)			2005 (1)		
Employer	**Number of Employees**	**Rank**	**Percentage of Total City Employment**	**Number of Employees**	**Rank**	**Percentage of Total City Employment**
Advocate Health Care	18,556	1	1.47 %			
University of Chicago	16,025	2	1.27			
JP Morgan Chase & Co. (2)	15,015	3	1.19	9,200	1	0.87 %
Northwestern Memorial Healthcare	14,550	4	1.15			
United Continental Holdings Inc.	14,000	5	1.11	5,995	2	0.56
Walgreen Co	13,797	6	1.09			
AT&T (3)	13,000	7	1.03	4,311	5	0.41
Presence Health	11,279	8	0.89			
University of Illinois at Chicago	10,100	9	0.80			
Abbott Laboratories	10,000	10	0.79			
Accenture LLP				4,341	4	0.41
Northern Trust Corporation				4,574	3	0.43
Ford Motor Company				2,992	7	0.28
Bank of America NT & SA				2,811	9	0.26
American Airlines				4,054	6	0.38
UPS				2,464	10	0.23
ABN Amro				2,876	8	0.27

(1) Source: Reprinted with permission, Crain's Chicago Business (January 19, 2015), Crain Communications, Inc.
(2) J.P. Morgan Chase formerly known as Banc One.
(3) AT&T Inc. formerly known as SBC Ameritech. 2014 number of employees is a state wide number.
(4) Source: City of Chicago, Department of Revenue, Employer's Expense Tax Returns.

CITY OF CHICAGO, ILLINOIS WATER FUND

STATISTICAL DATA
POPULATION AND INCOME STATISTICS (UNAUDITED)
TEN YEARS ENDED DECEMBER 31, 2005–2014

Year	Population (1)	Median Age (2)	Number of Households (2)	City Employment		Unemployment Rate (3)	Per Capita Income (4)	Total Income (6)
2005	2,896,016	33.0	1,045,282	1,198,929		7.0	38,439	$ 111,319,959,024
2006	2,896,016	33.5	1,040,000	1,228,075		5.2	41,887	121,305,422,192
2007	2,896,016	33.7	1,033,328	1,249,238		5.7	43,714	126,596,443,424
2008	2,896,016	34.1	1,032,746	1,237,856		6.4	45,328	131,270,613,248
2009	2,896,016	34.5	1,037,069	1,171,841		10.0	43,727	126,634,091,632
2010	2,695,598	34.8	1,045,666	1,116,830		10.1	45,957	123,881,597,286
2011	2,695,598	33.2	1,048,222	1,120,402		9.3	45,977	123,935,509,246
2012	2,695,598	33.0	1,030,746	1,144,896		8.9	48,305	130,210,861,390
2013	2,695,598	33.5	1,062,029	1,153,725		8.3	49,071	132,275,689,458
2014	2,695,598	N/A	N/A	1,264,234	*	5.7	N/A (5)	N/A (5)

Notes:
(1) Source: U.S. Census Bureau.
(2) Source: World Business Chicago Website and Environmental System Research Institute data estimates.
(3) Source: Bureau of Labor Statistics 2013, 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 2014 dollars).
(5) N/A means not available at time of publication.