

City of Chicago, Illinois Water Fund

Basic Financial Statements as of and for the
Years Ended December 31, 2008 and 2007,
Required Supplementary Information,
Additional Information, Statistical Data, and
Independent Auditors' Report

CITY OF CHICAGO, ILLINOIS WATER FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Water Fund (Water Fund) of the City of Chicago, Illinois (City) as of December 31, 2008 and 2007, 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, 2008 and 2007, 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 26, 2009

CITY OF CHICAGO, ILLINOIS WATER FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of City of Chicago, Illinois, Water Fund's financial performance provides an introduction and overview of the Water Fund's financial activities for the fiscal years ended December 31, 2008 and 2007. 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

2008

- Operating revenues for 2008 increased by \$35.9 million compared to prior year operating revenues. This increase is primarily due to the 15% increase in water rate effective January 1, 2008.
- Operating expenses before depreciation and amortization for 2008 increased by \$16.0 million compared to 2007 due to increases in natural gas, chemical costs, provision for doubtful accounts, and insurance premiums offset by decrease in workmen's compensation charges.
- The Water Fund's total net assets at December 31, 2008 were \$966.3 million. This is an increase of \$8.4 million over total net assets at December 31, 2007.
- Net utility plant increased in 2008 by \$212.1 million due to the continuing capital improvement program.

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 and 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.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

The Statements of Net Assets present all of the Water Fund's assets and liabilities using the accrual basis of accounting, which is similar to the basis of accounting used by private-sector companies. The difference between assets 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 Statistical Data. Statistical Data section presents unaudited debt service coverage calculation and includes certain unaudited information related to the Water Funds historical financial and non-financial operating results and capital activities.

FINANCIAL ANALYSIS

At December 31, 2008, the Water Fund's financial position continued to be strong with total assets of \$2,685.3 million, total liabilities of \$1,719.0 million and net assets of \$966.3 million. A comparative condensed summary of the Water Fund's net assets at December 31, 2008, 2007, and 2006 is as follows:

(In thousands)	Net Assets		
	2008	2007	2006
Current assets	\$ 144,847	\$ 141,405	\$ 109,251
Restricted and other assets	285,576	162,854	266,918
Utility plant — net	<u>2,254,892</u>	<u>2,042,784</u>	<u>1,925,223</u>
Total assets	<u>\$ 2,685,315</u>	<u>\$ 2,347,043</u>	<u>\$ 2,301,392</u>
Current liabilities	\$ 125,916	\$ 123,185	\$ 106,358
Long-term and restricted liabilities	<u>1,593,148</u>	<u>1,266,000</u>	<u>1,234,168</u>
Total liabilities	<u>\$ 1,719,064</u>	<u>\$ 1,389,185</u>	<u>\$ 1,340,526</u>
Net assets:			
Invested in capital assets — net of related debt	\$ 911,500	\$ 892,711	\$ 902,843
Restricted net assets - capital projects	1,690	972	1,998
Unrestricted net assets	<u>53,061</u>	<u>64,175</u>	<u>56,025</u>
Total net assets	<u>\$ 966,251</u>	<u>\$ 957,858</u>	<u>\$ 960,866</u>

2008

Current assets of \$144.8 million at December 31, 2008, increased by \$3.4 million (2.4%) over 2007 as a result of an increase in receivables of \$10.1 million offset by a decrease in cash and cash equivalent of \$8.8 million. Restricted and other assets increased by \$122.7 million (75.4%) due to bond issuance in 2008 and utility plant-net increased by \$212.1 million (10.4 %) due principally to the ongoing capital improvement program.

The increase in current liabilities of \$2.7 million (2.2%) is directly related to the timing of payments of accounts payable, an increase in accrued liabilities and deferred revenue offset by a decrease in due to other City funds during 2008. Long-term liabilities and restricted liabilities increased by \$327.1 million (25.8%) mainly due to bond issuances in 2008.

Net assets may serve as a useful indicator, over a period of time, of the Water Fund's financial position. At December 31, 2008, total net assets were \$966.3 million, an increase of \$8.4 million (0.9%) over 2007.

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%) due to acquisition and construction of capital assets 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.

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, 2008, 2007, and 2006 is as follows:

(In thousands)	Revenues, Expenses, and Changes in Net Assets		
	2008	2007	2006
Revenues:			
Operating revenues			
Water sales	\$ 358,067	\$ 323,588	\$ 317,183
Other operating revenues	<u>12,177</u>	<u>10,789</u>	<u>13,256</u>
Total operating revenues	370,244	334,377	330,439
Nonoperating revenues	<u>9,590</u>	<u>12,796</u>	<u>11,844</u>
Total revenues	<u>379,834</u>	<u>347,173</u>	<u>342,283</u>
Expenses:			
Operating expenses	276,850	260,840	243,185
Depreciation and amortization	37,546	34,686	33,749
Interest expense	<u>57,045</u>	<u>54,655</u>	<u>47,141</u>
Total expenses	<u>371,441</u>	<u>350,181</u>	<u>324,075</u>
Change in net assets	8,393	(3,008)	18,208
Net assets, beginning of year	<u>957,858</u>	<u>960,866</u>	<u>942,658</u>
Net assets, end of year	<u>\$ 966,251</u>	<u>\$ 957,858</u>	<u>\$ 960,866</u>

2008

Water sales and other operating revenues comprise the Water Fund's \$370.2 million operating revenues. Water sales and other operating revenues for 2008 were \$358.0 million and \$12.2 million, respectively. The increase in 2008 operating revenues of \$35.9 million (10.7%) from 2007 was primarily due to a 15% increase in water rates effective January 1, 2008, offset by decrease in pumpage of 4.4%.

Fiscal year 2008 nonoperating revenues of \$9.6 million are comprised mainly of interest income of \$3.7 million and other revenue that relates to construction done by Department of Water Management for other City departments and private companies amounting to \$5.9 million .

The increase in interest expense of \$2.3 million (4.2%) is primarily due to an additional debt issuance in 2008.

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 nonoperating revenues of \$12.8 million are comprised mainly of interest income of \$4.9 million and other revenue of \$7.9 million.

The increase in interest expense of \$7.6 million (16.1%) is primarily due to a smaller portion of interest being capitalized in 2007 than in 2006.

A comparative summary of the Water Fund's operating expenses, as classified in the basic financial statements, for the years ended December 31, 2008, 2007 and 2006, is as follows:

(In thousands)	Operating Expenses		
	2008	2007	2006
Source of supply	\$ 194	\$ 275	\$ 236
Power and pumping	54,722	52,184	49,827
Purification	48,448	44,208	41,933
Transmission and distribution	47,100	47,037	41,547
Provision for doubtful accounts	8,274	3,724	3,563
Customer accounting and collection	12,831	14,824	16,943
Administrative and general	18,127	14,859	15,103
Central services and General Fund reimbursements	<u>87,154</u>	<u>83,729</u>	<u>74,033</u>
Operating expenses before depreciation and amortization	276,850	260,840	243,185
Depreciation and amortization	<u>37,546</u>	<u>34,686</u>	<u>33,749</u>
Total operating expenses	<u>\$ 314,396</u>	<u>\$ 295,526</u>	<u>\$ 276,934</u>

2008

Operating expenses before depreciation and amortization for the year ended 2008 increased by \$16.0 million (6.1%) from year 2007 due to an increase in Central Services and General Fund reimbursement expense of \$3.4 million (4.1%) primarily due to increases in health insurance premium, police, fire and indirect costs offset by a decrease in workmen's compensation, an increase in Power and pumping of \$2.5 million (4.8%) due to increase in natural gas costs, an increase Purification of about \$4.2 million (9.6%) due to increased chemical costs, an increase in Administrative and general of about \$3.3 million (22.0%) due to security costs, salaries and overtime, and telephone maintenance and usage costs and an increase in Provision for doubtful accounts of \$4.5 million (122.2%).

2007

Operating expenses before depreciation and amortization for the year ended 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 a 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.

A comparative summary of the Water Fund's cash flows for the years ended December 31, 2008, 2007 and 2006, is as follows:

(In thousands of dollars)	Cash Flows		
	2008	2007	2006
Cash from activities:			
Operating	\$ 83,057	\$ 73,296	\$ 48,752
Capital and related financing	14,123	(173,755)	2,362
Investing	<u>(116,318)</u>	<u>107,914</u>	<u>(64,718)</u>
Net change in cash and cash equivalents	(19,138)	7,455	(13,604)
Cash and cash equivalents:			
Beginning of year	<u>94,459</u>	<u>87,004</u>	<u>100,608</u>
End of year	<u>\$ 75,321</u>	<u>\$ 94,459</u>	<u>\$ 87,004</u>

2008

As of December 31, 2008, the Water Fund's cash and cash equivalents of \$75.3 million decreased by \$19.1 million due to the cash provided of \$83.1 million from operating activities and cash inflow of \$14.1 million from capital and related financing activities and \$116.3 million cash outflow from investing activities. Total cash and cash equivalents at December 31, 2008 are comprised of unrestricted and restricted cash and cash equivalents of \$23.9 million and \$51.4 million, respectively.

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 are comprised of unrestricted and restricted cash and cash equivalents of \$32.7 million and \$61.7 million, respectively.

UTILITY PLANT AND DEBT ADMINISTRATION

2008

At the end of 2008 and 2007, the Water Fund had \$2,254.9 million and \$2,042.8 million, respectively, invested in utility plant, net of accumulated depreciation. During 2008, the Water Fund expended \$251.4 million on capital activities. This included \$2.7 million for structures and improvements, \$116.3 million for distribution plant, \$8.8 million for equipment and \$123.5 million for construction in progress.

During 2008, net completed projects totaling \$76.0 million were transferred from construction in progress to applicable capital accounts. The major completed projects were related to repairs at the 68th Street pumping station (\$4.9 million), cctv, card access, camera upgrades (\$4.7 million), purchase of trucks and dump trailers (\$6.8 million) and installation and replacements of water mains (\$56.7 million).

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).

The Water Fund's utility plant at December 31, 2008, 2007 and 2006, is summarized as follows:

(In thousands)	Net Utility Plant at Year-End		
	2008	2007	2006
Utility plant not depreciated:			
Land and land rights	\$ 5,083	\$ 5,083	\$ 5,083
Construction in progress	<u>176,908</u>	<u>129,999</u>	<u>107,764</u>
Total utility plant not depreciated	<u>181,991</u>	<u>135,082</u>	<u>112,847</u>
Utility plant being depreciated:			
Structures and improvements	488,308	478,260	462,553
Distribution plant	1,770,525	1,598,233	1,522,227
Equipment	<u>513,069</u>	<u>493,716</u>	<u>456,685</u>
Total utility plant being depreciated	<u>2,771,902</u>	<u>2,570,209</u>	<u>2,441,465</u>
Less accumulated depreciation:			
Structures and improvements	(161,144)	(154,632)	(148,348)
Distribution plant	(294,507)	(278,505)	(263,362)
Equipment	<u>(243,350)</u>	<u>(229,370)</u>	<u>(217,379)</u>
Total accumulated depreciation	<u>(699,001)</u>	<u>(662,507)</u>	<u>(629,089)</u>
Total utility plant being depreciated — net	<u>2,072,901</u>	<u>1,907,702</u>	<u>1,812,376</u>
Total utility plant — net	<u>\$ 2,254,892</u>	<u>\$ 2,042,784</u>	<u>\$ 1,925,223</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, 2008, 2007 and 2006, are summarized as follows:

(In thousands)	Long-Term Liabilities at Year-End		
	2008	2007	2006
Revenue bonds and notes payable	\$ 1,503,925	\$ 1,225,811	\$ 1,199,988
Add accretion of Capital			
Appreciation Bonds	42,684	40,517	37,960
Less unamortized:			
Bond discount/premium	30,654	8,308	8,605
Deferred loss on bond refunding	(44,689)	(41,426)	(43,394)
Total revenue bonds/notes payable — net	1,532,574	1,233,210	1,203,159
Less current portion of accretion	(3,767)	(3,488)	(3,198)
Less current bonds/notes payable	(39,086)	(30,008)	(30,764)
Total long-term revenue bonds/notes payable — net	1,489,721	1,199,714	1,169,197
Long-term purchase obligations	14,513		
Water pipe extension certificates	1,595	1,595	1,662
Total long-term liabilities	<u>\$ 1,505,829</u>	<u>\$ 1,201,309</u>	<u>\$ 1,170,859</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, 2008, 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, 2008, the Water Fund was in compliance with the debt covenants as stated within the bond ordinances. Additional information on certain of the Water Fund's debt covenants is presented in Note 4 of the Notes to the Basic Financial statements.

Requests for Information

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

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands)**

	2008	2007		2008	2007
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 2)	\$ 23,924	\$ 32,719	Accounts payable	\$ 14,990	\$ 17,710
Investments (Note 2)	855	1,965	Due to other City funds	34,235	37,237
Accounts receivable — net of allowance for doubtful accounts of approximately \$20,044 in 2008 and \$13,104 in 2007	85,035	74,903	Accrued liabilities	54,071	50,171
Interest receivable	326	47	Deferred revenue	<u>22,620</u>	<u>18,067</u>
Due from other City funds	20,312	16,900	Current unrestricted liabilities	<u>125,916</u>	<u>123,185</u>
Inventories	<u>14,395</u>	<u>14,871</u>	Liabilities payable from restricted assets:		
Current unrestricted assets	<u>144,847</u>	<u>141,405</u>	Accounts payable	33,903	21,970
Restricted assets (Notes 2 and 3):			Due to other City funds	919	1,071
Cash and cash equivalents	51,397	61,740	Interest payable	9,644	8,154
Investments	217,767	90,033	Current portion of long-term debt (Note 4)	<u>42,853</u>	<u>33,496</u>
Interest receivable	<u>1,690</u>	<u>972</u>	Current liabilities payable from restricted assets	<u>87,319</u>	<u>64,691</u>
Current restricted assets	<u>270,854</u>	<u>152,745</u>	Total current liabilities	<u>213,235</u>	<u>187,876</u>
Total current assets	<u>415,701</u>	<u>294,150</u>	NONCURRENT LIABILITIES :		
NONCURRENT ASSETS:			Long-term debt — net of current maturities (Note 4)	1,489,721	1,199,714
Other assets	<u>14,722</u>	<u>10,109</u>	Long-term purchase obligation (Note 4)	14,513	
Utility plant (Note 5):			Water pipe extension certificates	<u>1,595</u>	<u>1,595</u>
Land and land rights	5,083	5,083	Total noncurrent liabilities	<u>1,505,829</u>	<u>1,201,309</u>
Structures and improvements	488,308	478,260	Total liabilities	<u>1,719,064</u>	<u>1,389,185</u>
Distribution plant	1,770,525	1,598,233	NET ASSETS (Note 1):		
Equipment	513,069	493,716	Invested in capital assets — net of related debt	911,500	892,711
Construction in progress	<u>176,908</u>	<u>129,999</u>	Restricted net assets — capital projects	1,690	972
Total utility plant	2,953,893	2,705,291	Unrestricted net assets	<u>53,061</u>	<u>64,175</u>
Less accumulated depreciation	<u>(699,001)</u>	<u>(662,507)</u>	Total net assets	966,251	957,858
Utility plant — net	<u>2,254,892</u>	<u>2,042,784</u>			
Total noncurrent assets	<u>2,269,614</u>	<u>2,052,893</u>			
TOTAL	<u>\$ 2,685,315</u>	<u>\$ 2,347,043</u>	TOTAL	<u>\$ 2,685,315</u>	<u>\$ 2,347,043</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, 2008 AND 2007
(In thousands)**

	2008	2007
OPERATING REVENUES:		
Water sales	\$ 358,067	\$ 323,588
Other operating revenues	<u>12,177</u>	<u>10,789</u>
Total operating revenues	<u>370,244</u>	<u>334,377</u>
OPERATING EXPENSES:		
Source of supply	194	275
Power and pumping	54,722	52,184
Purification	48,448	44,208
Transmission and distribution	47,100	47,037
Provision for doubtful accounts	8,274	3,724
Customer accounting and collection	12,831	14,824
Administrative and general	18,127	14,859
Central services and General Fund reimbursements	<u>87,154</u>	<u>83,729</u>
Total operating expenses before depreciation and amortization	<u>276,850</u>	<u>260,840</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	93,394	73,537
DEPRECIATION AND AMORTIZATION	<u>37,546</u>	<u>34,686</u>
OPERATING INCOME	<u>55,848</u>	<u>38,851</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	3,698	4,908
Interest expense	(57,045)	(54,655)
Other	<u>5,892</u>	<u>7,888</u>
Total nonoperating expenses	<u>(47,455)</u>	<u>(41,859)</u>
CHANGE IN NET ASSETS	8,393	(3,008)
TOTAL NET ASSETS — Beginning of year	<u>957,858</u>	<u>960,866</u>
TOTAL NET ASSETS — End of year	<u>\$ 966,251</u>	<u>\$ 957,858</u>

See notes to basic financial statements.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from customers	\$ 356,393	\$ 321,533
Transactions with other City funds — net	(61,931)	(48,220)
Payments to vendors	(97,294)	(88,563)
Payments to employees	<u>(114,111)</u>	<u>(111,454)</u>
Cash flows provided by operating activities	<u>83,057</u>	<u>73,296</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(209,897)	(151,289)
Interest paid	(57,890)	(52,979)
Proceeds from issuance of bonds and notes	571,048	56,587
Principal paid on bonds	(33,497)	(33,962)
Payments of refunded bonds	(254,370)	
Payments of bonds issuance costs	(7,163)	
Construction reimbursements	<u>5,892</u>	<u>7,888</u>
Cash flows provided by (used in) capital and related financing activities	<u>14,123</u>	<u>(173,755)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and purchases of investments — net	(126,624)	94,926
Investment interest	<u>10,306</u>	<u>12,988</u>
Cash flows provided by (used in) investing activities	<u>(116,318)</u>	<u>107,914</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,138)	7,455
CASH AND CASH EQUIVALENTS — Beginning of year	<u>94,459</u>	<u>87,004</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 75,321</u>	<u>\$ 94,459</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENTS OF NET ASSETS:		
Unrestricted	\$ 23,924	\$ 32,719
Restricted	<u>51,397</u>	<u>61,740</u>
TOTAL	<u>\$ 75,321</u>	<u>\$ 94,459</u>

(Continued)

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands)**

	2008	2007
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 55,848	\$ 38,851
Adjustments to reconcile:		
Depreciation and amortization	37,546	34,686
Provision for doubtful accounts	8,274	3,724
Changes in assets and liabilities:		
Increase in accounts receivable	(18,406)	(18,673)
(Increase) decrease in inventories	476	(127)
Increase in due from other City funds	(3,412)	(1,926)
Increase (decrease) in unrestricted accounts payable	(2,720)	127
Increase (decrease) in due to other City funds	(3,002)	6,338
Increase in accrued liabilities	3,900	4,468
Increase in deferred revenue	4,553	5,895
Decrease in water pipe extension certificates	<u> </u>	<u>(67)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 83,057</u>	<u>\$ 73,296</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS — Property additions in 2008 and 2007 of \$34,823 and \$23,041, 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, 2008 AND 2007 (In thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying basic financial statements present only the Water Fund and are not intended to present the financial position of the City, and the results of its operations and the cash flows of its propriety fund types.

Basis of Accounting — The accounting policies of the Water Fund are based upon accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). For the year ended December 31, 2008, the City adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements Nos. 25 and 27*. The adoption of GASB Statement No. 49 and 50 did not have a material effect on the basic financial statements of the Water Fund for the year ended December 31, 2008. 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 are comprised of 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 consists 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 consists 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, \$39.1 million and \$31.6 million represent revenue recognized on water sales which had not yet been billed to customers at December 31, 2008 and 2007, 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Water Fund's principal ongoing operations. The principal operating revenues of the Water Fund are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. RESTRICTED AND UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments — As of December 31, 2008, the Water Fund had the following investments (in thousands):

Investment Type	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
U.S. Agencies	\$ 35,908	\$ 176,496	\$ -	\$ -	\$ 212,404
Commercial paper	7,179	-	-	-	7,179
Certificates of deposit and other short-term	<u>64,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,134</u>
Subtotal	<u>\$ 107,221</u>	<u>\$ 176,496</u>	<u>\$ -</u>	<u>\$ -</u>	283,717
Share of City's pooled funds					<u>9,478</u>
Total					<u>\$ 293,195</u>

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

Investment Type	Investment Maturities (in Years)				Fair Value
	Less Than 1	1–5	6–10	More Than 10	
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>

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 (in thousands):

Quality Rating	2008	2007
Aaa/AAA	\$ 273,964	\$ 205,849
Aa/AA	-	-
A/A	-	-
Baa/BBB	-	-
Not Rated	9,753	18,417
Not applicable	<u>-</u>	<u>-</u>
Total	<u>\$ 283,717</u>	<u>\$ 224,266</u>

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

Custodial Credit Risk — Cash and Certificates of Deposit — This is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City’s Investment Policy states that in order to protect the City’s deposits, depository institutions are to maintain collateral pledges on City deposits during the term of the deposit of at least 105 percent of marketable U.S. government, or approved securities or surety bonds, issued by top-rated insurers. Collateral is required as security whenever deposits exceed the insured limits of the Federal Deposit Insurance Corporation (FDIC). The bank balance of cash and certificates of deposit with the City’s various municipal depositories was \$372.2 million. Of the bank balance, 100 percent was either insured or collateralized with securities held by City agents in the City’s name. The following schedule summarizes the investments reported in the basic financial statements (in thousands):

	2008	2007
Per Note 2:		
Investments — Water Fund	\$ 283,717	\$ 224,266
Investments — City Treasurer Pooled Fund	<u>9,478</u>	<u>10,961</u>
	<u>\$ 293,195</u>	<u>\$ 235,227</u>
Per financial statements:		
Restricted investments	\$ 217,767	\$ 90,033
Unrestricted investments	855	1,965
Investments included as cash and cash equivalents on the statements of net assets	<u>74,573</u>	<u>143,229</u>
	<u>\$ 293,195</u>	<u>\$ 235,227</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 Senior Lien 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, 2006A and 2008, 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 Second Lien 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, 2008 and 2007, are as follows (in thousands):

	2008	2007
Senior lien debt service reserve	\$ 7,187	\$ 7,098
Second lien bonds	28,042	29,109
Water rate stabilization	51,397	51,397
Construction	<u>182,538</u>	<u>64,169</u>
Total	<u>\$ 269,164</u>	<u>\$ 151,773</u>

At December 31, 2008 and 2007, 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, 2008 and 2007, long-term debt consisted of the following (in thousands):

	2008	2007
\$49,880 Series 1993 Water Revenue Refunding Bonds issued October 1, 1993, due through 2016; interest at 4.125% to 6.5%	\$ 37,525	\$ 41,170
\$157,805 Series 1995 Water Revenue Bonds issued December 1, 1995, due through 2022; interest at 3.6% to 5.75%	26,570	97,750
\$277,911 Series 1997 Water Revenue Bonds issued September 1, 1997, due through 2019; interest at 3.9% to 5.25%	33,153	56,380
\$100,000 Series 2000 Second Lien Water Revenue Bonds issued December 22, 1999, due 2030, variable floating interest rate (3.8694% at December 31, 2008)	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%	41,849	47,559
\$272,405 Series 2001 Senior Lien Water Revenue Bonds issued December 13, 2001, due 2031; interest at 4.0% to 5.5%	24,955	30,450
\$81,500 Series 2001 Second Lien Water Revenue Refunding Bonds issued December 13, 2001, due 2030; interest at 3.0% to 5.75%	81,115	81,155
\$2,292 Illinois Environmental Protection Agency Loan Agreement signed June 30, 2003, due 2025; interest at 2.57%	2,401	2,306
\$3,605 Illinois Environmental Protection Agency Loan Agreement signed October 16, 2003, due 2022; interest at 2.905%	2,777	2,936
\$500,000 Series 2004 Second Lien Water Revenue Refunding Bonds issued August 5, 2004, due through 2031; interest at 3.867%	394,925	497,525
\$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 5.0%	208,740	212,145
\$549,915 Series 2008 Second Lien Water Revenue Bonds issued April 2, 2008, due thru 2038; interest at 4.0% to 5.25%	<u>549,915</u>	<u>-</u>
	1,503,925	1,225,811
Add accretion of Capital Appreciation Bonds	42,684	40,517
Less current portion of accretion	(3,767)	(3,488)
Less current portion of long-term debt	(39,086)	(30,008)
Add unamortized bond discount/premium — net	30,654	8,308
Less unamortized deferred loss on bond refunding	<u>(44,689)</u>	<u>(41,426)</u>
Long-term portion — net	<u>\$ 1,489,721</u>	<u>\$ 1,199,714</u>

During the years ended December 31, 2008 and 2007, long-term debt changed as follows (in thousands):

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008	Due Within One Year
Revenue bonds/notes payable	\$ 1,225,811	\$550,113	\$ (271,999)	\$ 1,503,925	\$ 39,086
Accretion of Capital Appreciation Bonds	40,517	5,655	(3,488)	42,684	3,767
Unamortized bond (discount) premium — net	8,308	20,936	1,410	30,654	-
Unamortized deferred loss on bond refunding	<u>(41,426)</u>	<u>(12,380)</u>	<u>9,117</u>	<u>(44,689)</u>	<u>-</u>
Total	<u>\$ 1,233,210</u>	<u>\$564,324</u>	<u>\$ (264,960)</u>	<u>\$ 1,532,574</u>	<u>\$ 42,853</u>

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due Within One Year
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>-</u>	<u>1,968</u>	<u>(41,426)</u>	<u>-</u>
Total	<u>\$ 1,203,159</u>	<u>\$62,342</u>	<u>\$ (32,291)</u>	<u>\$ 1,233,210</u>	<u>\$ 33,496</u>

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

	2008	2007
Non-interest bearing obligation	<u>\$ 14,513</u>	<u>\$ -</u>

Interest expense capitalized in 2008 and 2007 totaled \$21.0 million and \$6.7 million, respectively. Interest income capitalized in 2008 and 2007 totaled \$ 7.6 million and \$7.1 million, respectively.

Interest expense includes amortization of the deferred loss on bond refunding for 2008 and 2007 of \$2.4 million and \$2.0 million; amortization of bond discount of \$0.9 million and \$0.3 million; and accretion of Series 1997 and Series 2000 capital appreciation bonds of \$5.7 million and \$5.8 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 2008 and 2007.

Rate Increase — Water rates are set by ordinance and established in an amount designed to pay the costs of Water Fund operations and capital improvements, including any related debt service. The water rate effective January 1, 2009, was \$13.16 per 1,000 cubic feet.

Issuance of Debt — In April 2008, the Second Lien Water Revenue Project and Refunding Bonds, Series 2008 (\$549.9 million) were sold at a premium. The bonds have interest rates ranging from 4.0 percent to 5.25 percent and maturity dates ranging from November 1, 2009 to November 1, 2038. Net proceeds of \$563.7 million will be used to finance certain capital improvements and extensions of the water system of the City (\$318.0 million), advance refund certain maturities of water revenue bonds outstanding (\$188.7 million) and repay the water system’s outstanding commercial paper notes (\$57.0 million). The advance refunding of the bonds decreased the City’s total debt service payments by \$14.2 million and resulted in an economic loss (difference between the present values of the debt service on the old and new debt) of \$7.1 million.

The global economic downturn has adversely impacted the City’s variable rate debt. In 2008 global financial markets incurred substantial declines in value due to the credit crisis. Monoline insurers’ and letter of credit banks’ credit ratings came under review due to subprime mortgage exposure resulting in downgrades by the major rating agencies. As a result credit spreads increased on the water system variable rate debt, especially with insured bonds, therefore the City refinanced or converted many of its variable rate debt issues. In 2008, the City utilized letters of credit to convert one variable rate water system issue in the amount of \$394.9 million and thereby removing the monoline insurer.

A schedule of bond and note debt service requirements to maturity at December 31, 2008, is as follows (in thousands):

Years Ending December 31	Principal	Interest	Total Debt Service
2009	\$ 39,086	\$ 71,521	\$ 110,607
2010	40,521	70,044	110,565
2011	42,202	68,371	110,573
2012	44,023	66,581	110,604
2013	41,521	69,089	110,610
2014–2018	227,800	325,644	553,444
2019–2023	322,708	232,711	555,419
2024–2028	340,889	145,915	486,804
2029–2033	262,445	67,827	330,272
2034–2037	<u>142,730</u>	<u>20,908</u>	<u>163,638</u>
Total	<u>\$ 1,503,925</u>	<u>\$ 1,138,611</u>	<u>\$ 2,642,536</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, 2008, 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, 2008, 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, 2008, are as follows (in thousands). The notional amounts of the swaps match the principal amounts of the associated debt. The Water Fund’s swap agreements contain

scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category. Under the swap, the Water Fund pays the counterparty a fixed payment and receives a variable payment computed according to the Securities Industry in Financial Markets Association (SIFMA/LIBOR).

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Rating
Bonds (Series 2004)	\$197,970	8/5/04	3.8669 %	SIFMA	\$ (46,813)	11/1/31	Aaa/AA-
Bonds (Series 2004)	196,955	4/16/08	3.8694	SIFMA	(37,013)	11/1/25	Aaa/AA-
Bonds (Series 2000)	<u>100,000</u>	4/16/08	3.8694	SIFMA	<u>(29,107)</u>	11/1/30	Aaa/AA-
	<u>\$494,925</u>				<u>\$(112,933)</u>		

Fair Value — As of December 31, 2008, the swaps had a negative fair value of \$112.9 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 SIFMA/LIBOR ratios. Credit may create basis risk because the Water Fund’s bonds may trade differently from the swap index as a result of a credit change in the Water Fund. SIFMA/LIBOR ratios (or spreads) may create basis risk if SIFMA/LIBOR swaps of the Water Fund’s bonds trade higher than the SIFMA/LIBOR received on the swap. This can occur due to many factors including, without limitation, changes in marginal tax rates, tax-exempt status of bonds, and supply and demand for variable rate bonds. The Water Fund is exposed to basis risk on the swaps if the rate paid on the bonds is higher than the rate received. The Water Fund is liable for the difference. The difference would need to be available on the debt service payment date and would add additional underlying cost to the transaction.

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

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

Swap Payments and Associated Debt — As of December 31, 2008, debt service requirements for the Water Fund's outstanding variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands):

Years Ending December 31	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps — Net	
2009	\$ 2,700	\$ 4,947	\$ 14,199	\$ 21,846
2010	2,800	4,918	14,123	21,841
2011	2,925	4,889	14,044	21,858
2012	10,200	4,858	13,961	29,019
2013	10,150	4,751	13,674	28,575
2014–2018	57,375	22,067	63,836	143,278
2019–2023	159,525	17,251	50,912	227,688
2024–2028	161,810	8,128	26,423	196,361
2029–2033	87,440	1,243	4,267	92,950
Total	<u>\$494,925</u>	<u>\$73,052</u>	<u>\$215,439</u>	<u>\$783,416</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, 2008, not including principal payments due May 1, 2009, are as follows (in thousands):

	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
Water Revenue Senior Lien Bonds, Series 1995	66,925	66,925
Water Revenue Senior Lien Bonds, Series 1997	18,630	18,630

5. UTILITY PLANT

During the years ended December 31, 2008 and 2007, utility plant changed as follows (in thousands):

	Balance January 1, 2008	Additions	Disposals and Transfers	Balance December 31, 2008
Utility plant not depreciated:				
Land and land rights	\$ 5,083	\$ -	\$ -	\$ 5,083
Construction in progress	<u>129,999</u>	<u>123,504</u>	<u>(76,595)</u>	<u>176,908</u>
Total utility plant not depreciated	<u>135,082</u>	<u>123,504</u>	<u>(76,595)</u>	<u>181,991</u>
Utility plant being depreciated:				
Structures and improvements	478,260	2,745	7,303	488,308
Distribution plant	1,598,233	116,330	55,962	1,770,525
Equipment	<u>493,716</u>	<u>8,872</u>	<u>10,481</u>	<u>513,069</u>
Total utility plant being depreciated	<u>2,570,209</u>	<u>127,947</u>	<u>73,746</u>	<u>2,771,902</u>
Less accumulated depreciation:				
Structures and improvements	(154,632)	(6,512)	-	(161,144)
Distribution plant	(278,505)	(16,520)	518	(294,507)
Equipment	<u>(229,370)</u>	<u>(14,505)</u>	<u>525</u>	<u>(243,350)</u>
Total accumulated depreciation	<u>(662,507)</u>	<u>(37,537)</u>	<u>1,043</u>	<u>(699,001)</u>
Total utility plant being depreciated — net	<u>1,907,702</u>	<u>90,410</u>	<u>74,789</u>	<u>2,072,901</u>
Total utility plant — net	<u>\$ 2,042,784</u>	<u>\$ 213,914</u>	<u>\$ (1,806)</u>	<u>\$ 2,254,892</u>
	Balance January 1, 2007	Additions	Disposals and Transfers	Balance December 31, 2007
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>

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 percent per year of credited service. The final average salary is the employee's highest average annual salary for any four consecutive years within the last 10 years of credited service.

Participating employees contribute 8.5 percent 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 \$13.5 million in 2008 and \$13.6 million in 2007. The annual pension costs are determined using the entry age normal actuarial cost method and the level dollar amortization method.

The funding policy mandated by State law requires City contributions at statutorily, not actuarially, determined rates. The rates are expressed as multiples of employee contributions. These contributions equal employee contributions made in the calendar year two years prior to the year for which the applicable tax is levied, multiplied by the statutory rates. The statutory rates in effect for the City's contributions made during the years ended December 31, 2008, 2007, and 2006 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, 2008 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 will be accumulated over the next year (in thousands):

	Annual Pension Cost	Percent of Annual Pension Cost Contributed	Required Contribution	Percent of Required Contributions Contributed	Net Pension Obligation (Excess)
Municipal Employees'					
2006	325,514	48.3 %	325,514	48.3 %	\$ 1,442
2007	343,123	40.7	343,123	40.7	202,077
2008	359,933	40.8	360,387	40.7	415,207
Laborers'					
2006	20,536	0.5	17,600	0.6	(237,696)
2007	22,260	59.6	21,726	61.0	(228,692)
2008	18,166	83.9	17,652	86.3	(225,759)

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 obligation of these Plans.

7. OTHER POST-EMPLOYMENT BENEFITS — CITY OBLIGATION

In addition to providing pension benefits, under State law, the City provides certain health benefits to employees who retire from the City based upon their participation in the City's pension plans. Substantially all employees who qualify as Municipal Employees' or Laborers' pension plan participants older than age 55 with at least 20 years of service may become eligible for 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 are funded on a pay-as-you-go basis. The net expense to the City for providing health benefits to approximately 24,323 and 24,350 annuitants plus their dependents was approximately \$89.3 million and \$89.5 million in 2008 and 2007, respectively.

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 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 \$59.6 million in 2008 and 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 City's net expense and the annuitants' contribution indicated above are preliminary and subject to the reconciliation per the court approved settlement agreement.

Plan Description Summary — The City is party to a written legal Settlement Agreement outlining the provisions of the retiree health program, The Settlement Health Care Plans (the Plans), through June 30, 2013. The agreement does not require or extend continuation of the Plans after June 30, 2013. Pursuant to the Settlement Agreement, 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 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 four respective Pension Funds (Police, Fire, Municipal, and Laborers) to provide a fixed monthly dollar subsidy to each annuitant who has elected coverage under the Health Plan through June 30, 2013. After that date, no supplements are authorized.

The liabilities for the monthly dollar supplements paid to annuitants enrolled in the retiree medical plan by their respective Pension Funds are included in the liabilities and reports of the respective four Pension Funds (see Note 6).

Funding Policy — The City's 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 (ARC) of the employer. The ARC represents a level of funding, that if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period of five 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 Health Plan, the amount actually contributed to the Health Plan and changes in the City’s net OPEB obligation to the 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 Health Plan which is to be recorded in the Statement of Changes in Net Assets is the *Annual OPEB Cost (expense)* (in thousands).

Annual OPEB Cost and Contributions Made		
	2008	2007
	Health Plan	Health Plan
Contribution rates:		
City	Pay As You Go	Pay As You Go
Plan members	N/A	N/A
Annual required contribution	\$ 244,692	\$ 245,591
Interest on net OPEB obligation	6,453	-
Adjustment to annual required contribution	<u>(32,248)</u>	<u>-</u>
Annual OPEB cost	218,897	245,591
Contributions made	<u>97,968</u>	<u>97,245</u>
Increase in net OPEB obligation	120,929	148,346
Net OPEB obligation — beginning of year	<u>148,346</u>	<u>-</u>
Net OPEB obligation — end of year	<u>\$ 269,275</u>	<u>\$ 148,346</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation for fiscal years 2008 and 2007 are as follows (in thousands):

Schedule of Contributions, OPEB Costs, and Net Obligations			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$ 218,897	44.8 %	\$ 269,275
December 31, 2007	245,591	39.6	148,346

The City, as required, adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in fiscal year 2007. Information is provided for fiscal years 2008 and 2007. 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 December 31, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,062,864 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Health Plan) was approximately \$2,562,067 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 41%.

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 Health Plan and the ARC of the employer are subject to continual revisions as the results are compared with past expectations and new estimates are made about the future.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll
December 31, 2006	\$ -	\$ 1,062,864	\$ 1,062,864	- %	\$ 2,562,067
December 31, 2007	<u>-</u>	<u>1,062,864</u>	<u>1,062,864</u>	<u>-</u>	<u>2,562,067</u>

Actuarial Method and Assumptions — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial method and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

For the Health Plan benefits (not provided by the Pension Funds) in the actuarial valuation for the fiscal year ended December 31, 2008, 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 Health 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%. The Unfunded Accrued Actuarial Liability as of December 31, 2008, is being amortized as a level dollar amount over 5.5 years.

Summary of Assumptions and Methods		
	2008 Health Plan	2007 Health Plan
Actuarial valuation date	December 31, 2007	December 31, 2006
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar, Closed	Level Dollar, Closed
Remaining amortization period	5.5 years	6.5 years
Asset valuation method	Market Value	Market Value
Actuarial assumptions:		
Investment rate of return	4.35%	4.35%
Projected salary increases	2.50%	2.50%
Healthcare inflation rate	12% initial to 7% ultimate	12% initial to 7% ultimate

The OPEB benefit information pertaining expressly to the Water Fund employees is not available. Accordingly, no amounts are recorded in the accompanying financial statements.

8. RELATED-PARTY TRANSACTIONS

Included in operating expenses are reimbursements to the General Fund of the City for services provided by other City departments, employee fringe benefits, and certain payments made on behalf of the Water Fund. Such reimbursements amounted to \$55.5 and \$52.6 million in 2008 and 2007, 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, 2008 and 2007, are as follows (in thousands):

	2008	2007
Balance — January 1	\$ 26,127	\$ 20,719
Claims incurred on current and prior year events	31,519	30,112
Claims paid on current and prior year events	<u>(29,273)</u>	<u>(24,704)</u>
Balance — December 31	<u>\$ 28,373</u>	<u>\$ 26,127</u>

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

The City, who has a 40 year agreement with the Du Page Water Commission (DWC) to provide water service to the DWC and its 24 suburbs commencing on May 1, 1992, has signed an agreement with the DWC to share equally in the aggregate costs in the construction, operation and maintenance of electrical generation facilities and other capital improvements at the Lexington Pumping station of which neither party's share will not exceed \$15 million without an amendment to the agreement approved by both parties. Payments for the City's share will be in the form of credits against the charges for water supplied to the facility. Total cumulative credits for the period January through December 2008 amounted to \$486,993.

At December 31, 2008 and 2007, the Water Fund entered into contracts for approximately \$267.3 million and \$139.2 million, respectively, for construction projects.

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**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**ADDITIONAL INFORMATION
SCHEDULE OF UTILITY PLANT
FOR THE YEAR ENDED DECEMBER 31, 2008
(In thousands)**

	Assets				Accumulated Depreciation					Net Balance — December 31, 2008
	Balance — January 1, 2008	Additions	Disposals	Transfers	Balance — December 31, 2008	Balance — January 1, 2008	Provision	Disposals	Balance — December 31, 2008	
LAND AND LAND RIGHTS:										
Power and pumping	\$ 2,367	\$ -	\$ -	\$ -	\$ 2,367	\$ -	\$ -	\$ -	\$ -	\$ 2,367
Distribution reservoir	300	-	-	-	300	-	-	-	-	300
Purification	1,739	-	-	-	1,739	-	-	-	-	1,739
General and maintenance	677	-	-	-	677	-	-	-	-	677
Total land and land rights	5,083	-	-	-	5,083	-	-	-	-	5,083
STRUCTURES AND IMPROVEMENTS:										
Cribs	17,335	-	-	-	17,335	4,197	166	-	4,363	12,972
Lake and land tunnels	118,151	2	-	-	118,153	31,703	1,182	-	32,885	85,268
Intake structures	9,531	-	-	-	9,531	3,995	95	-	4,090	5,441
Power and pumping structures	112,269	1,454	-	6,758	120,481	24,962	1,403	-	26,365	94,116
Purification buildings	173,712	335	-	965	175,012	82,438	2,898	-	85,336	89,676
Distribution reservoirs	16,979	-	-	-	16,979	4,100	226	-	4,326	12,653
Offices, maintenance, and general	29,862	442	-	-	30,304	3,237	542	-	3,779	26,525
Contract retainage	421	512	(420)	-	513	-	-	-	-	513
Total structures and improvements	478,260	2,745	(420)	7,723	488,308	154,632	6,512	-	161,144	327,164
DISTRIBUTION PLANT:										
Mains and accessories	1,535,331	114,233	(448)	56,670	1,705,786	241,699	15,321	(424)	256,596	1,449,190
Meters and installations	45,019	3	-	-	45,022	27,221	932	-	28,153	16,869
Hydrants and valves	17,718	-	(94)	-	17,624	9,585	267	(94)	9,758	7,866
Contract retainage	165	2,093	(165)	-	2,093	-	-	-	-	2,093
Total distribution plant	1,598,233	116,329	(707)	56,670	1,770,525	278,505	16,520	(518)	294,507	1,476,018
EQUIPMENT:										
Power production	56,901	-	-	-	56,901	38,059	1,350	-	39,409	17,492
Pumping	166,441	4,053	-	-	170,494	58,813	4,811	-	63,624	106,870
Purification	234,418	3,576	-	5,908	243,902	102,938	7,175	-	110,113	133,789
Heavy machinery	14,121	-	(15)	5,597	19,703	10,759	850	(14)	11,595	8,108
Transportation	8,785	286	(568)	53	8,556	7,037	206	(510)	6,733	1,823
Miscellaneous	12,555	-	-	-	12,555	11,764	112	-	11,876	679
Contract retainage	495	958	(495)	-	958	-	-	-	-	958
Total equipment	493,716	8,873	(1,078)	11,558	513,069	229,370	14,504	(524)	243,350	269,719
Total structures and improvements, distribution plant, and equipment	2,570,209	127,947	(2,205)	75,951	2,771,902	662,507	37,536	(1,042)	699,001	2,072,901
CONSTRUCTION IN PROGRESS:										
Filtration plants	36,407	50,150	-	(6,873)	79,684	-	-	-	-	79,684
Pumping stations	14,794	20,376	-	(6,758)	28,412	-	-	-	-	28,412
Water mains	78,155	52,977	-	(62,320)	68,812	-	-	-	-	68,812
Contract retainage	643	-	(643)	-	-	-	-	-	-	-
Total construction in progress	129,999	123,503	(643)	(75,951)	176,908	-	-	-	-	176,908
TOTAL UTILITY PLANT	\$2,705,291	\$251,450	\$(2,848)	\$ -	\$2,953,893	\$662,507	\$37,536	\$(1,042)	\$699,001	\$2,254,892

STATISTICAL SECTION CONTENTS

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:

Financial Trends Information

1. Changes in Net Assets
2. Net Assets by Components

Revenue Capacity Information

1. Historical Financial Operations
2. Water System Accounts
3. Ten Largest Suburban Customers

Debt Capacity Information

1. Revenue Bond Coverage
2. Long Term Debt
3. Capital Improvement Program

Operating Information

1. Water System Pumpage and Capacity
2. Miscellaneous Statistical Data — Area Served, Water Works Facilities and Distribution System
3. Operating Information by Function

Demographic and Economic Information

1. Population of Service Area
2. Principal Employers (Non-Government)
3. Population and Income Statistics

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
CHANGES IN NET ASSETS
TWO YEARS ENDED DECEMBER 31, 2008
(In millions) (Unaudited)**

	2007	2008
OPERATING REVENUES:		
Water sales	\$ 323.6	\$ 358.0
Other operating revenues	<u>10.8</u>	<u>12.2</u>
Total operating revenues	<u>334.4</u>	<u>370.2</u>
OPERATING EXPENSES:		
Source of supply	0.3	0.2
Power and pumping	52.2	54.7
Purification	44.2	48.4
Transmission and distribution	47.0	47.1
Provision for doubtful accounts	3.7	8.3
Customer accounting and collection	14.8	12.8
Administrative and general	14.9	18.1
Central services and General Fund reimbursements	<u>83.7</u>	<u>87.2</u>
Total operating expenses before depreciation and amortization	<u>260.8</u>	<u>276.8</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	73.6	93.4
DEPRECIATION AND AMORTIZATION	<u>34.7</u>	<u>37.5</u>
OPERATING INCOME	<u>38.9</u>	<u>55.9</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	4.9	3.7
Interest expenses	(54.7)	(57.0)
Other operating revenues	<u>7.9</u>	<u>5.8</u>
Total nonoperating expenses	<u>(41.9)</u>	<u>(47.5)</u>
CHANGE IN NET ASSETS	(3.0)	8.4
TOTAL NET ASSETS — Beginning of year	<u>960.9</u>	<u>957.9</u>
TOTAL NET ASSETS — End of year	<u>\$ 957.9</u>	<u>\$ 966.3</u>

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
NET ASSETS BY COMPONENTS
TWO YEARS ENDED DECEMBER 31, 2008
(In millions) (Unaudited)**

	2007	2008
NET ASSETS:		
Invested in capital assets — net of related debt	\$ 892.7	\$ 911.5
Restricted net assets — capital projects	1.0	1.7
Unrestricted net assets	<u>64.2</u>	<u>53.1</u>
TOTAL NET ASSETS	<u>\$ 957.9</u>	<u>\$ 966.3</u>

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, 2008
(In millions) (Unaudited)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
OPERATING REVENUES:										
Water sales ⁽¹⁾	\$ 278.5	\$ 289.6	\$ 290.3	\$ 296.5	\$ 296.9	\$ 307.6	\$ 333.7	\$ 317.2	\$ 323.6	\$ 358.0
Other operating revenues	<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>	<u>12.2</u>
Total operating revenues	<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>	<u>370.2</u>
OPERATING EXPENSES:										
Source of supply	1.6	1.0	1.3	0.5	0.3	0.4	0.2	0.2	0.3	0.2
Power and pumping	38.1	41.9	50.9	43.7	43.8	42.1	50.6	49.8	52.2	54.7
Purification	47.0	47.2	49.5	40.3	44.2	40.6	43.3	41.9	44.2	48.4
Transmission and distribution	45.6	46.8	46.8	52.9	53.0	39.1	39.4	41.6	47.0	47.1
Provision for doubtful accounts	3.0	3.0	2.0	3.0	3.9	3.7	2.7	3.6	3.7	8.3
Customer accounting and collection	17.1	16.2	17.9	15.5	16.3	14.9	16.3	16.9	14.8	12.8
Administrative and general	11.6	12.5	10.6	12.5	13.8	11.5	13.2	15.1	14.9	18.1
Central services and General Fund reimbursements	<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>	<u>87.2</u>
Total operating expenses	<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>	<u>276.8</u>
INTEREST INCOME (Other than from Constructional Account)										
	<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>	<u>3.7</u>
NET REVENUES — As defined (Note 4)	<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>	<u>\$ 97.1</u>

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

Source: City of Chicago Comptroller's Office.

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
WATER SYSTEM ACCOUNTS
TEN YEARS ENDED DECEMBER 31, 2008
(Unaudited)**

Years Ended December 31	Nonmetered	Metered	Total
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
2008	319,205	178,457	497,662

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, 2008
(In thousands) (Unaudited)**

Customer	Amount of Sales
DUPAGE WATER COMMISSION	\$ 45,867
OAK LAWN, ILLINOIS	18,560
NORTHWEST SUBURBAN MUNICIPAL JOINT ACTION WATER AGENCY	17,999
BEDFORD PARK, ILLINOIS	13,118
HARVEY, ILLINOIS	5,448
MELROSE PARK, ILLINOIS	4,481
ALSIP, ILLINOIS	3,694
CICERO, ILLINOIS	4,138
MCCOOK, ILLINOIS	3,254
NILES, ILLINOIS	<u>3,215</u>
TOTAL	<u>\$ 119,774</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, 2008 (In millions) (Unaudited)

PRIOR BONDS COVERAGE CALCULATION

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
REVENUES AVAILABLE FOR BONDS:										
Net revenues — as defined (Note 4)	\$ 65.3	\$ 69.4	\$ 58.3	\$ 67.7	\$ 61.0	\$ 97.0	\$ 101.0	\$ 91.1	\$ 78.5	\$ 97.1
Transfer from (to) Water Rate Stabilization Account	<u>5.1</u>	<u>8.1</u>	<u>-</u>	<u>12.6</u>	<u>10.0</u>	<u>-</u>	<u>-</u>	<u>(7.0)</u>	<u>7.9</u>	<u>-</u>
NET REVENUES AVAILABLE FOR BONDS	<u>\$ 70.4</u>	<u>\$ 77.5</u>	<u>\$ 58.3</u>	<u>\$ 80.3</u>	<u>\$ 71.0</u>	<u>\$ 97.0</u>	<u>\$ 101.0</u>	<u>\$ 84.1</u>	<u>\$ 86.4</u>	<u>\$ 97.1</u>
DEBT SERVICE REQUIREMENTS:										
Senior debt service requirements	<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>	<u>\$ 27.5</u>
Senior debt service coverage ratio	<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>	<u>3.5</u>
Second lien debt service requirements		\$ 3.3	\$ 2.9	\$ 5.9	\$ 5.7	\$ 10.3	\$ 27.3	\$ 30.5	\$ 43.2	\$ 62.5
Subordinate lien debt service requirements		<u>-</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>	<u>0.4</u>
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>	<u>\$ 62.9</u>
TOTAL COMBINED SENIOR, SECOND AND SUBORDINATE LIEN DEBT SERVICE REQUIREMENTS		<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>	<u>\$ 90.4</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>	<u>1.1</u>
WATER RATE STABILIZATION ACCOUNT YEAR-END BALANCE	<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>	<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, 2008
(In millions) (Unaudited)**

	2007	2008
SENIOR LIEN BONDS	\$ 273.3	\$ 164.0
SECOND LIEN BONDS	890.8	1,334.7
COMMERCIAL PAPER	56.4	-
SUBORDINATE LIEN — IEPA loan	<u>5.2</u>	<u>5.2</u>
TOTAL LONG TERM DEBT	<u>\$ 1,225.7</u>	<u>\$ 1,503.9</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
2009–2013
(In thousands) (Unaudited)**

Years	Amount
2009	\$ 129,000
2010	226,000
2011	270,000
2012	254,000
2013	<u>253,000</u>
Total	<u>\$1,132,000</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, 2008
(Unaudited)**

Years	Total Pumpage (MGD)	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)	System's Rated Pumpage Capacity (MGD)	Maximum Daily Pumpage as % of Capacity
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
2008	301,912	827	1,136	2,160	53

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, 2008 AND 2007
(Unaudited)**

	2008	2007
AREA SERVED (IN SQUARE MILES):		
Chicago	228	228
125 suburbs	<u>578</u>	<u>578</u>
Total area served	<u>806</u>	<u>806</u>
WATER WORKS FACILITIES:		
Filtration plants	2	2
Continuous service capacity:		
South Water Filtration Plant (MGD)	720	720
Jardine Water Purification Plant (MGD)	1,440	1,440
Pumping stations — steam	4	4
Pumping stations — electric	8	8
Installed pumping capacity (MGD)	3,661	3,661
Crib intakes in service	2	2
Shore intakes (filtration plants)	2	2
Water supply tunnels (6 to 20 feet in diameter) — miles	64	64
DISTRIBUTION SYSTEM:		
Water mains (miles)	4,235	4,235
Fire hydrants	47,743	47,743
Valves	47,711	47,711

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, 2008
(Number of employees) (Unaudited)**

Function	2007	2008
ADMINISTRATION	11	8
AGENCY MANAGEMENT	124	102
SAFETY AND SECURITY	28	40
CAPITAL DESIGN AND CONSTRUCTION SERVICES	14	11
ENGINEERING SERVICES	18	4
INSPECTION SERVICES	33	31
WATER QUALITY	47	50
WATER PUMPING	236	232
WATER TREATMENT	332	327
SYSTEMS INSTALLATION	67	55
SYSTEMS MAINTENANCE	586	553
BILLINGS AND CUSTOMER SERVICE	144	117
WATER METER INSTALL AND REPAIR	<u>87</u>	<u>81</u>
TOTAL	<u>1,727</u>	<u>1,611</u>

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)**

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

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

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

WATER FUND

**STATISTICAL DATA
PRINCIPAL EMPLOYERS (NON-GOVERNMENT)
FOR THE YEAR ENDED DECEMBER 31, 2008
(Unaudited)**

Employer	Number of Employees	Rank	Percentage of Total City Employment
J. P. Morgan Chase	8,865	1	0.81
United Airlines	6,403	2	0.58
Jewel Food Stores, Inc	5,977	3	0.55
Northern Trust	5,084	4	0.46
Accenture LLP	4,532	5	0.41
American Airlines	3,582	6	0.33
SBC/AT&T	3,459	7	0.32
Ford Motor Company	3,325	8	0.30
CVS Corporation	3,161	9	0.29
Bonded Maintenance Company	2,955	10	0.27

**CITY OF CHICAGO, ILLINOIS
WATER FUND**

**STATISTICAL DATA
POPULATION AND INCOME STATISTICS
TWO YEARS ENDED DECEMBER 31, 2008
(Unaudited)**

Year	Population(1)		Median Age (2)		Number of Households(2)		Unemployment Rate (3)		Per Capita Income (4)		Total Income (6)	
2007	2,896,016	(1)	33.7	(2)	1,033,328	(2)	5.70 %	(3)	\$ 43,714	(4)	\$12,659,644,342	
2008	2,896,016	(1)	34.1	(2)	1,032,746	(2)	6.40	(3)	N/A	(5)	N/A	

Notes:

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