

# City of Chicago, Illinois Water Fund

Basic Financial Statements as of and for the  
Years Ended December 31, 2007 and 2006,  
Required Supplementary Information,  
Additional Information, Statistical Data, and  
Independent Auditors' Report

# CITY OF CHICAGO, ILLINOIS WATER FUND

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Water Fund (Water Fund) of the City of Chicago, Illinois (City) as of December 31, 2007 and 2006, and for the years then ended, as listed in the foregoing table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, such basic financial statements present fairly, in all material respects, the financial position of the Water Fund as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

*Deloitte + Touche LLP*

June 30, 2008

# CITY OF CHICAGO, ILLINOIS

## WATER FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis of City of Chicago, Illinois, Water Fund's financial performance provides an introduction and overview of the Water Fund's financial activities for the fiscal years ended December 31, 2007 and 2006. 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

##### 2007

- Operating revenues for 2007 increased by \$3.9 million compared to prior year operating revenues. This increase is primarily due to the increase in pumpage/usage. There was no rate increase in the year 2007.
- Operating expenses before depreciation and amortization for 2007 increased by \$17.7 million compared to 2006 due to increases in salaries and overtime of about \$5.7 million, increase in workmen's compensation of \$7.7 million as a result of an actuarial analysis.
- The Water Fund's total net assets at December 31, 2007 were \$957.9 million. This is a decrease of \$3.0 million over total net assets at December 31, 2006.
- Net utility plant increased in 2007 by \$117.6 million due to the continuing capital improvement program.

##### 2006

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

## **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

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

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

In addition to the basic financial statements, this report includes Additional Information. The Additional Information section presents a schedule of utility plant.

## FINANCIAL ANALYSIS

At December 31, 2007, the Water Fund's financial position continued to be strong with total assets of \$2,347.0 million, total liabilities of \$1,389.1 million and net assets of \$957.9 million. A comparative condensed summary of the Water Fund's net assets at December 31, 2007, 2006, and 2005 is as follows:

(In thousands of dollars)	Net Assets		
	2007	2006	2005
Current assets	\$ 141,405	\$ 109,251	\$ 151,391
Restricted and other assets	162,854	266,918	160,778
Utility plant — net	<u>2,042,784</u>	<u>1,925,223</u>	<u>1,833,545</u>
Total assets	<u>\$ 2,347,043</u>	<u>\$ 2,301,392</u>	<u>\$ 2,145,714</u>
Current liabilities	\$ 123,185	\$ 106,358	\$ 144,281
Long-term and restricted liabilities	<u>1,266,000</u>	<u>1,234,168</u>	<u>1,058,775</u>
Total liabilities	<u>\$ 1,389,185</u>	<u>\$ 1,340,526</u>	<u>\$ 1,203,056</u>
Net assets:			
Invested in capital assets — net of related debt	\$ 892,711	\$ 902,843	\$ 819,025
Restricted	972	1,998	76,233
Unrestricted	<u>64,175</u>	<u>56,025</u>	<u>47,400</u>
Total net assets	<u>\$ 957,858</u>	<u>\$ 960,866</u>	<u>\$ 942,658</u>

### 2007

Current assets of \$141.4 million at December 31, 2007, increased by \$32.2 million (29.4%) over 2006 as a result of an increase in cash and cash equivalents of \$14.8 million, and an increase in receivables of \$15.0 million. Restricted and other assets decreased by \$104.1 million (39.0%) and utility plant–net increased by \$117.6 million (6.1 %) due principally to the ongoing capital improvement program.

The increase in current liabilities of \$16.8 million (15.8%) is directly related to the timing of payments of accounts payable, an increase in due to other City funds balances and an increase in deferred revenue during 2007. Long-term liabilities and restricted liabilities increased by \$31.8 million (2.6%) mainly due to additional draws on commercial paper in 2007.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2007, total net assets were \$957.9 million, a decrease of \$3.0 million (0.3%) over 2006.

### 2006

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

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

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

The primary sources of Water Fund's operating revenues are water usage fees. These revenues fund all Water Fund operating expenses, fund deposits and debt service requirements. A comparative condensed summary of the Water Fund's revenues, expenses, and changes in net assets for the years ended December 31, 2007, 2006, and 2005 is as follows:

(In thousands of dollars)	<b>Revenues, Expenses, and Changes in Net Assets</b>		
	2007	2006	2005
Revenues:			
Operating revenues			
Water sales	\$ 323,588	\$ 317,183	\$ 333,685
Other operating revenues	<u>10,789</u>	<u>13,256</u>	<u>10,582</u>
Total operating revenues	334,377	330,439	344,267
Nonoperating revenues	<u>12,796</u>	<u>11,844</u>	<u>5,744</u>
Total revenues	<u>347,173</u>	<u>342,283</u>	<u>350,011</u>
Expenses:			
Operating expenses	260,840	243,185	245,880
Depreciation and amortization	34,686	33,749	37,466
Nonoperating expenses	<u>54,655</u>	<u>47,141</u>	<u>43,098</u>
Total expenses	<u>350,181</u>	<u>324,075</u>	<u>326,444</u>
Change in net assets	(3,008)	18,208	23,567
Net assets, beginning of year	<u>960,866</u>	<u>942,658</u>	<u>919,091</u>
Net assets, end of year	<u>\$ 957,858</u>	<u>\$ 960,866</u>	<u>\$ 942,658</u>

## 2007

Water sales and other operating revenues comprise the Water Fund's \$334.4 million operating revenues. Water sales and other operating revenues for 2007 were \$323.6 million and \$10.8 million, respectively. The increase in 2007 operating revenues of \$4.0 million (1.2%) from 2006 was primarily due to an increase in water usage. There was no rate increase in 2007.

Fiscal year 2007 non-operating revenues of \$12.8 million were comprised mainly of interest income of \$4.9 million and other revenue of \$7.9 million.



## 2006

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

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

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2007, 2006 and 2005, is as follows:

(In thousands of dollars)	Operating Expenses		
	2007	2006	2005
Source of supply	\$ 275	\$ 236	\$ 224
Power and pumping	52,184	49,827	50,558
Purification	44,208	41,933	43,252
Transmission and distribution	47,037	41,547	39,374
Provision for doubtful accounts	3,724	3,563	2,736
Customer accounting and collection	14,824	16,943	16,315
Administrative and general	14,859	15,103	13,194
Central services and General Fund reimbursements	<u>83,729</u>	<u>74,033</u>	<u>80,227</u>
Operating expenses before depreciation and amortization	260,840	243,185	245,880
Depreciation and amortization	<u>34,686</u>	<u>33,749</u>	<u>37,466</u>
Total operating expenses	<u>\$ 295,526</u>	<u>\$ 276,934</u>	<u>\$ 283,346</u>

## 2007

Operating expenses before depreciation and amortization for the year 2007 increased by \$17.7 million (7.3%) from year 2006. An increase in Central Services and General Fund Reimbursement expense of \$9.7 million (13.1%) was primarily due to increases in workmen's compensation, health insurance premium and pension contributions of about \$10.0 million offset by decrease in police, fire and indirect costs of about \$1.2 million. Transmission and Distribution expenses increased by \$5.5 million (13.2%) due to increases in salaries and overtime, professional services and charges for diesel fuel. The decrease in Customer Accounting and Collection of about \$2.1 million (12.5%) is due to a decrease in salaries and professional services.

Non-operating expenses of \$54.7 million and \$47.1 million for the years 2007 and 2006, respectively, consisted primarily of interest expense related to long-term bonds and notes.

## 2006

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

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

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2007, 2006 and 2005, is as follows:

(In thousands of dollars)	Cash Flows		
	2007	2006	2005
Cash from activities:			
Operating	\$ 73,296	\$ 48,752	\$ 129,169
Capital and related financing	(173,755)	2,362	(145,501)
Investing	<u>107,914</u>	<u>(64,718)</u>	<u>5,562</u>
Net change in cash and cash equivalents	7,455	(13,604)	(10,770)
Cash and cash equivalents:			
Beginning of year	<u>87,004</u>	<u>100,608</u>	<u>111,378</u>
End of year	<u>\$ 94,459</u>	<u>\$ 87,004</u>	<u>\$ 100,608</u>

## 2007

As of December 31, 2007, the Water Fund's cash and cash equivalents of \$94.5 million increased by \$7.5 million due to the cash provided of \$73.3 million from operating activities and cash inflow of \$107.9 million from investing activities, offset by outflows for capital and related financing of \$173.8 million. Total cash and cash equivalents at December 31, 2007 comprised unrestricted and restricted cash and cash equivalents of \$32.7 million and \$61.7 million, respectively.

## 2006

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

## **UTILITY PLANT AND DEBT ADMINISTRATION**

### **2007**

At the end of 2007 and 2006, the Water Fund had \$2,042.8 million and \$1,925.2 million, respectively, invested in utility plant, net of accumulated depreciation. During 2007, the Water Fund expended \$151.8 million on capital activities. This included \$6.7 million for structures and improvements, \$57.1 million for distribution plant, \$9.2 million for equipment and \$78.8 million for construction in progress.

During 2007, net completed projects totaling \$56.5 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to the structures and improvements such as South Water Filtration Plant's landscaping phase 1 (\$4.5 million) improvements on various facilities and structures (\$2.5 million), standby generators installation at Southwest Pumping Station (\$14.8 million); Jardine Water Purification Plant's dehumidification system (\$12.4 million) and installation and replacements of water mains (\$19.8 million).

### **2006**

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

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

The Water Fund's utility plant at December 31, 2007, 2006 and 2005, is summarized as follows:

(In thousands of dollars)	Net Utility Plant at Year-End		
	2007	2006	2005
Utility plant not depreciated:			
Land and land rights	\$ 5,083	\$ 5,083	\$ 5,083
Construction in progress	<u>129,999</u>	<u>107,764</u>	<u>98,049</u>
Total utility plant not depreciated	<u>135,082</u>	<u>112,847</u>	<u>103,132</u>
Utility plant being depreciated:			
Structures and improvements	478,260	462,553	452,673
Distribution plant	1,598,233	1,522,227	1,435,884
Equipment	<u>493,716</u>	<u>456,685</u>	<u>438,327</u>
Total utility plant being depreciated	<u>2,570,209</u>	<u>2,441,465</u>	<u>2,326,884</u>
Less accumulated depreciation:			
Structures and improvements	(154,632)	(148,348)	(142,214)
Distribution plant	(278,505)	(263,362)	(249,310)
Equipment	<u>(229,370)</u>	<u>(217,379)</u>	<u>(204,947)</u>
Total accumulated depreciation	<u>(662,507)</u>	<u>(629,089)</u>	<u>(596,471)</u>
Total utility plant being depreciated — net	<u>1,907,702</u>	<u>1,812,376</u>	<u>1,730,413</u>
Total utility plant — net	<u>\$ 2,042,784</u>	<u>\$ 1,925,223</u>	<u>\$ 1,833,545</u>

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

The Water Fund's long-term liabilities at December 31, 2007, 2006 and 2005, are summarized as follows:

(In thousands of dollars)	Long-Term Liabilities at Year-End		
	2007	2006	2005
Revenue bonds and notes payable	\$ 1,225,811	\$ 1,199,988	\$ 1,045,744
Add accretion of Capital			
Appreciation Bonds	40,517	37,960	36,732
Less unamortized:			
Bond discount/premium	8,308	8,605	1,988
Deferred loss on bond refunding	<u>(41,426)</u>	<u>(43,394)</u>	<u>(45,362)</u>
Total revenue bonds/notes payable — net	1,233,210	1,203,159	1,039,102
Less current portion of accretion	(3,488)	(3,198)	(4,292)
Less current bonds/notes payable	<u>(30,008)</u>	<u>(30,764)</u>	<u>(14,656)</u>
Total long-term revenue bonds/notes payable — net	1,199,714	1,169,197	1,020,154
Long-term purchase obligations			
Water pipe extension certificates	<u>1,595</u>	<u>1,662</u>	<u>1,662</u>
Total long-term debt	<u>\$ 1,201,309</u>	<u>\$ 1,170,859</u>	<u>\$ 1,021,816</u>

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

The Water Fund's revenue bonds at December 31, 2007, have underlying credit ratings with each of the three major rating agencies as follows:

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

At December 31, 2007, 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 basic financial statements on page 23.

### Requests for Information

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

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATEMENTS OF NET ASSETS  
AS OF DECEMBER 31, 2007 AND 2006  
(In thousands of dollars)**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>	<b>LIABILITIES AND NET ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents (Note 2)	\$ 32,719	\$ 17,964	Accounts payable	\$ 17,710	\$ 17,584
Investments (Note 2)	1,965	1,578	Due to other City funds	37,237	30,899
Accounts receivable — net of allowance for doubtful accounts of approximately \$13,104 in 2007 and \$10,312 in 2006	74,903	59,954	Accrued liabilities	50,171	45,703
Interest receivable	47	37	Deferred revenue	<u>18,067</u>	<u>12,172</u>
Due from other City funds	16,900	14,974			
Inventories	<u>14,871</u>	<u>14,744</u>	Current unrestricted liabilities	<u>123,185</u>	<u>106,358</u>
Current unrestricted assets	<u>141,405</u>	<u>109,251</u>			
Restricted assets (Notes 2 and 3):			Liabilities payable from restricted assets:		
Cash and cash equivalents	61,740	69,040	Accounts payable	21,970	20,785
Investments	90,033	185,346	Due to other City funds	1,071	1,379
Interest receivable	<u>972</u>	<u>1,998</u>	Interest payable	8,154	7,183
Current restricted assets	<u>152,745</u>	<u>256,384</u>	Current portion of long-term debt (Note 4)	<u>33,496</u>	<u>33,962</u>
SUBTOTAL - CURRENT ASSETS	<u>294,150</u>	<u>365,635</u>	Current liabilities payable from restricted assets	<u>64,691</u>	<u>63,309</u>
<b>NONCURRENT ASSETS:</b>			SUBTOTAL — CURRENT LIABILITIES	<u>187,876</u>	<u>169,667</u>
Other assets	<u>10,109</u>	<u>10,534</u>	NONCURRENT LIABILITIES — Long-term debt:		
Utility plant (Note 5):			Long-term debt — net of current maturities (Note 4)	1,199,714	1,169,197
Land and land rights	5,083	5,083	Water pipe extension certificates	<u>1,595</u>	<u>1,662</u>
Structures and improvements	478,260	462,553	Total noncurrent liabilities	<u>1,201,309</u>	<u>1,170,859</u>
Distribution plant	1,598,233	1,522,227	Total liabilities	<u>1,389,185</u>	<u>1,340,526</u>
Equipment	493,716	456,685	NET ASSETS (Note 1):		
Construction in progress	<u>129,999</u>	<u>107,764</u>	Invested in capital assets — net of related debt	892,711	902,843
Total utility plant	2,705,291	2,554,312	Restricted net assets — capital projects	972	1,998
Less accumulated depreciation	<u>662,507</u>	<u>629,089</u>	Unrestricted net assets	<u>64,175</u>	<u>56,025</u>
Utility plant — net	<u>2,042,784</u>	<u>1,925,223</u>	Total net assets	957,858	960,866
Total noncurrent assets	<u>2,052,893</u>	<u>1,935,757</u>			
<b>TOTAL</b>	<u>\$2,347,043</u>	<u>\$2,301,392</u>	<b>TOTAL</b>	<u>\$2,347,043</u>	<u>\$2,301,392</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

(In thousands of dollars)

	<b>2007</b>	<b>2006</b>
OPERATING REVENUES:		
Water sales	\$ 323,588	\$ 317,183
Other operating revenues	<u>10,789</u>	<u>13,256</u>
Total operating revenues	<u>334,377</u>	<u>330,439</u>
OPERATING EXPENSES:		
Source of supply	275	236
Power and pumping	52,184	49,827
Purification	44,208	41,933
Transmission and distribution	47,037	41,547
Provision for doubtful accounts	3,724	3,563
Customer accounting and collection	14,824	16,943
Administrative and general	14,859	15,103
Central services and General Fund reimbursements	<u>83,729</u>	<u>74,033</u>
Total operating expenses before depreciation and amortization	<u>260,840</u>	<u>243,185</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	73,537	87,254
DEPRECIATION AND AMORTIZATION	<u>34,686</u>	<u>33,749</u>
OPERATING INCOME	<u>38,851</u>	<u>53,505</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	4,908	3,834
Interest expense	(54,655)	(47,141)
Other	<u>7,888</u>	<u>8,010</u>
Total nonoperating revenues (expenses)	<u>(41,859)</u>	<u>(35,297)</u>
CHANGE IN NET ASSETS	(3,008)	18,208
TOTAL NET ASSETS — Beginning of year	<u>960,866</u>	<u>942,658</u>
TOTAL NET ASSETS — End of year	<u>\$ 957,858</u>	<u>\$ 960,866</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of dollars)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Received from customers	\$ 321,533	\$ 332,975
Transactions with other City funds — net	(48,220)	(60,426)
Payments to vendors	(88,563)	(101,166)
Payments to employees	<u>(111,454)</u>	<u>(122,631)</u>
Cash flows from operating activities	<u>73,296</u>	<u>48,752</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(151,289)	(113,096)
Interest paid	(52,979)	(48,754)
Proceeds from issuance of bonds and notes	56,587	271,883
Principal paid on bonds	(33,962)	(115,681)
Construction reimbursements	<u>7,888</u>	<u>8,010</u>
Cash flows (used in) from capital and related financing activities	<u>(173,755)</u>	<u>2,362</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales and purchases of investments — net	94,926	(74,048)
Investment interest	<u>12,988</u>	<u>9,330</u>
Cash flows from (used in) investing activities	<u>107,914</u>	<u>(64,718)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,455</b>	<b>(13,604)</b>
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<b><u>87,004</u></b>	<b><u>100,608</u></b>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<b><u>\$ 94,459</u></b>	<b><u>\$ 87,004</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:</b>		
Unrestricted	\$ 32,719	\$ 17,964
Restricted	<u>61,740</u>	<u>69,040</u>
<b>TOTAL</b>	<b><u>\$ 94,459</u></b>	<b><u>\$ 87,004</u></b>

(Continued)



**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of dollars)**

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	<b>2007</b>	<b>2006</b>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 38,851	\$ 53,505
Adjustments to reconcile:		
Depreciation and amortization	34,686	33,749
Provision for doubtful accounts	3,724	3,563
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(18,673)	2,102
Increase in inventories	(127)	(3,799)
Increase in due from other City funds	(1,926)	(2,444)
Increase (decrease) in unrestricted accounts payable	127	(22,803)
Increase (decrease) in due to other City funds	6,338	(5,965)
Increase (decrease) in accrued liabilities	4,468	(9,589)
Increase in deferred revenue	5,895	433
Decrease in water pipe extension certificates	<u>(67)</u>	<u>          </u>
 CASH FLOWS FROM OPERATING ACTIVITIES	 <u>\$ 73,296</u>	 <u>\$ 48,752</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH  
ITEMS — Property additions in 2007 and 2006 of \$23,041  
and \$22,164, respectively, are included in accounts payable.

See notes to basic financial statements.

(Concluded)

# CITY OF CHICAGO, ILLINOIS

## WATER FUND

### NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (In thousands of dollars)

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#### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Basis of Accounting** — The accounting policies of the Water Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB). For the year ended December 31, 2007, the City adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the Water Fund are reported using the flow of economic resources measurement focus.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Revenue Recognition** — Revenue from water sales is recognized when the water is consumed by customers. Of the accounts receivable balances, \$31.6 million and \$33.8 million represent revenue recognized on water sales which had not yet been billed to customers at December 31, 2007 and 2006, respectively. Deferred revenue represents amounts billed to non-metered customers prior to usage.

**Revenues and Expenses** — The Water Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Fund's principal ongoing operations. The principal operating revenues of the Water Fund are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**Investments** — As of December 31, 2007, the Water Fund had the following investments (dollars in thousands):

Investment Type	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
<b>Water Funds</b>					
U.S. Agencies	\$ 108,284	\$ 35,639	\$	\$	\$ 143,923
Commercial paper	7,097				7,097
Certificates of deposit and other short-term	<u>73,246</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>73,246</u>
Subtotal	<u>\$ 188,627</u>	<u>\$ 35,639</u>	<u>\$</u>	<u>\$</u>	224,266
Share of City’s pooled funds					<u>10,961</u>
Total					<u>\$ 235,227</u>

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

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

**Interest Rate Risk** — As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy requires that investments generally may not have a maturity date in excess of ten 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 Illinois and having a claims-paying rating in the top rating category, as rated by a nationally recognized statistical rating organization maintaining such rating during the term of such investment. The following schedule summarizes the Water Fund’s exposure to credit risk (dollars in thousands):

<b>Quality Rating</b>	<b>2007</b>	<b>2006</b>
Aaa/AAA	\$ 205,849	\$ 241,458
Aa/AA		
A/A		7,097
Baa/BBB		
Not Rated	18,417	10,602
Not applicable		
Total	\$ 224,266	\$ 259,157

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

**Custodial Credit Risk — Cash and Certificates of Deposit** — This is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City’s Investment Policy states that in order to protect the City public fund deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 105% of marketable U.S. Government, or approved securities, or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the FDIC. The bank balance (including certificates of deposit) was \$515.7 million and \$248.4 million at December 31, 2007 and 2006, respectively. Of the bank balance, \$509.4 million and \$247.6 million or 98.8% and 99.7% at December 31, 2007 and 2006, respectively, were either insured or collateralized with securities held by City agents in the City’s name. The remainder was uninsured and uncollateralized. The following schedule summarizes the investments reported in the basic financial statements (dollars in thousands):

	<b>2007</b>	<b>2006</b>
Per Note 2:		
Investments — Water Fund	\$ 224,266	\$ 259,157
Investments — City Treasurer Pooled Fund	<u>10,961</u>	<u>10,748</u>
	<u>\$ 235,227</u>	<u>\$ 269,905</u>
Per financial statements:		
Restricted investments	\$ 90,033	\$ 185,346
Unrestricted investments	1,965	1,578
Investments included as cash and cash equivalents on the statements of net assets	<u>143,229</u>	<u>82,981</u>
	<u>\$ 235,227</u>	<u>\$ 269,905</u>

### 3. RESTRICTED ASSETS AND ACCOUNTS

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

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

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

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

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

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

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

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

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

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

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

**Water Rate Stabilization Account**

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

For accounts established by ordinances with balances, the amounts at December 31, 2007 and 2006, are as follows (in thousands of dollars):

	<b>2007</b>	<b>2006</b>
Senior Lien Debt Service Reserve	\$ 7,098	\$ 7,098
Second Lien Bonds	29,109	27,882
Water rate stabilization	51,397	59,298
Construction	<u>64,169</u>	<u>160,108</u>
Total	<u>\$ 151,773</u>	<u>\$ 254,386</u>

At December 31, 2007 and 2006, the Water Fund is not aware of any instances of non-compliance with the funding requirements and restrictions on assets as stated in the ordinances.



#### 4. LONG-TERM DEBT

At December 31, 2007 and 2006, long-term debt consisted of the following:

(In thousands of dollars)	2007	2006
\$49,880 Series 1993 Water Revenue Bonds Refunding issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	\$ 41,170	\$ 44,640
\$157,805 Series 1995 Water Revenue Bonds issued December 1, 1995, due through 2022; interest at 3.6% to 5.75%	97,750	101,805
\$277,911 Series 1997 Water Revenue Bonds issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	56,380	61,263
\$82,950 Series 1998 Equipment Notes issued February 11, 1998, due through 2008; interest at 5.0%		1,715
\$100,000 Series 2000 Second Lien Water Revenue Bonds issued December 22, 1999, due 2030, variable floating interest rate (3.55% at December 31, 2005)	100,000	100,000
\$156,819 Series 2000 Senior Lien Water Revenue Bonds issued May 2, 2000, due 2030; interest at 4.375% to 5.875%	47,559	52,959
\$272,405 Series 2001 Senior Lien Water Revenue Bonds issued December 13, 2001, due 2031; interest at 4.0% to 5.5%	30,450	35,680
\$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	81,155	81,190
\$3,605 Illinois Environmental Protection Agency Loan Agreement signed October 16, 2003, due 2022; interest at 2.905%	2,936	3,090
\$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds issued August 5, 2004, due through 2031; interest at 3.867%	497,525	500,000
\$48,747 Series 2004A Commercial Paper Notes Outstanding at December 31, 2005, due through 2007; interest at 3.22%	56,435	
\$215,400 Series 2006A Second Lien Water Revenue Bonds issued July 26, 2006, due thru 2036; interest at 4.5% to 5%	212,145	215,400
\$2,292 Illinois Environmental Protection Agency Loan Agreement signed June 30, 2003, due 2025; interest at 2.57%	<u>2,306</u>	<u>2,246</u>
	1,225,811	1,199,988
Add accretion of Capital Appreciation Bonds	40,517	37,960
Less current portion of accretion	(3,488)	(3,198)
Less current portion of long-term debt	(30,008)	(30,764)
Add unamortized bond discount/premium	8,308	8,605
Less unamortized deferred loss on bond refunding	<u>(41,426)</u>	<u>(43,394)</u>
Long-term portion — net	<u>\$1,199,714</u>	<u>\$1,169,197</u>

During the years ended December 31, 2007 and 2006, long-term debt changed as follows (in thousands of dollars):

	<b>Balance January 1, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2007</b>	<b>Due Within One Year</b>
Revenue bonds/notes payable	\$ 1,199,988	\$ 56,587	\$ (30,764)	\$ 1,225,811	\$ 30,008
Accretion of Capital Appreciation Bonds	37,960	5,755	(3,198)	40,517	3,488
Unamortized bond discount/premium	8,605		(297)	8,308	
Unamortized deferred loss on bond refunding	<u>(43,394)</u>		<u>1,968</u>	<u>(41,426)</u>	
<b>Total</b>	<u>\$ 1,203,159</u>	<u>\$ 62,342</u>	<u>\$ (32,291)</u>	<u>\$ 1,233,210</u>	<u>\$ 33,496</u>

  

	<b>Balance January 1, 2006</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2006</b>	<b>Due Within One Year</b>
Revenue bonds/notes payable	\$ 1,045,744	\$ 265,096	\$ (110,852)	\$ 1,199,988	\$ 30,764
Accretion of Capital Appreciation Bonds	36,732	6,057	(4,829)	37,960	3,198
Unamortized bond discount/premium	1,988	6,786	(169)	8,605	
Unamortized deferred loss on bond refunding	<u>(45,362)</u>		<u>1,968</u>	<u>(43,394)</u>	
<b>Total</b>	<u>\$ 1,039,102</u>	<u>\$ 277,939</u>	<u>\$ (113,882)</u>	<u>\$ 1,203,159</u>	<u>\$ 33,962</u>

Interest expense capitalized in 2007 and 2006 totaled \$6.7 million and \$8.3 million, respectively. Interest income capitalized in 2007 and 2006 totaled \$7.1 million and \$6.8 million, respectively.

Interest expense includes amortization of the deferred loss on bond refunding for 2007 and 2006 of \$2.0 million and \$2.0 million; amortization of bond discount of \$0.3 million and \$0.2 million; and accretion of Series 1997 and Series 2000 capital appreciation bonds of \$5.8 million and \$6.1 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 2007 and 2006.

**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 during 2007 and 2006 was \$9.95 per 1,000 cubic feet.

**Issuance of Debt** — In December 2007, \$56.6 million of Water System Commercial Paper Notes, Series 2004 were issued. The proceeds were used to finance authorized projects of the Water Fund.

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

Second Lien Water Revenue Bonds, Series 2006A (\$215.4 million) were sold at a premium in July 2006. The bonds have interest rates ranging from 4.5% to 5.0% and maturity dates from November 1, 2007 to November 1, 2026. Net proceeds of \$122.9 million will be used to finance certain capital improvements to and extensions of the Water system and net proceeds of \$96.2 million were used to retire 2004 Commercial Paper notes outstanding.

A schedule of bond and note debt service requirements to maturity at December 31, 2007, is as follows (in thousands of dollars):

<b>Years Ending December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2008	\$ 30,008	\$ 52,676	\$ 82,684
2009	31,011	51,669	82,680
2010	32,161	50,515	82,676
2011	33,442	49,250	82,692
2012	34,814	47,898	82,712
2013–2017	168,045	245,828	413,873
2018–2022	232,234	182,661	414,895
2023–2027	310,741	104,888	415,629
2028–2032	247,235	37,256	284,491
2033–2037	<u>49,685</u>	<u>6,362</u>	<u>56,047</u>
Total	<u>\$ 1,169,376</u>	<u>\$ 829,003</u>	<u>\$ 1,998,379</u>

Debt service requirements above exclude commercial paper issues as the timing of payments is not certain. The Water Fund's variable rate bonds may bear interest from time to time at a flexible rate, a daily rate, a weekly rate, an adjustable long rate or the fixed rate as determined from time to time by the remarketing agent, in consultation with the City. At December 31, 2007, 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, 2007, or the effective rate of a related swap agreement, if applicable.

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

**Terms, Fair Values and Credit Risk** — The terms, including the fair value and credit ratings of the outstanding swaps as of December 31, 2007, are as follows (in thousands of dollars). The notional amounts of the swaps match the principal amounts of the associated debt. The Water Fund’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category. Under the swap, the Water Fund pays the counterparty a fixed payment and receives a variable payment computed according to the London Interbank Offered Rate (LIBOR) and/or The Bond Market Association Municipal Swap Index (BMA).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating
Water Variable Rate Revenue Refunding Bonds (Series 2004)	\$298,515	8/5/04	3.8669 %	BMA	\$(19,513)	11/1/31	Aa2/AA
	<u>199,010</u>	8/5/04	3.8669	BMA	<u>(12,829)</u>	11/1/31	Aa3/AA-
	<u>\$497,525</u>				<u>\$(32,342)</u>		

**Fair Value** — As of December 31, 2007, the swaps had a negative fair value of \$32.3 million. As per industry convention, the fair values of the Water Fund’s outstanding swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the forward rates implied by the yield curve correctly anticipate future spot rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap. Because interest rates declined subsequent to the date of execution, the Water Fund’s swaps had negative values.

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

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

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

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

**Swap Payments and Associated Debt** — As of December 31, 2007, debt service requirements for the Water Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands of dollars):

Years Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps — Net	
2008	\$ 2,600	\$ 16,916	\$ 2,323	\$ 21,839
2009	2,700	16,827	2,311	21,838
2010	2,800	16,736	2,298	21,834
2011	2,925	16,640	2,285	21,850
2012	10,200	16,541	2,271	29,012
2013–2017	55,100	77,375	10,625	143,100
2018–2022	136,400	64,547	8,864	209,811
2023–2027	218,000	34,591	4,750	257,341
2028–2032	66,800	5,793	795	73,388
Total	<u>\$ 497,525</u>	<u>\$ 265,966</u>	<u>\$ 36,522</u>	<u>\$ 800,013</u>

**Defeased Bonds** — Defeased bonds have been removed from the Statements of Net Assets because related assets have been placed in irrevocable trusts that, together with interest earned thereon, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at December 31, 2007, not including principal payments due May 1, 2008, are as follows (in thousands of dollars):

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

## 5. UTILITY PLANT

During the years ended December 31, 2007 and 2006, utility plant changed as follows (in thousands of dollars):

	<b>Balance January 1, 2007</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance December 31, 2007</b>
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$ -	\$ -	\$ 5,083
Construction in progress	<u>107,764</u>	<u>78,754</u>	<u>(56,519)</u>	<u>129,999</u>
Total utility plant not depreciated	<u>112,847</u>	<u>78,754</u>	<u>(56,519)</u>	<u>135,082</u>
Utility plant being depreciated:				
Structures and improvements	462,553	6,736	8,971	478,260
Distribution plant	1,522,227	57,088	18,918	1,598,233
Equipment	<u>456,685</u>	<u>9,216</u>	<u>27,815</u>	<u>493,716</u>
Total utility plant being depreciated	<u>2,441,465</u>	<u>73,040</u>	<u>55,704</u>	<u>2,570,209</u>
Less accumulated depreciation:				
Structures and improvements	(148,348)	(6,284)		(154,632)
Distribution plant	(263,362)	(15,557)	414	(278,505)
Equipment	<u>(217,379)</u>	<u>(12,716)</u>	<u>725</u>	<u>(229,370)</u>
Total accumulated depreciation	<u>(629,089)</u>	<u>(34,557)</u>	<u>1,139</u>	<u>(662,507)</u>
Total utility plant being depreciated — net	<u>1,812,376</u>	<u>38,483</u>	<u>56,843</u>	<u>1,907,702</u>
Total utility plant — net	<u>\$ 1,925,223</u>	<u>\$ 117,237</u>	<u>\$ 324</u>	<u>\$ 2,042,784</u>
	<b>Balance January 1, 2006</b>	<b>Additions</b>	<b>Disposals and Transfers</b>	<b>Balance December 31, 2006</b>
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$ -	\$ -	\$ 5,083
Construction in progress	<u>98,049</u>	<u>59,233</u>	<u>(49,518)</u>	<u>107,764</u>
Total utility plant not depreciated	<u>103,132</u>	<u>59,233</u>	<u>(49,518)</u>	<u>112,847</u>
Utility plant being depreciated:				
Structures and improvements	452,673	4,668	5,212	462,553
Distribution plant	1,435,884	53,295	33,048	1,522,227
Equipment	<u>438,327</u>	<u>10,293</u>	<u>8,065</u>	<u>456,685</u>
Total utility plant being depreciated	<u>2,326,884</u>	<u>68,256</u>	<u>46,325</u>	<u>2,441,465</u>
Less accumulated depreciation:				
Structures and improvements	(142,214)	(6,134)		(148,348)
Distribution plant	(249,310)	(14,659)	607	(263,362)
Equipment	<u>(204,947)</u>	<u>(12,432)</u>		<u>(217,379)</u>
Total accumulated depreciation	<u>(596,471)</u>	<u>(33,225)</u>	<u>607</u>	<u>(629,089)</u>
Total utility plant being depreciated — net	<u>1,730,413</u>	<u>35,031</u>	<u>46,932</u>	<u>1,812,376</u>
Total utility plant — net	<u>\$ 1,833,545</u>	<u>\$ 94,264</u>	<u>\$ (2,586)</u>	<u>\$ 1,925,223</u>

## 6. PENSION PLANS

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

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

Participating employees contribute 8.5% of their salary to these funds as required by State law. By law, the City's contributions are based on the amounts contributed by the employees. Financing of the City's contribution is through a separate property tax levy and the personal property replacement tax. The Water Fund reimburses the City's General Fund for the estimated pension cost applicable to the covered payroll of Water Fund employees. These reimbursements, recorded as expenses of the Water Fund, were \$13.6 million in 2007 and 11.8 million in 2006. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

The funding policy mandated by State law requires City contributions at statutorily, not actuarially, determined rates. The rates are expressed as multiples of employee contributions. These contributions equal employee contributions made in the calendar year two years prior multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ending December 31, 2007, 2006 and 2005 were 1.25 for the Municipal Employees' and 1.00 for the Laborers' and Retirement Board Employees' Annuity and Benefit Funds, respectively. The City has made the required contributions under State law.

The following table as of December 31, 2007, assists users in assessing each fund's progress in accumulating sufficient assets to pay benefits when due. The three-year historical information for each annuity and benefit fund is as follows (in thousands of dollars):

	<b>Annual Pension Cost</b>	<b>Annual Pension Cost Contributed</b>	<b>Required Contribution</b>	<b>Required Contributions Made</b>	<b>Net Pension Assets (Obligation)</b>
Municipal Employees':					
2005	\$284,587	54.5 %	\$285,291	54.5 %	\$169,895
2006	325,514	48.3	325,914	48.3	1,442
2007	343,123	40.7	343,123	40.7	(202,078)
Laborers':					
2005	12,139	0.33%	12,774	30.0%	258,125
2006	20,536	0.52%	21,142	60.0%	237,696
2007	22,260	59.55%	21,726	61.0%	228,692

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

In addition to providing pension benefits, the City, under State law, provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal Employees' or Laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for post employment benefits if they eventually become annuitants. Health benefits include basic benefits for annuitants and supplemental benefits for Medicare-eligible annuitants. Currently, the City does not segregate benefit payments to annuitants by fund. The cost of health benefits is recognized as claims are reported and funded on a pay-as-you-go basis. The total cost to the City for providing health benefits to approximately 25,171 and 24,374 annuitants and their dependents was approximately \$89.5 million and \$79.3 million in 2007 and 2006, respectively.

## **7. OTHER POST-EMPLOYMENT BENEFITS — CITY OBLIGATION**

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

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

The annuitants who retired prior to July 1, 2005 received a 55 percent subsidy from the City and the annuitants who retired on or after July 1, 2005 received a 50, 45, 40 and zero percent subsidy from the City based on the annuitant's length of actual employment with the City for the gross cost of retiree health care under a court approved settlement agreement. The pension funds contributed \$55 for each Medicare eligible annuitant and \$85 for each Non-Medicare eligible annuitant to their gross cost. The annuitants contributed a total of \$54.8 million in 2007 to the gross cost of their retiree health care pursuant to premium amounts set forth in the above-referenced settlement agreement.

The cost of health benefits is recognized as an expenditure in the accompanying financial statements as claims are reported and are funded on a pay-as-you-go basis. In 2007, the net expense to the City for providing these benefits to approximately 24,350 annuitants plus their dependents was approximately \$87.5 million.

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

The liabilities for the monthly dollar supplements paid to annuitants enrolled in the retiree medical plan by their respective Pension Funds are included in the liabilities and reports of the respective 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 post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC (Annual Required Contribution) 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 six and one-half years (the remaining years of coverage under the Settlement agreement).

The following table shows the components of the City’s annual OPEB costs for the year for the Settlement Plan, the amount actually contributed to the plan and changes in the City’s net OPEB obligation to the Retiree Health Plan. The *Net OPEB Obligation* is the amount entered upon the City’s Statement of Net Assets as of year end as the net liability for the other post employment benefits – the retiree health plan. The amount of the annual cost for the retiree health plan which is to be recorded in the Statement of Changes in Net Assets for 2007 is the *Annual OPEB Cost (expense)*.

Annual OPEB cost and contributions made are as follows (dollars in thousands):

<b>Annual OPEB Cost and Contributions Made</b>	<b>Retiree Settlement Health Plan</b>
<b>(Dollars in thousands)</b>	
Contribution Rates:	
City	Pay As You Go
Plan Members	N/A
Annual Required Contribution	\$ 245,591
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	_____
Annual OPEB Cost	245,591
Contributions Made	<u>97,245</u>
Increase (Decrease) in Net OPEB Obligation	148,346
Net OPEB Obligation (Excess) — Beginning of Year	_____
Net OPEB Obligation (Excess) — End of Year	<u>\$ 148,346</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2007 is as follows (dollars in thousands):

<b>Schedule of Contributions, OPEB Costs and Net Obligations</b>			
<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2007	\$ 245,591	39.6 %	\$ 148,346

The City, as required, adopted GASB 45 in fiscal year 2007. Information is provided for Fiscal Year End 2007 only, the year of adoption. Subsequent years’ disclosure will provide information for the reporting year and for the prior two years, as applicable.

**Funded Status and Funding Progress** — As of January 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,301,417 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,502,154 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 52%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in to the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan 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. The schedule of funding progress, presents, as required, supplementary information following the notes to the financial statements (dollars in thousands).

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2006	\$ -	\$ 1,301,417	\$ 1,301,417	0.0 %	\$ 2,502,154

**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 actuarial accrued liabilities 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, 2007, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 7%. Both rates included a 3% 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 4.35% (percent). The Unfunded Accrued Actuarial Liability is being amortized as a level dollar amount over 6.5 years.

### **Summary of Assumptions and Methods**

<b>Item</b>	<b>Settlement Health Plan</b>
Actuarial Valuation Date	December 31, 2006
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	6.5 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.35%
Projected Salary Increases	2.5%
Healthcare Inflation Rate	12% initial to 7% ultimate

The pension benefit information pertaining expressly to the Water fund is not available.

#### **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 \$52.6 million and \$52.0 million in 2007 and 2006, 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 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, 2007 and 2006, are as follows (in thousands of dollars):

	<b>2007</b>	<b>2006</b>
Balance — January 1	\$ 20,719	\$ 25,342
Claims incurred on current and prior year events	30,112	21,774
Claims paid on current and prior year events	<u>(24,704)</u>	<u>(26,397)</u>
Balance — December 31	<u>\$ 26,127</u>	<u>\$ 20,719</u>

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

At December 31, 2007 and 2006, the Water Fund entered into contracts for approximately \$139.2 million and \$167.1 million, respectively, for construction projects.

\* \* \* \* \*

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**ADDITIONAL INFORMATION  
SCHEDULE OF UTILITY PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(In thousands of dollars)**

	Assets				Accumulated Depreciation				Net Balance December 31, 2007	
	Balance January 1, 2007	Additions	Disposals	Transfers	Balance December 31, 2007	Balance January 1, 2007	Provision	Disposals		Balance December 31, 2007
<b>LAND AND LAND RIGHTS:</b>										
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	<u>5,083</u>				<u>5,083</u>					<u>5,083</u>
<b>STRUCTURES AND IMPROVEMENTS:</b>										
Cribs	17,335				17,335	4,031	166		4,197	13,138
Lake and land tunnels	118,151				118,151	30,521	1,182		31,703	86,448
Intake structures	9,531				9,531	3,900	95		3,995	5,536
Power and pumping structures	110,195	1,071		1,003	112,269	23,587	1,375		24,962	87,307
Purification buildings	162,775	3,391		7,546	173,712	79,734	2,704		82,438	91,274
Distribution reservoirs	16,979				16,979	3,874	226		4,100	12,879
Offices, maintenance, and general	27,587	1,853		422	29,862	2,701	536		3,237	26,625
Contract retainage		421			421					421
Total structures and improvements	<u>462,553</u>	<u>6,736</u>		<u>8,971</u>	<u>478,260</u>	<u>148,348</u>	<u>6,284</u>		<u>154,632</u>	<u>323,628</u>
<b>DISTRIBUTION PLANT:</b>										
Mains and accessories	1,467,101	56,174	(676)	12,732	1,535,331	227,393	14,671	(365)	241,699	1,293,632
Meters and installations	37,202	749		7,068	45,019	26,602	619		27,221	17,798
Hydrants and valves	17,769		(51)		17,718	9,367	267	(49)	9,585	8,133
Contract retainage	155	165	(155)		165					165
Total distribution plant	<u>1,522,227</u>	<u>57,088</u>	<u>(882)</u>	<u>19,800</u>	<u>1,598,233</u>	<u>263,362</u>	<u>15,557</u>	<u>(414)</u>	<u>278,505</u>	<u>1,319,728</u>
<b>EQUIPMENT:</b>										
Power production	56,901				56,901	36,710	1,349		38,059	18,842
Pumping	145,652	5,923		14,866	166,441	54,915	3,898		58,813	107,628
Purification	218,453	2,135		13,830	234,418	96,385	6,553		102,938	131,480
Heavy machinery	13,722	405	(6)		14,121	10,289	476	(6)	10,759	3,362
Transportation	9,326	258	(799)		8,785	7,429	327	(719)	7,037	1,748
Miscellaneous	12,555				12,555	11,651	113		11,764	791
Contract retainage	76	495	(76)		495					495
Total equipment	<u>456,685</u>	<u>9,216</u>	<u>(881)</u>	<u>28,696</u>	<u>493,716</u>	<u>217,379</u>	<u>12,716</u>	<u>(725)</u>	<u>229,370</u>	<u>264,346</u>
Total structures, plant and equipment	<u>2,441,465</u>	<u>73,040</u>	<u>(1,763)</u>	<u>57,467</u>	<u>2,570,209</u>	<u>629,089</u>	<u>34,557</u>	<u>(1,139)</u>	<u>662,507</u>	<u>1,907,702</u>
<b>CONSTRUCTION IN PROGRESS:</b>										
Filtration plants	32,922	24,861		(21,376)	36,407					36,407
Pumping stations	22,257	8,407		(15,870)	14,794					14,794
Water mains	52,147	44,842	1,387	(20,221)	78,155					78,155
Contract retainage	438	643	(438)		643					643
Total construction in progress	<u>107,764</u>	<u>78,753</u>	<u>949</u>	<u>(57,467)</u>	<u>129,999</u>					<u>129,999</u>
<b>TOTAL UTILITY PLANT</b>	<u><b>\$2,554,312</b></u>	<u><b>\$151,793</b></u>	<u><b>\$ (814)</b></u>	<u><b>\$</b></u>	<u><b>\$2,705,291</b></u>	<u><b>\$629,089</b></u>	<u><b>\$34,557</b></u>	<u><b>\$(1,139)</b></u>	<u><b>\$662,507</b></u>	<u><b>\$2,042,784</b></u>

## STATISTICAL SECTION

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

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**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
CHANGES IN NET ASSETS  
TWO YEARS ENDED DECEMBER 31, 2007  
(In millions of dollars) (Unaudited)**

	<b>2006</b>	<b>2007</b>
OPERATING REVENUES:		
Water sales	\$ 317.2	\$ 323.6
Other operating revenues	<u>13.3</u>	<u>10.8</u>
Total operating revenues	<u>330.5</u>	<u>334.4</u>
OPERATING EXPENSES:		
Source of supply	0.2	0.3
Power and pumping	49.8	52.2
Purification	41.9	44.2
Transmission and distribution	41.6	47.0
Provision for doubtful accounts	3.6	3.7
Customer accounting and collection	16.9	14.8
Administrative and general	15.1	14.9
Central services and General Fund reimbursements	<u>74.0</u>	<u>83.7</u>
Total operating expenses	<u>243.1</u>	<u>260.8</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	87.4	73.6
DEPRECIATION AND AMORTIZATION	<u>33.7</u>	<u>34.7</u>
OPERATING INCOME	53.7	38.9
NONOPERATING REVENUES (EXPENSES):		
Interest income	3.8	4.9
Interest expense	(47.1)	(54.7)
Other operating revenue/(expenses)	<u>8.0</u>	<u>7.9</u>
Total nonoperating revenue/(expenses)	<u>(35.3)</u>	<u>(41.9)</u>
CHANGE IN NET ASSETS	18.4	(3.0)
TOTAL NET ASSETS — Beginning of year	<u>942.7</u>	<u>960.9</u>
TOTAL NET ASSETS — End of year	<u>\$ 961.1</u>	<u>\$ 957.9</u>

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

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
NET ASSETS BY COMPONENTS  
TWO YEARS ENDED DECEMBER 31, 2007  
(In millions of dollars) (Unaudited)**

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	<b>2006</b>	<b>2007</b>
NET ASSETS:		
Invested in capital assets — net of related debt	\$ 902.8	\$ 892.7
Restricted net assets — capital projects	2.0	1.0
Unrestricted net assets	<u>56.0</u>	<u>64.2</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 960.8</u></b>	<b><u>\$ 957.9</u></b>

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



**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
HISTORICAL FINANCIAL OPERATIONS  
TEN YEARS ENDED DECEMBER 31, 2007  
(In millions of dollars) (Unaudited)**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
OPERATING REVENUES:										
Water sales (1)	\$ 273.6	\$ 278.5	\$ 289.6	\$ 290.3	\$ 296.5	\$ 296.9	\$ 307.6	\$ 333.7	\$ 317.2	\$ 323.6
Other operating revenues	<u>8.2</u>	<u>8.0</u>	<u>7.5</u>	<u>7.5</u>	<u>8.7</u>	<u>10.2</u>	<u>13.0</u>	<u>10.6</u>	<u>13.2</u>	<u>10.8</u>
Total operating revenues	<u>\$ 281.8</u>	<u>\$ 286.5</u>	<u>\$ 297.1</u>	<u>\$ 297.8</u>	<u>\$ 305.2</u>	<u>\$ 307.1</u>	<u>\$ 320.6</u>	<u>\$ 344.3</u>	<u>\$ 330.4</u>	<u>\$ 334.4</u>
OPERATING EXPENSES:										
Source of supply	1.2	1.6	1.0	1.3	0.5	0.3	0.4	0.2	0.2	0.3
Power and pumping	32.9	38.1	41.9	50.9	43.7	43.8	42.1	50.6	49.8	52.2
Purification	51.6	47.0	47.2	49.5	40.3	44.2	40.6	43.3	41.9	44.2
Transmission and distribution	42.3	45.6	46.8	46.8	52.9	53.0	39.1	39.4	41.6	47.0
Provision for doubtful accounts	2.1	3.0	3.0	2.0	3.0	3.9	3.7	2.7	3.6	3.7
Customer accounting and collection	12.8	17.1	16.2	17.9	15.5	16.3	14.9	16.3	16.9	14.8
Administrative and general	11.1	11.6	12.5	10.6	12.5	13.8	11.5	13.2	15.1	14.9
Central services and General Fund reimbursements	<u>62.5</u>	<u>62.2</u>	<u>63.3</u>	<u>64.6</u>	<u>70.1</u>	<u>72.6</u>	<u>72.3</u>	<u>80.2</u>	<u>74.0</u>	<u>83.7</u>
Total operating expenses	<u>216.5</u>	<u>226.2</u>	<u>231.9</u>	<u>243.6</u>	<u>238.5</u>	<u>247.9</u>	<u>224.6</u>	<u>245.9</u>	<u>243.1</u>	<u>260.8</u>
INTEREST INCOME (Other than from Constructional Account)	<u>5.9</u>	<u>5.0</u>	<u>4.2</u>	<u>4.1</u>	<u>1.0</u>	<u>1.8</u>	<u>1.0</u>	<u>2.6</u>	<u>3.8</u>	<u>4.9</u>
NET REVENUES — As defined (Note 4)	<u>\$ 71.2</u>	<u>\$ 65.3</u>	<u>\$ 69.4</u>	<u>\$ 58.3</u>	<u>\$ 67.7</u>	<u>\$ 61.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 91.1</u>	<u>\$ 78.5</u>

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

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
WATER SYSTEM ACCOUNTS  
TEN YEARS ENDED DECEMBER 31, 2007  
(Unaudited)**

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<b>Years Ended December 31</b>	<b>Nonmetered</b>	<b>Metered</b>	<b>Total</b>
1998	331,348	158,446	489,794
1999	329,756	159,353	489,109
2000	328,327	160,895	489,222
2001	327,276	163,051	490,327
2002	326,778	164,067	490,845
2003	325,789	165,440	491,229
2004	324,689	167,545	492,234
2005	323,740	169,664	493,404
2006	322,193	171,861	494,054
2007	320,579	175,256	495,835

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
TEN LARGEST SUBURBAN CUSTOMERS  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(In thousands of dollars) (Unaudited)**

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<b>Customer</b>	<b>Amount of Sales</b>
Du Page Water Commission	\$ 38,755
Oak Lawn, Illinois	16,066
Northwest Suburban Municipal Joint Action Water Agency	12,025
Bedford Park, Illinois	11,077
Harvey, Illinois	4,547
Melrose Park, Illinois	3,866
Alsip, Illinois	3,275
Cicero, Illinois	3,108
McCook, Illinois	2,851
Berwyn, Illinois	<u>2,633</u>
Total	<u>\$ 98,203</u>

Source: City of Chicago Department of Water Management.

# CITY OF CHICAGO, ILLINOIS WATER FUND

## STATISTICAL DATA REVENUE BOND COVERAGE TEN YEARS ENDED DECEMBER 31, 2007 (In millions of dollars) (Unaudited)

PRIOR BONDS COVERAGE CALCULATION	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>COMBINED PRIOR BONDS, SENIOR LIEN AND SECOND LIEN DEBT SERVICE CALCULATION</b>										
Net revenues — as defined (Note 4)	\$ 71.2	\$ 65.3	\$ 69.4	\$ 58.3	\$ 67.7	\$ 61.0	\$ 97.0	\$ 101.0	\$ 91.1	\$ 78.5
Transfer from/(to) Water Rate Stabilization Account	—	5.1	8.1	—	12.6	10.0	—	—	(7.0)	7.9
Net revenues available for bonds	71.2	70.4	77.5	58.3	80.3	71.0	97.0	101.0	84.1	86.4
Debt service requirement — Senior debt service requirements	<u>\$ 38.7</u>	<u>\$ 38.7</u>	<u>\$ 42.9</u>	<u>\$ 47.7</u>	<u>\$ 52.7</u>	<u>\$ 56.9</u>	<u>\$ 45.8</u>	<u>\$ 30.1</u>	<u>\$ 29.7</u>	<u>\$ 38.0</u>
Senior debt service coverage ratio	<u>1.8</u>	<u>1.8</u>	<u>1.8</u>	<u>1.2</u>	<u>1.5</u>	<u>1.2</u>	<u>2.1</u>	<u>3.4</u>	<u>2.8</u>	<u>2.3</u>
Second lien debt service requirements			3.3	2.9	5.9	5.7	10.3	27.3	30.5	43.2
Subordinate lien debt service requirements			—	—	—	0.1	0.2	0.2	0.3	0.4
Total Second and subordinate lien debt service requirements			<u>\$ 3.3</u>	<u>\$ 2.9</u>	<u>\$ 5.9</u>	<u>\$ 5.8</u>	<u>\$ 10.5</u>	<u>\$ 27.5</u>	<u>\$ 30.8</u>	<u>\$ 43.6</u>
Total combined senior, second and subordinate lien debt service requirement			<u>46.2</u>	<u>50.6</u>	<u>58.6</u>	<u>62.7</u>	<u>56.3</u>	<u>57.6</u>	<u>60.5</u>	<u>81.6</u>
Total combined senior and second lien debt service coverage ratio			<u>1.6</u>	<u>1.2</u>	<u>1.4</u>	<u>1.1</u>	<u>1.7</u>	<u>1.8</u>	<u>1.4</u>	<u>1.1</u>
Water Rate Stabilization Account year-end balance	<u>\$ 88.1</u>	<u>\$ 83.0</u>	<u>\$ 74.9</u>	<u>\$ 74.9</u>	<u>\$ 62.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 52.3</u>	<u>\$ 59.3</u>	<u>\$ 51.4</u>

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

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
LONG TERM DEBT  
TWO YEARS ENDED DECEMBER 31, 2007  
(In millions of dollars) (Unaudited)**

---

	<b>2006</b>	<b>2007</b>
SENIOR LIEN BONDS	\$ 296.4	\$ 273.3
SECOND LIEN BONDS	896.6	890.8
COMMERCIAL PAPER		56.4
EQUIPMENT NOTE	1.7	
SUBORDINATE LIEN — IEPA loan	<u>5.3</u>	<u>5.2</u>
TOTAL LONG TERM DEBT	<u>\$ 1,200.0</u>	<u>\$ 1,225.7</u>

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

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

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

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<b>Years</b>	<b>Amount</b>
2008	\$ 202,000
2009	173,000
2010	226,000
2011	270,000
2012	<u>254,000</u>
Total	<u>\$ 1,125,000</u>

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

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
WATER SYSTEM PUMPAGE AND CAPACITY  
TEN YEARS ENDED DECEMBER 31, 2007  
(Unaudited)**

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<b>Years</b>	<b>Total Pumpage (MGD)</b>	<b>Average Daily Pumpage (MGD)</b>	<b>Maximum Daily Pumpage (MGD)</b>	<b>System's Rated Pumpage Capacity (MGD)</b>	<b>Maximum Daily Pumpage as % of Capacity</b>
1998	370,475	1,015	1,583	2,160	73
1999	367,583	1,007	1,760	2,160	81
2000	353,767	969	1,768	2,160	82
2001	351,719	964	1,368	2,160	63
2002	342,974	940	1,346	2,160	62
2003	326,743	895	1,234	2,160	57
2004	320,069	875	1,134	2,160	53
2005	337,682	925	1,377	2,160	64
2006	310,527	851	1,373	2,160	64
2007	315,916	866	1,200	2,160	56

Note: Million Gallons Daily (MGD)

Source: City of Chicago Department of Water Management.

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**MISCELLANEOUS STATISTICAL DATA  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Unaudited)**

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<b>Area Served</b>	<b>2007</b>	<b>2006</b>
Area served (in square miles):		
Chicago	228	228
125 suburbs	<u>578</u>	<u>578</u>
Total area served	<u>806</u>	<u>806</u>
<b>Water Works Facilities</b>		
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
<b>Distribution System</b>		
Water mains (miles)	4,235	4,235
Fire hydrants	47,743	47,706
Valves	47,711	47,719

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



**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

**STATISTICAL DATA  
OPERATING INFORMATION BY FUNCTION  
TWO YEARS ENDED DECEMBER 31, 2007  
(Number of employees) (Unaudited)**

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<b>FUNCTION</b>	<b>2006</b>	<b>2007</b>
Administration	\$ 11	\$ 11
Agency Management	130	124
Safety and Security	28	28
Capital Design and Construction Services	13	14
Engineering Services	28	18
Inspection Services	34	33
Water Quality	47	47
Water Pumping	234	236
Water Treatment	335	332
Systems Installation	63	67
Systems Maintenance	612	586
Billings and Customer Service	149	144
Water Meter Install and Repair	<u>87</u>	<u>87</u>
<b>TOTAL</b>	<b><u>\$ 1,771</u></b>	<b><u>\$ 1,727</u></b>

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

**CITY OF CHICAGO, ILLINOIS  
WATER FUND**

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

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

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

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